

**LiveNova**

Health innovation that matters

# Annual Report

## 2015







**UK Annual Report and IFRS Financial Statements  
Period Ended 31 December 2015**

**This UK Annual Report of LivaNova PLC comprises the Strategic Report, Directors' Report, Corporate Governance Report and Directors' Remuneration Report and the LivaNova PLC consolidated and company IFRS Financial Statements contained herein.**

**This UK Annual Report has been prepared to satisfy the reporting requirements of the Companies Act 2006 and the Financial Conduct Authority's Disclosure Rules and Transparency Rules, has been submitted to the National Storage Mechanism and is available for inspection at <http://www.morningstar.co.uk/uk/nsm> and will be included in the 2016 Annual General Meeting materials made available to shareholders.**

**Cautionary statement**

Certain statements made in this UK Annual Report are forward looking. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future events or results referred to in the forward looking statements. Unless otherwise required by applicable laws, regulations or accounting standards, we do not undertake any obligation to update or revise any forward looking statements, whether as a result of new information, future developments or otherwise. Nothing in this UK Annual Report should be regarded as a profit forecast.

## TABLE OF CONTENTS

<b>STRATEGIC REPORT</b> .....	<b>1</b>
– Introduction .....	1
– Chief Executive Officer's Letter to Shareholders .....	1
– I. Overview and Background to the Mergers .....	3
– II. Business .....	3
– A. LivaNova's Strategy .....	3
– B. Business Units and the New Ventures – Business Model .....	4
– C. Research and Development .....	12
– D. Acquisitions and Investments .....	13
– E. Patents and Licenses .....	13
– F. Markets and Distribution Methods .....	13
– G. Competition and Industry .....	14
– H. Financial Information about the Company, the Business Units and Geographic Areas ..	14
– I. Production and Availability of Raw Materials .....	14
– J. Government Regulation and Other Considerations .....	15
– K. Working Capital Practices .....	23
– L. Employees .....	24
– M. Environment and Other Social Matters .....	24
– N. Seasonality .....	24
– O. Properties .....	24
– III. Business Review .....	25
– A. Introduction .....	25
– B. Key Performance Indicators .....	25
– C. Results of Operations .....	26
– D. Liquidity and Capital Resources .....	29
– E. Quantitative and Qualitative Disclosures about Market Risk .....	32
– IV. Principal Risks and Uncertainties .....	32
<b>DIRECTORS' REPORT</b> .....	<b>49</b>
<b>CORPORATE GOVERNANCE REPORT</b> .....	<b>55</b>
– Corporate Governance in 2015 .....	55
– Audit & Compliance Committee Report .....	58
<b>REMUNERATION REPORT</b> .....	<b>61</b>
– Letter from the Chairman of the Compensation Committee .....	61
– Introduction and Compliance Statement .....	63
– Remuneration Policy Report .....	63
– Annual Remuneration Report .....	76
<b>FINANCIAL STATEMENTS</b> .....	<b>85</b>
– Independent Auditor's Report .....	85
– Consolidated Income Statement .....	90
– Consolidated Balance Sheet .....	92
– Consolidated Statement of Changes in Equity .....	94
– Consolidated Statement of Cash Flows .....	95
– Notes to the Consolidated Financial Statements .....	97
– Company Income Statement .....	191
– Company Balance Sheet .....	193
– Company Statement of Changes in Equity .....	195
– Company Statement of Cash Flow .....	196
– Notes to the Company Financial Statements .....	197
<b>GLOSSARY AND DEFINITIONS</b> .....	<b>247</b>

## STRATEGIC REPORT

### Introduction

This Strategic Report presents the required strategy and business review for the Company in order to satisfy the reporting requirements of the Companies Act and the DTRs.

### Chief Executive Officer's Letter to Shareholders

29 April 2016

Dear Shareholder,

Our merger was completed on 19 October 2015 and heralded an exciting era for our new company, LivaNova. While the last twelve months have been full of anticipation and promise, 2016 will be the first full year of LivaNova's operations as a combined entity, and I want to outline our near-term execution objectives and longer-term strategic plans.

LivaNova starts out with a number of key strengths:

- **Diversified product portfolio and revenue base** – Cardiac Surgery accounts for approximately 50 per cent. of revenue, Neuromodulation for over 25 per cent., and the balance of revenues comes from Cardiac Rhythm Management, or CRM
- **Market leadership in key product areas** – global leader in cardiopulmonary devices and Neuromodulation, and solid platforms in CRM and heart valves. Over 60 per cent. of LivaNova's revenue comes from products where we lead the market
- **Broad geographic reach** – sales in approximately 100 countries and over 20 per cent. of revenue from outside the US and Europe
- **Opportunities for margin expansion** – with specific plans established across the whole income statement
- **Strong balance sheet** – minimal leverage allowing for flexibility in capital allocation
- **Experienced management team** – many years of industry involvement across the product platforms
- **Opportunities for growth in new markets** – such as mitral valves, heart failure and sleep apnea

### 2016 Objectives

Our objective for the current year is to ensure that the substantial platform created by our merger is firmly in place and focused on a number of key areas.

Firstly, we will continue to evolve the organisation, which is headquartered in our new location in London. I have been extremely pleased with the response at all levels within LivaNova as we seek to incorporate the best practices of both legacy companies around building the new culture of LivaNova, which is exemplified by the theme of *"Health Innovation that Matters. Day to day. Life by life."*

Secondly, we will focus on the key financial objectives outlined on our call with investors earlier this year, in particular:

- Revenue growth in each of the three business units: Cardiac Surgery, CRM and Neuromodulation
- Execution with respect to synergy targets
- Expansion of operating margins, adjusted for one-time costs
- Growth in earnings per share

Further, we plan to articulate a more comprehensive capital allocation strategy in 2016 with the aim of building shareholder value.

Thirdly, we will conduct a rigorous review of our existing product platforms and investment portfolio to determine which present the greatest opportunity for revenue and profitability growth in the future. An important component of this review will be an evaluation of the existing manufacturing footprint to ensure that appropriate efficiencies can be achieved.

### **Longer-term Strategic Plans**

From the date of the original announcement of the merger over twelve months ago, the vision has been to create a growth company built around the core strengths from both legacy companies. Today, we develop, manufacture and sell products of the highest quality standards that are vital to the well-being of patients around the world.

Our R&D teams are focused on the need for quality products that deliver improved outcomes to patients, provide useful data to physicians and value for payers. We expect that focus will continue to be at the forefront of our Company.

Over the past few years, the legacy companies have invested in three potential new growth platforms in the areas of mitral valve, sleep apnea and heart failure. Developing new products is a challenging, long-term effort and the path forward can require patience and commitment. LivaNova believes that each of these platforms provides an opportunity for our shareholders to participate in important new product development efforts to benefit for patients.

Today, approximately 20 per cent. of our sales are outside the US and European markets and our plans are to grow that share. China continues to be a focus area with our CRM joint venture and local manufacture of Cardiac Surgery products both well advanced. Completion of regulatory activity in 2017 should see both projects drive growth for many years. Our distributor relationships are developed across many geographies and we plan to continue to utilise this network in various countries. In addition, we have expanded our direct sales footprint in Brazil, Columbia and Australia over the last year, and can take advantage of this infrastructure in these and other markets such as Canada and Japan to drive further sales of Neuromodulation products.

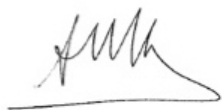
The delivery of healthcare is changing at an increasing rate, ranging from the development of different payment models to continued expansion in developing markets to product evolution. LivaNova plans to be at the forefront of this change in our chosen product fields and we will continue to assess and evolve our business model in light of the changing environment

### **Conclusion/Thanks**

The Board of Directors has come together under the leadership of Dan Moore, and our governance processes are already established and operating at high standards. The Board of Directors shares management's plans for 2016 and their vision for the future, and has put in place appropriate compensation arrangements to support those plans.

LivaNova employs approximately 4,500 people across the world in a variety of capacities. We recognise that it is their contribution which will ultimately provide the energy to propel LivaNova forward and allow it to achieve its potential. I would personally like to thank them for their efforts in a year of significant change.

Finally, let me thank you, our shareholders, for your trust and support as we at LivaNova continue to build a world class medical device company. We look forward to 2016 with confidence built on the talents of our people, the strengths of the organisation and its products.



**ANDRÉ-MICHEL BALLESTER**  
CHIEF EXECUTIVE OFFICER

## **I. Overview and Background to the Mergers**

The Company is a public limited company incorporated under the laws of England and Wales. Headquartered in London, United Kingdom, LivaNova is a global medical device company focused on the development and delivery of important therapeutic solutions for the benefit of patients, healthcare professionals and healthcare systems throughout the world. Working closely with medical professionals in the fields of cardiac surgery, neuromodulation and cardiac rhythm management, LivaNova designs, develops, manufactures and sells innovative therapeutic solutions that are consistent with its mission to improve LivaNova's patients' quality of life, increase the skills and capabilities of healthcare professionals and minimise healthcare costs.

The Company was formed, along with its wholly owned subsidiary, Merger Sub, on 20 February 2015 for the purpose of facilitating the business combination of Cyberonics and Sorin. On 19 October 2015, pursuant to the terms of the Merger Agreement, Sorin merged with and into the Company, with the Company continuing as the surviving company, immediately followed by the merger of Merger Sub with and into Cyberonics, with Cyberonics continuing as the surviving company and as a wholly owned subsidiary of the Company.

As a result of the Mergers, the Company became the holding company of the combined businesses of Cyberonics and Sorin. On 19 October 2015, the Company's Ordinary Shares were listed for trading on NASDAQ and admitted to listing on the standard segment of the FCA's Official List and to trading on the Main Market of the LSE under the trading symbol "LIVN." As a result of the Mergers, on 19 October 2015 the Company issued 48,822,316 Ordinary Shares.

Prior to the Mergers, shares of Cyberonics common stock were registered pursuant to Section 12(b) of the Exchange Act and listed on NASDAQ, and Sorin ordinary shares were listed on the Italian Stock Exchange. Shares of Cyberonics common stock and the Sorin ordinary shares were suspended from trading on NASDAQ and the Italian Stock Exchange, respectively, prior to the opening of trading on 19 October 2015.

On 19 October 2015, each ordinary share of Sorin was converted into the right to receive 0.0472 Ordinary Shares, and each share of common stock of Cyberonics was converted into the right to receive one Ordinary Share. Based on the number of outstanding shares of Sorin and Cyberonics as of 19 October 2015, former Sorin and Cyberonics shareholders held approximately 46 per cent. and 54 per cent., respectively, of the Company's Ordinary Shares immediately after giving effect to the Mergers.

The Mergers are expected to provide revenue enhancements, cost savings, opportunities for synergies and to increase the size and scale of the Company's revenue, provide greater geographic and product diversity and to enhance growth opportunities in three emerging markets in the areas of heart failure, sleep apnea and percutaneous mitral valves. The Mergers are also expected to allow the Company to utilise and integrate certain Sorin technologies into its existing and future product lines for epilepsy treatments.

## **II. Business**

### **A. LivaNova's Strategy**

The Mergers enabled LivaNova to combine Cyberonics' global leadership in devices used for the treatment of epilepsy and neuromodulation, with Sorin's global leadership in cardiac surgery and cardiac rhythm management, to create a premier global medical technology company.

In addition to the strategy of delivering identified synergies, there are three additional growth opportunities that have been identified as being central to the strategy of LivaNova:

- Leadership in large and growing markets

The Mergers brought together global leaders in cardiac surgery and neuromodulation, as well as the opportunity to leverage the innovation in cardiac rhythm management.

Sorin was a global leader in cardiac surgery and a market leader in the development, production and sale of cardiovascular surgery products, including heart-lung machines and oxygenators. Sorin had a strong history rooted in continued development and innovation of its product offering and the technology it used. Sorin had historically made acquisitions to expand and enhance its product lines, such as the acquisition of Bioengineering Laboratories in 2014 to expand its cannulae manufacturing activities, and the development of US FDA approved Mitroflow™, an aortic pericardial heart valve with PRT, and CE Mark certified CROWN PRT™ stented aortic bioprosthetics. Recent US FDA approvals for Perceval™ and CROWN PRT™ have enhanced LivaNova's market position.

Cyberonics had a long-standing reputation in the market as a leader in neuromodulation. Cyberonics engaged in the design, development, sale and marketing of the US FDA approved VNS Therapy System, which is used to treat refractory epilepsy and depression in hospitals and surgeries in the US and elsewhere. Cyberonics further developed its neuromodulation technology by pioneering the use of the VNS Therapy System for the treatment of chronic heart failure.

LivaNova will utilise the commercial network established by the legacy Sorin business in developing markets to further enhance the sales of VNS therapy for patients with refractory epilepsy in those markets.

LivaNova will leverage the innovation behind Sorin's cardiac rhythm management global market and reputation, which is particularly strong in Europe and Japan. LivaNova is able to utilise the depth and breadth of Sorin's cardiac rhythm management expertise, given Sorin's experience and innovation in the technologies and devices offered to the market, including the CE Mark certified REPLY 200™ and KORA 100™ pacemakers, as well as the broad geographical markets where its products are offered, including in the rapidly growing market in China. The recent regulatory approval to sell KORA 250 in Japan is expected to enhance LivaNova's market position in that country.

- Highly complementary technologies and selling capabilities

LivaNova can utilise and leverage the shared technologies that Sorin and Cyberonics had independently developed over the years in relation to their respective product offerings using implantable electronics for the treatment of chronic heart failure and sleep apnea, and in connection with neuromodulation and cardiac rhythm management such as remote monitoring algorithms and wireless technologies.

LivaNova can also benefit from opportunities to commercialise the complementary product portfolios of Sorin and Cyberonics. With their combined knowledge of the medical devices industry, LivaNova has a wealth of experience in marketing new products and technologies, through existing sales channels in all of the global markets in which LivaNova operates, including through clinicians ranging from epileptologists, neurologists, neurosurgeons and perfusionists with whom Sorin and Cyberonics worked as independent companies.

- Opportunities in three potential new markets

LivaNova is focused on developing new opportunities and commercialising new product offerings in three potential new markets: heart failure, sleep apnea and percutaneous mitral valve. In heart failure, LivaNova has completed initial clinical studies on both the VITARIA™ and Equalia systems and has received CE Mark approval on both products. The Company will seek to build further clinical evidence in randomised trials and is currently evaluating the most appropriate studies moving forward. LivaNova also expects to benefit from the developing market for active implantable treatments for sleep apnea, with investments aimed at the under-addressed central sleep apnea, or CSA, and the obstructive sleep apnea, or OSA, markets. LivaNova also has investments aimed at addressing the market for percutaneous mitral valve replacement/repair products.

## **B. Business Units and the New Ventures – Business Model**

Upon completion of the Mergers, LivaNova reorganised its reporting structure and aligned its segments and the underlying divisions and businesses. LivaNova is now comprised of three principal Business Units: Neuromodulation, Cardiac Surgery and CRM, corresponding to three main therapeutic areas. These Business Units represent a strategic combination of the historic business operations of legacy Cyberonics and Sorin, aligned to best serve LivaNova's customers and capitalise upon the benefits of the Mergers. The historic Cyberonics operations are included under the Neuromodulation Business Unit, and the historical Sorin businesses are included in LivaNova's Cardiac Surgery and CRM Business Units. The Company's New Ventures group, which is managed in Corporate Business Development and New Ventures, is focused on new growth platforms and identification of other opportunities for expansion.



LivaNova currently functions in three reportable segments that primarily manufacture and sell device-based medical therapies. LivaNova's operating segments with each of their reported net sales for financial year 2015, along with their related divisions and businesses, are as follows:

- Cardiac Surgery (for the Transitional Period net sales of \$147.6 million)
  - Cardiopulmonary
  - Heart Valves
- CRM (Transitional Period net sales of \$52.5 million)
- Neuromodulation (Transitional Period net sales of \$214.8 million)

*Please refer to the "Introduction" section of the "Business Review" at Part III of this Strategic Report below for more information on the Transitional Period.*

### **Neuromodulation Business Unit**

LivaNova's Neuromodulation Business Unit designs, develops and markets neuromodulation-based medical devices for the treatment of epilepsy and depression. Through this Business Unit, LivaNova markets its proprietary implantable VNS Therapy Systems that deliver vagus nerve stimulation therapy for the treatment of epilepsy and depression.

#### ***VNS Therapy System***

LivaNova's seminal neuromodulation product, the VNS Therapy® System, is an implantable device authorised for the treatment of drug-resistant epilepsy and TRD. The VNS Therapy System consists of: an implantable pulse generator and connective lead that work to stimulate the vagus nerve; surgical equipment to assist with the implant procedure; equipment and instruction manuals enabling a treating physician to set parameters for a patient's pulse generator; and magnets to manually suspend or induce nerve stimulation. The VNS therapy pulse generator and lead are surgically implanted in a subcutaneous pocket in the upper left chest area, generally during an out-patient procedure. The lead (which does not need to be removed to replace a generator battery) is connected to the pulse generator and tunnelled under the skin to the vagus nerve in the lower left side of the patient's neck.

#### ***VNS for the treatment of epilepsy***

Globally, there are several broad types of treatment available to persons with epilepsy, including multiple seizure medications, various forms of the ketogenic diet, vagus nerve stimulation, resective brain surgery, trigeminal nerve stimulation, responsive intracranial neurostimulation and deep brain stimulation. Seizure medications typically serve as a first-line treatment and are prescribed for virtually all patients diagnosed with epilepsy. After two seizure medications fail to deliver seizure control, the epilepsy is defined as drug-resistant, at which point, adjunctive non-drug options are considered, including VNS therapy, brain surgery and a ketogenic diet.

In the US, the VNS Therapy System was the first medical device treatment approved by the US FDA for refractory drug resistant epilepsy in adults and adolescents over 12 years of age and is indicated for use as an adjunctive therapy in reducing the frequency of seizures. Other worldwide regulatory bodies have also approved the VNS Therapy System for the treatment of epilepsy, many without age restrictions or seizure-type limitations. Patients with epilepsy can also use a small, handheld magnet provided with the VNS Therapy System to activate or inhibit stimulation manually. LivaNova sells a number of VNS product models for the treatment of epilepsy, including its Model 102 (Pulse™), Model 102R (Pulse Duo™), Model 103 (Demipulse®), Model 104 (Demipulse Duo®) and Model 105 (AspireHC®) pulse generators. To date, an estimated 100,000 patients have been treated with VNS Therapy System for epilepsy.

In addition to these models, LivaNova also offers the Model 106 (AspireSR®) generator in Europe and other international markets. The Aspire SR generator provides the benefits of VNS therapy, with an additional feature – automatic stimulation in response to detection of changes in heart rate indicative of a seizure. The AspireSR generator is capable of delivering additional stimulation automatically by responding to a patient's relative heart-rate changes that exceed certain variable thresholds. Heart-rate changes accompany seizure activity in certain patients. The thresholds are programmed by the patient's physician and can be adjusted to suit the patient's level of physical activity or for other reasons. On 2 June 2015, the Company announced US FDA approval of the AspireSR generator for sale in the US, and sales in the region have commenced. By 31 December 2015, sales of AspireSR accounted for approximately 70 per cent. of LivaNova's VNS Therapy generator sales.

Major depressive disorder is one of the most prevalent and serious illnesses in the US. It affects nearly 19 million Americans 18 years of age or older every year. In July 2005, the US FDA approved the VNS Therapy System for the adjunctive long-term treatment of chronic or recurrent depression for patients of 18 years of age or older who have not had an adequate response to multiple anti-depressant treatments. Regulatory bodies in the EEA, Canada, Brazil, Mexico, Australia, Israel and certain other international markets have approved the VNS Therapy products for the treatment of chronic or recurrent depression in patients who are in a treatment-resistant or treatment-intolerant depressive episode. Reimbursement for the use of VNS Therapy to treat TRD is significantly limited in most countries in which it is available. To date, an estimated 4,100 patients worldwide have been treated with the VNS Therapy System for depression.

### ***Customers and Competitors – Neuromodulation Products***

The primary medical professionals who treat patients with Neuromodulation products are neurologists and neurosurgeons, although customers are hospitals and healthcare systems, and in some cases, government health departments. Primary medical device competitors in the Neuromodulation product group are NeuroPace, Inc. and Medtronic Global.

### ***Neuromodulation Recent Developments***

LivaNova's epilepsy product development efforts are directed toward improving the VNS Therapy System, improving its efficacy, and developing new products that provide additional features and functionality. LivaNova is conducting ongoing product development activities to enhance the VNS Therapy System pulse generator, lead and programming software and to introduce new products. LivaNova participates in studies for its product development efforts and to build clinical evidence for the VNS Therapy System. LivaNova will be required to obtain appropriate US and international regulatory approvals, and clinical studies may be a prerequisite to regulatory approvals for some products. LivaNova's R&D efforts will require significant funding to complete and may not be successful. Even if successful, additional clinical studies may be needed to achieve regulatory approval and to commercialise any or all new or improved products.

In June 2015, the US FDA approved AspireSR™ for commercialisation in the US. Growth of VNS therapy products has been strong during the period following this approval. Acceptance of the new product, as evidenced by the proportion of generators sold, has been high, and pricing obtained for the product has been at a premium due to the unique nature of the device.

Several development projects have been either terminated or halted during the last year, including the planned development of a wirelessly enabled generator, and an external device planned to be used to warn or notify patients of impending or actual seizures. The temporary or permanent change in development priorities has been due to both technological issues as well as the possible advantages arising from the Mergers, which could allow for adoption of technologies previously developed by Sorin.

Cyberonics invested approximately \$5.1 million in Cerbomed, a privately held, European development-stage company developing a transcutaneous vagus nerve stimulation device for several indications, including the treatment of drug-resistant epilepsy. Cerbomed received CE Mark approval for its device for the treatment of epilepsy and depression in March 2010, and has completed a clinical study in Germany to study outcomes in the treatment of refractory epilepsy. During the quarter ended 23 January 2015, Cyberonics invested an additional €1.0 million, or \$1.2 million, in convertible preferred stock. During the Transitional Period, the Company determined that its investment in Cerbomed was fully impaired and recorded a loss of \$5.1 million.

In May 2007, the CMS issued a national determination of non-coverage within the US with respect to reimbursement of the VNS Therapy System for patients with TRD, significantly limiting access to this therapeutic option for most patients. As the result of lack of access following this determination, the legacy Cyberonics business has not engaged in active commercial efforts with respect to TRD in any of its markets. However, in the future LivaNova intends to re-engage in limited commercial efforts in certain international markets if, or as, reimbursement pathways become available. As a result of new clinical evidence, including the completion of a post-approval dosing study and other studies that have resulted in more than five recent publications in peer-reviewed journals, the legacy Cyberonics business submitted a formal request to CMS for reconsideration of VNS therapy for TRD. CMS declined the request for reconsideration in May 2013. In October 2013, two Medicare beneficiaries appealed the lack of coverage by Medicare through the DAB. In January 2015, the DAB concluded that the record relating to the non-coverage conclusion by CMS is complete and adequately supports the non-coverage determination. As a result, market access to the vast majority of the patients in the US remains closed.

## **Cardiac Surgery Business Unit**

LivaNova's Cardiac Surgery Business Unit is engaged in the development, production and sale of cardiovascular surgery products, including oxygenators, heart-lung machines, perfusion tubing systems, cannulae and accessories, and systems for autotransfusion and autologous blood washing, as well as implantable prostheses for the replacement or repair of heart valves.

### ***Cardiopulmonary Products***

During conventional coronary artery bypass graft procedures and heart valve surgery, the patient's heart is temporarily stopped, or arrested. The patient is placed on an extracorporeal circulatory support system that temporarily functions as the patient's heart and lungs and provides blood flow to the body. LivaNova's products include systems to enable cardiopulmonary bypass, including heart-lung machines, oxygenators, perfusion tubing sets, cannulae and accessories, as well as related equipment and disposables for autotransfusion and autologous blood washing, for neonatal, pediatric and adult patients. LivaNova's primary cardiopulmonary products include:

#### *Heart-lung machines*

The heart-lung machine product group includes heart-lung machines, heater-coolers, related cardiac surgery equipment and maintenance services.

#### *Oxygenators and perfusion tubing systems*

The oxygenators product group, which includes oxygenators and other disposable devices for extracorporeal circulation, also achieved significant growth, especially in the US, Europe and Japan, largely driven by the successful rollout of the new Inspire™, Heartlink™ and Connect™ system. The Inspire range of products, comprised of 12 models, will enable perfusionists to replace the existing oxygenator lines with more advanced systems capable of delivering better performance and greater flexibility. The total modularity of this new range of products will also help reduce production time and costs, providing perfusionists with a more customised approach to further benefit patients.

#### *Connect™*

Connect™ is LivaNova's innovative and intuitive perfusion charting system. Focused on real time and retrospective calculations and trending tools, Connect™ assists perfusionists with data management during and after cardiopulmonary bypass. Inspire™, Heartlink™ and Connect™ products can all be integrated with LivaNova's heart-lung machines to deliver a unique perfusion solution combining hardware components, disposable devices and data management systems.

#### *Autotransfusion systems*

One of the key elements for a complete blood management strategy is autotransfusion, which involves the collection, processing and reinfusion of the patient's own blood that is lost at the surgical site during the peri-operative period.

#### *Cannulae*

LivaNova's cannulae product family, which is part of the oxygenator product group, are perfusion tubing sets used to connect the extracorporeal circulation to the heart of the patient during cardiac surgery.

### ***Customers and Competitors – Cardiopulmonary Products***

The primary medical professionals who use LivaNova's cardiopulmonary products are perfusionists and cardiac surgeons. Primary competitors in the cardiopulmonary product group are Terumo Medical Corporation, Maquet Medical Systems, Medtronic Global and Haemonetics Corporation.

### ***Cardiopulmonary Recent Developments***

In December 2015, LivaNova received a warning letter from the US FDA alleging certain violations of regulations at LivaNova's Munich, Germany and Arvada, Colorado manufacturing facilities. The warning letter included restrictions on the importation of 3T Heater Cooler devices to the US. While LivaNova cannot sell additional 3T Heater Cooler devices to new customers, LivaNova can service existing customers through a medically necessary protocol. LivaNova takes these matters seriously and

is working diligently to resolve the concerns raised by the US FDA and to reduce any adverse impact this import restriction will have on existing US customers of 3T Heater Cooler devices. The Company believes that the US FDA's concerns can be resolved without a material impact on LivaNova's financial results.

On 12 February 2016, the Company was notified that a class action complaint had been filed in the US District Court for the Middle District of Pennsylvania with respect to the 3T Heater Cooler devices, naming as evidence, in part, the warning letter issued by the US FDA. The named plaintiffs to the complaint are two individuals who underwent open heart surgeries at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center in 2015. On 21 March 2016, an amended class action complaint was filed adding Sorin Group USA, Inc. and Sorin Group Deutschland GmbH as defendants to the action, alongside the Company. The complaint alleges that: (i) patients were exposed to a harmful form of bacteria, known as nontuberculous mycobacterium, or NTM, from the 3T Heater Cooler devices; and (ii) the Company knew or should have known that design or manufacturing defects in 3T Heater Cooler devices can lead to NTM colonisation, regardless of the cleaning and disinfection procedures used (and recommended by LivaNova). The named plaintiffs have sought to certify a class of plaintiffs consisting of all Pennsylvania residents who underwent open heart surgery at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center between 2011 and 2015 and who are currently asymptomatic for NTM infection (approximately 3,600 patients). The putative class action, which has not been certified, seeks: (i) declaratory relief finding the 3T Heater Cooler devices are defective and unsafe for intended uses; (ii) medical monitoring; (iii) general damages; and (iv) attorneys' fees. Patient safety is of the utmost importance to LivaNova, and significant resources are dedicated to the delivery of safe, high-quality products. Should the lawsuit proceed, LivaNova intends to vigorously defend against these claims. Given the early stage of this matter, LivaNova cannot, however, give any assurances that additional legal proceedings making the same or similar allegations will not be filed against the Company or one of its subsidiaries, nor that the resolution of the complaint and any related litigation in connection therewith will not have a material adverse effect on LivaNova's business, results of operations, financial condition and/or liquidity.

### ***Heart Valves and Repair Products***

LivaNova offers a comprehensive line of products to treat a variety of heart valve disorders, including a complete line of surgical tissue and mechanical valve replacements and repair products for damaged or diseased heart valves. The heart valves and repair product offerings include:

#### *Tissue heart valves*

LivaNova's tissue valves include the Mitroflow™ aortic pericardial tissue valve with phospholipid reduction treatment, or PRT, which is designed to mitigate valve calcification, and the CROWN PRT™ and Solo Smart™ aortic pericardial tissue valves. CROWN PRT™ is the latest advancement in stented aortic bioprosthesis technology, featuring surgeon-friendly design, PRT technology, and state-of-the-art hemodynamic and durability performance. CROWN PRT™ enables intuitive intraoperative handling through a short rinse time, enhanced ease of implant through visible markers and improved radiographic visualisation through dedicated X-ray markers. LivaNova's Solo Smart™ aortic pericardial tissue valve is an innovative, completely biological aortic heart valve with no synthetic material and a removable stent. Solo Smart™ provides the ease of implantation of a stented valve with the hemodynamic performance of a stentless valve.

#### *Self-anchoring tissue heart valves*

Perceval™ is LivaNova's sutureless bioprosthetic device designed to replace a diseased native valve or a malfunctioning prosthetic aortic valve using either traditional or minimally invasive heart surgery techniques. Perceval™ incorporates a unique technology that allows 100 per cent. sutureless positioning and anchoring at the implantation site. This, in turn, offers the potential benefit of reducing the time the patient spends in cardiopulmonary bypass. To date, over 12,000 patients worldwide benefit from the Perceval™ valve.

#### *Mechanical heart valves*

LivaNova's wide range of mechanical valve offerings includes the Carbomedics Standard™, Top Hat™ and Reduced Series Aortic Valves™, as well as the Carbomedics Carbo-Seal™ and Carbo-Seal Valsalva™ aortic prostheses. LivaNova also offers the Carbomedics Standard™, Orbis™ and Optiform™ mechanical mitral valves.

### *Heart valve repair products*

Mitral valve repair is a well-established solution for patients suffering from a leaky mitral valve, or mitral regurgitation. LivaNova offers a wide range of mitral valve repair products, including the Memo 3D™ and Memo 3D ReChord™, AnnuloFlo™ and AnnuloFlex™.

### **Customers and Competitors – Heart Valves**

The primary medical professionals who use LivaNova's heart valve products are cardiac surgeons. Primary competitors in the heart valve business are Edwards Lifesciences, St. Jude Medical and Medtronic Global.

### **Heart Valve Recent Developments**

In January 2016 the Company announced it had received US FDA approval for its Perceval™ sutureless valve. Perceval™ is a surgical aortic valve with a unique self-anchoring frame that enables the surgeon to replace the diseased valve without suturing it into place. LivaNova has begun commercial distribution of the device in the US.

In addition, in early February 2016, the Company announced that it had received US FDA approval of the CROWN PRT™ valve for the treatment of aortic valve disease. The CROWN PRT™ is a stented aortic bioprosthesis technology and features a surgeon-friendly design, with optimised hemodynamics with patented PRT, designed to enhance valve durability. LivaNova anticipates launching CROWN PRT™ in the US later this year.

### **Cardiac Rhythm Management Business Unit**

The CRM Business Unit develops, manufactures and markets products for the diagnosis, treatment, and management of heart rhythm disorders and heart failure. These products include implantable devices, leads and delivery systems and information systems for the management of patients with CRM devices.

### **CRM Products**

The following are the principal products offered by the CRM Business Unit:

#### *Implantable Cardiac Pacemakers*

A pacemaker is a battery-powered device implanted in the chest that delivers electrical impulses to treat bradycardia, a condition of abnormally slow heart rhythms or unsteady heart rhythms that cause symptoms such as dizziness, fainting, fatigue and shortness of breath. LivaNova's pacemakers include the REPLY™ and ESPRIT™ models, which have received both US FDA clearance and CE Mark certification, and the KORA 100™ model which has received CE Mark certification. In 2015, LivaNova launched its latest generator of pacemaker systems in Europe, the Kora 250™, which is compatible with certain MRI machines.

#### *ICDs*

ICDs continually monitor the heart and deliver therapy when an abnormal heart rhythm, such as tachyarrhythmia, or rapid heart rhythm, occurs and leads to sudden cardiac arrest. LivaNova's latest generation ICD is the PLATINIUM™, which has CE Mark certification and features industry leading battery longevity, advanced shock reduction technology and a contoured shape with thin, smooth, edges that better fits inside the body. Other ICDs include the PARADYM™ family. PLATINIUM™ was approved in Europe in the second quarter of 2015 and in Japan in the fourth quarter of 2015.

#### *Implantable CRT-Ds*

Implantable CRT-Ds treat heart failure patients by altering the abnormal electrical sequence of cardiac contractions by sending tiny electrical impulses to the lower chambers of the heart to help them beat in a more synchronised fashion. LivaNova's latest generations of CRT-Ds use the SonR™ technology that provides heart failure patients with automatic and frequent hemodynamic CRT optimisation both at rest and exercise using a unique hemodynamic sensor embedded in the SonRtip™ atrial sensing/pacing lead. SonR™ technology is found in INTENSIA™, PARADYM RF™, PARADYM 2™ and the most recent PLATINIUM™ families of CRT-Ds. LivaNova has US FDA approval for the PARADYM RF™ CRT-D.

## *Patient Management Tools*

LivaNova's Smartview system enables remote monitoring of patients with certain Sorin pacemakers, ICDs and CRT-Ds, by enabling transmission of data from the patient's ICD or CRT-D to their healthcare provider using a portable monitor that is connected to the patient's telephone line.

## **Customers and Competitors – CRM**

The primary medical specialists who use LivaNova's CRM products include electrophysiologists, implanting cardiologists, heart failure specialists and cardiac surgeons. Primary competitors in the CRM business are Medtronic, St. Jude Medical, Boston Scientific and Biotronik.

## **CRM Recent Developments**

In November 2015, LivaNova launched the PLATINIUM™ ICD in Europe. During 2015, LivaNova continued the development of IS4 PLATINIUM CRT-D with SonR™ technology dedicated to the use of quadripolar left ventricular catheters with IS-4 compatibilities. The development of new ranges of leads for defibrillation and left ventricular stimulation also enjoyed significant progress with the completion of the pre-qualification phase.

Following the Company's launch of a full body MRI conditional pacemaker, the KORA 250, in June 2015, it has now been approved for sale in Japan and has been launched in Japan in the first quarter of 2016. The KORA 250 is equipped with the Company's proprietary Automatic MRI mode. In addition, the device is designed to proactively manage comorbidities, including a pacing mode, referred to as "SafeR" that manages all types of atrioventricular block and the ability to monitor patients for severe sleep apnea using sleep apnea monitoring.

In March 2016, the Company announced a reorganisation plan for CRM, which is intended to strengthen its operational effectiveness and efficiency in response to changes in the global marketplace. The Company estimates that, net of new positions created, the reorganisation plan will result in a reduction of approximately 140 positions at LivaNova facilities in both Clamart, France and Saluggia, Italy. The plan also involves the closure of CRM's R&D facility in Meylan, France, and its consolidation into the Clamart facility. In addition, the R&D team of the New Ventures unit will be combined with those of CRM. These actions are part of the Company's ongoing optimisation efforts and result from an analysis of LivaNova's manufacturing and R&D operations worldwide. LivaNova has commenced consultations with employee representatives regarding the reorganisation plan. Although the terms are not likely to be finalised until the second quarter of 2016, the Company believes that the reduction in workforce should be accomplished primarily through voluntary separation packages. LivaNova is also engaged in efforts to help those affected secure alternative employment. The Company estimates that these actions will result in total pre-tax charges of approximately \$20.3 million in 2016, relating to non-recurring cash employee-related costs, including costs for severance and other employee-related assistance and other exit costs associated with the plan.

In October 2014, Sorin announced that it had completed enrolment in the Respond CRT™ clinical trial, enrolling 1,039 patients in the study. The results of this clinical trial are expected to be published in 2016.

## **New Ventures – Heart Failure, Sleep Apnea and Mitral Regurgitation**

### **Overview**

The New Ventures group was created to invest in significant, new growth opportunities for LivaNova. The three significant unmet clinical needs the New Ventures group is seeking to address are: heart failure, sleep apnea and mitral valve regurgitation.

In March 2016, LivaNova announced a reorganisation plan for the CRM business, which is intended to strengthen CRM's operational effectiveness and efficiency in responding to changes in the global marketplace. As part of this plan, the R&D team within New Ventures will be integrated into, and combined with, the CRM business. These actions are part of the ongoing efforts to rationalise the research and R&D development portfolio of the Company and optimising the manufacturing process.



New Ventures develops or invests in companies with innovative, proprietary technologies to treat heart failures, sleep apnea and mitral valve regurgitation. For each of these conditions, there are opportunities to expand clinical indications or offer minimally invasive therapies to effectively treat the underlying condition. New Ventures partners with academic institutions and medical start-ups to develop therapeutic solutions in these areas, focusing, in particular, on neurostimulation to treat heart failure and sleep apnea and percutaneous mitral valve repair or replacement to treat mitral regurgitation.

Heart failure occurs when the heart is no longer able to pump enough blood to meet the needs of the body. This usually results from an injury to the heart such as myocardial infarction which leaves the heart too weak to fill and pump efficiently. It is a chronic, progressive disease and treatment depends on the heart failure stage and severity. ICDs or CRT-Ds may be indicated at a certain stage. There is also ample clinical proof that heart failure creates an imbalance in the autonomic nervous system. These patients show increased sympathetic nerve activation and withdrawal of parasympathetic tone, which overstresses and fatigues the heart. Vagus nerve stimulation could bring the autonomic nervous system back into balance.

Mitral regurgitation occurs when the heart's mitral valve leaflets do not close tightly, which allows blood to flow backwards in the chambers of the heart. This reduces the amount of blood that flows to the rest of the body, making the patient feel tired or out of breath. Treatment depends on the nature and the severity of mitral regurgitation. In certain cases, heart surgery may be needed to repair or replace the valve. Left untreated, severe mitral valve regurgitation can cause heart failure or heart rhythm problems (arrhythmias).

Sleep apnea is a serious sleep disorder that occurs when a person's breathing is interrupted during sleep. People with untreated sleep apnea stop breathing repeatedly during sleep, sometimes hundreds of times per night. This disrupts oxygen supply to the brain and other parts of the body and, if left untreated, can exacerbate cardiovascular diseases such as heart failure. There are two main kinds of sleep apnea: CSA and OSA. These have different etiologies, as well as different treatments.

## ***Therapies and Projects***

### *Heart failure*

In the heart failure area, New Ventures is currently managing three internal neurostimulation projects, being Equilia, VITARIA and Intense, each aimed at treating heart failure through vagus nerve stimulation. Equilia is a first-generation device that benefited from the legacy Sorin business' acquisition of the Belgian company Neurotech SA in 2012, which enhanced Sorin's technical expertise and intellectual property in the field of neurostimulation. The successful implantation of the first Equilia™ neurostimulation system device occurred in February 2015 as part of the Vanguard (Vagal Nerve Stimulation Safeguarding Heart Failure) clinical trial. The aim of the system is to treat heart failure through stimulation of the vagus nerve.

In February 2015, the legacy Cyberonics business received CE Mark approval for the VITARIA System for patients who have moderate to severe heart failure (New York Heart Association Class II/III) with left ventricular dysfunction (ejection fraction < 40 per cent.) and who remain symptomatic despite stable, optimal heart failure drug therapy. The VITARIA System provides a specific method of VNS called ART and it includes the same elements as the VNS Therapy System – pulse generator, lead, programming wand and software, programming computer, tunnelling tool and accessory pack, but without the patient kit with magnets. Cyberonics conducted a pilot study, ANTHEM-HF, outside the US, which concluded during the quarter ended 24 October 2014. The study results support the safety of ART delivered by the VITARIA System. Cyberonics submitted the results to its European Notified Body, DEKRA, and on 20 February 2015, it received CE Mark approval. Cyberonics also initiated a second pilot study, ANTHEM-HFpEF, to study ART in patients experiencing symptomatic heart failure with preserved ejection fraction. This pilot study is currently underway outside the US.

The other principal New Ventures heart failure initiative, Intense, is a broader project that is partially subsidised by the French government through Banque Publique d'Investissement.

With the completion of the Mergers, the New Ventures group is continuing to evaluate the appropriate course of action for each product, which could include future development efforts such as additional clinical trials or re-evaluation of certain projects.

## *Sleep apnea*

In 2014, Sorin completed a \$20 million minority investment in Respicardia, a US-based developer of implantable therapies designed to improve respiratory and cardiovascular health. Respicardia has developed the first fully implantable device for the treatment of CSA. CSA is a type of sleep-disordered breathing that disturbs the normal breathing pattern during sleep and adversely affects patients' overall cardiovascular health. CSA affects over five million patients worldwide and over one-third of heart failure patients suffer from CSA. There is currently a significant unmet clinical need for more effective therapeutic solutions to better manage patients with CSA.

Respicardia's **remedé**® System is an implantable pacemaker-like device that delivers electrical pulses to the phrenic nerve via a transvenous lead, which restores a more natural, less disrupted breathing pattern. The **remedé**® System received CE Mark certification in 2010 and is currently being evaluated in a US randomised, controlled IDE pivotal trial. Sorin's initial investment in Respicardia has financed ongoing clinical testing of the technology and represents a potential complement to LivaNova's innovative therapeutic solutions for patients with heart failure. Under the terms of Sorin's original investment in Respicardia, Sorin also acquired the exclusive right to distribute the **remedé**® System in selected European countries and an exclusive option to acquire Respicardia in the future. Respicardia expects to complete a US clinical trial in 2016, and if the trial is successful, apply for US FDA approval in the second half of 2016 or in early 2017.

Cyberonics also invested \$12.0 million in ImThera, a privately held company developing an implantable neurostimulation device system for the treatment of OSA. The aura6000 System stimulates the hypoglossal nerve to treat OSA. In November 2014, ImThera announced that the US FDA approved an IDE for their pivotal clinical study and patient enrolment has commenced.

## *Mitral valve regurgitation*

Sorin also invested in three mitral valve startups. Cardiosolutions Inc., a startup headquartered in the US in which it has held an interest since 2012, is developing an innovative "Spacer" technology for treating mitral regurgitation. In addition, Highlife, headquartered in France, and Caisson, headquartered in the US, are two external companies focused on developing devices for treating mitral regurgitation through percutaneous replacement of the native mitral valve. Although both ventures are focused on mitral valve replacement, their devices differ significantly in both the delivery system (transapical versus transfemoral) and the anchoring system. In February 2015, Sorin made further investments of €2.8 million (\$3.1 million) and \$7.5 million, respectively, in HighLife and Caisson, to achieve certain development milestones. As at 31 December 2015, the Company had total outstanding bridge loans to Caisson (\$2.0 million) and Highlife (\$1.7 million), which amounted to \$3.7 million on a combined basis.

## **C. Research and Development**

The markets in which LivaNova participates are subject to rapid technological advances. Product improvement and innovation are necessary to maintain market leadership. LivaNova's R&D efforts are directed toward maintaining or achieving technological leadership in each of the markets it serves to help ensure that patients using its devices and therapies receive the most advanced and effective treatment possible. LivaNova remains committed to developing technological enhancements and new uses for existing products and less invasive and new technologies for new and emerging markets to address unmet patient needs. That commitment leads LivaNova to initiate and participate in many clinical trials each fiscal year as the demand for clinical and economic evidence remains high. LivaNova also expects its development activities to help reduce patient care costs and the length of hospital stays.

Approximately 16 per cent. of LivaNova's employees work in R&D. LivaNova's R&D activities include improving existing products and therapies, expanding their uses and applications and developing new products. LivaNova continues to focus on optimising innovation and will continue to assess the R&D programmes based on their ability to deliver economic value to the customer.

During the Transitional Period, LivaNova spent \$51 million on R&D.

### ***R&D updates***

Neuromodulation Business Unit: Following an internal review of LivaNova's R&D activities, the Company decided to terminate certain R&D projects in Neuromodulation, including the ProGuardian™ System project and the recharge technology project. A loss of \$2.1 million has been recorded as a charge to R&D in the Company's consolidated income statement.



Cardiac Surgery Business Unit: On 5 October 2015, the Company also announced the initiation of PERSIST-AVR, the first international, prospective post-market randomised multi-centre trial to evaluate the Perceval™ sutureless aortic valve compared to standard sutured bioprostheses in patients with aortic valve disease. The study is expected to enrol 1,234 patients within a two-year enrolment period and patients will be followed until five years post procedure.

CRM Business Unit: During 2015, LivaNova has continued the development of implantable defibrillators dedicated to the use of quadripolar left ventricular leads with IS-4 compatibilities. This follows from the clinical trial under an IDE protocol for Respond CRT™. The purpose of the Respond CRT™ clinical trial assesses the safety and effectiveness of the SonR CRT™ system (described above) in patients affected by advanced heart failure.

New Ventures: The ANTHEM clinical study tested the VITARIA System in 60 reduced ejection fraction patients followed for 24 months. The study confirmed the safety of the VITARIA System. The Company is now evaluating the next steps in its clinical plan to prove the long-term efficacy of the therapy. In addition, LivaNova is testing the VITARIA System in a single arm trial of preserved ejection fraction patients (HFpEF).

## **D. Acquisitions and Investments**

LivaNova's strategy of providing a broad range of therapies requires a wide variety of technologies, products and capabilities. The rapid pace of technological development in the medical industry and the specialised expertise required in different areas of medicine make it difficult for one company alone to develop a broad portfolio of technological solutions. In addition to internally-generated growth through R&D efforts, LivaNova has historically relied, and expects to continue to rely, upon acquisitions, investments and alliances to provide access to new technologies in both new and existing markets.

LivaNova expects to further its strategic objectives and strengthen its existing businesses by making future acquisitions or investments in companies that it believes can stimulate the development of new technologies and products. Mergers and acquisitions of medical technology companies are inherently risky and no assurance can be given that any of its previous or future acquisitions will be successful or will not materially adversely affect LivaNova's consolidated operations, financial condition, and/or cash flows.

## **E. Patents and Licenses**

LivaNova relies on a combination of patents, trademarks, copyrights, trade secrets, and non-disclosure and non-competition agreements to establish and protect LivaNova's proprietary technology. It has a portfolio of over 2,000 patents and patent applications, and has filed and obtained numerous patents in the US and abroad in a continuing effort to establish and protect its proprietary technology rights. US patents typically have a 20-year term from the application date; patent protection outside the US varies by country. In addition, LivaNova has entered into exclusive and non-exclusive licences for a wide array of third-party technologies. It has also obtained certain trademarks and trade names for products, and maintains certain details about company processes, products and strategies as trade secrets. In the aggregate, these intellectual property assets and licences are considered to be of material importance to LivaNova's business segments and operations. LivaNova regularly reviews third-party patents and patent applications in an effort to protect its intellectual property and avoid disputes over proprietary rights.

## **F. Markets and Distribution Methods**

The three largest markets for LivaNova's medical devices are Europe, the US and Japan. Emerging markets are an area of increasing focus and opportunity. LivaNova sells most of its medical devices through direct sales representatives in the US and a combination of direct sales representatives and independent distributors in markets outside the US.

LivaNova's marketing and sales strategy is focused on rapid, cost-effective delivery of high-quality products to a diverse group of customers worldwide – including physicians, perfusionists, hospitals and other medical institutions and healthcare providers. To achieve this objective, LivaNova maintains a highly knowledgeable and dedicated sales staff that is able to foster strong customer relationships. LivaNova maintains excellent working relationships with professionals in the medical industry, who provide LivaNova with a detailed understanding of therapeutic and diagnostic developments, trends, and emerging opportunities, which enables it to respond quickly to the changing needs of providers and patients. LivaNova actively participates in medical meetings and conducts comprehensive training and educational activities in an effort to enhance its presence in the medical community, and believes that these activities also contribute to healthcare professional expertise.

Due to the emphasis on cost-effectiveness in healthcare delivery, the current trend among hospitals and other medical device customers is to consolidate into larger purchasing groups in order to enhance purchasing power. As a result, customer transactions have become increasingly complex. Enhanced purchasing power may also lead to pressure on pricing and an increase in the use of preferred vendors. LivaNova's customer base continues to evolve to reflect such economic changes across the geographic markets it serves.

## **G. Competition and Industry**

LivaNova competes in the medical device market in over 5,000 hospitals in more than 100 countries. This market is characterised by rapid change resulting from technological advances and scientific discoveries. Its competitors, across LivaNova's product portfolio, range from large manufacturers with multiple business lines to small manufacturers offering a limited selection of specialised products. In addition, LivaNova faces competition from providers of alternative medical therapies. Competitors for each of LivaNova's business segments are discussed below:

- Cardiac Surgery:
  - Cardiopulmonary Products: all Cardiopulmonary products face competition from at least two other large companies, and some regional competitors, although not all competitors are present in all product lines. All products are sold in a competitive market where pricing can be a relevant factor.
  - Heart Valves: LivaNova competes with three large competitors, and pricing is a significant factor.
- CRM: LivaNova competes with four large competitors, and features offered and pricing are significant competitive factors.
- Neuromodulation: LivaNova faces competition from a large competitor in Europe and a smaller competitor in the US.

Product problems, physician advisories, safety alerts and publications about LivaNova's products can cause major shifts in industry market share, reflecting the importance of product quality, product efficacy and quality systems in the medical device industry. In addition, because of developments in managed care, economically-motivated customers, consolidation among healthcare providers, increased competition, and declining reimbursement rates, LivaNova may be increasingly required to compete on the basis of price. In order to continue to compete effectively, LivaNova must continue to create or acquire advanced technology, incorporate this technology into proprietary products, obtain regulatory approvals in a timely manner, maintain high-quality manufacturing processes and successfully market these products.

## **H. Financial Information about the Company, the Business Units and Geographic Areas**

Following the Mergers, LivaNova operates its business as three segments, which it calls Business Units. The historical Cyberonics operations are included in the Neuromodulation Business Unit and the historical Sorin business activities are included in the Cardiac Surgery and CRM Business Units.

LivaNova's worldwide operations are accompanied by certain financial and other risks. Relationships with customers and effective terms of sale vary by country; often with longer-term receivables than are typical in the US. Currency exchange rate fluctuations can affect revenues, net of expenses, and cash flows from operations worldwide.

## **I. Production and Availability of Raw Materials**

LivaNova manufactures a majority of its products at ten manufacturing facilities located in Italy, France, Germany, the US, Canada, Brazil, Costa Rica and the Dominican Republic. LivaNova purchases many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. For quality assurance, sole source availability or cost effectiveness purposes, LivaNova may procure certain components and raw materials from a sole supplier. LivaNova works closely with its suppliers to ensure continuity of supply while maintaining high quality and reliability. Due to the regulatory requirements regarding manufacturing of its products, LivaNova may not be able to quickly establish additional or replacement sources for certain components or materials. Generally, LivaNova has been able to obtain adequate supplies of such raw materials and components. However, a sudden or unexpected reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect operations.

The quality systems utilised by LivaNova in the design, production, warehousing and distribution of LivaNova's products are designed to ensure that the products are safe and effective. Some of the governmental agencies and quality system regulations with which LivaNova is required to comply are as follows:

- The QSR under section 520 of the US FDCA and its implementing regulations at 21 C.F.R. Part 820.
- The International Standards Organisation – EN ISO 13485:2012, Medical devices – Quality management systems.
- The independent certification bodies – DEKRA, LNE/G-MED and TUV SUD act as LivaNova's notified bodies to ensure that the manufacturing quality systems comply with ISO 13485:2003.
- The European Council Directives 93/42/EEC and 90/385/EEC, ISO 13485, which relate to medical devices and active implantable medical devices.

In addition, LivaNova utilises environmental management systems and safety programmes to protect the environment and LivaNova's employees. Some of the regulations and governmental agencies with which LivaNova complies are as follows:

- The US Environmental Protection Agency for the regulation of environmental and employee health and the US Occupational Health and Safety Assessment System.
- The European Union Registration, Evaluation, Authorisation and Restriction of Chemicals.
- Italian regulations under the Integrated Environmental Authorisation acts.
- ISO 14001 certification

## **J. Government Regulation and Other Considerations**

LivaNova's medical devices are subject to regulation by numerous government agencies, including the US FDA and similar agencies outside the US. To varying degrees, each of these agencies requires LivaNova to comply with laws and regulations governing the research, development, testing, manufacturing, labelling, pre-market clearance or approval, marketing, distribution, advertising, promotion, recordkeeping, reporting, tracking, and importing and exporting of its medical devices. The business is also affected by patient privacy and security laws, cost containment initiatives, and environmental health and safety laws and regulations worldwide. The primary laws and regulations that affect the business are described below.

The laws applicable to LivaNova are subject to change and subject to evolving interpretations. If a governmental authority were to conclude that LivaNova is not in compliance with applicable laws and regulations, LivaNova and its officers and employees could be subject to severe criminal and civil penalties, including substantial fines and damages, and exclusion from participation as a supplier of product to beneficiaries covered by government programmes, among other potential enforcement actions.

### **US**

Each medical device LivaNova seeks to commercially distribute in the US must first receive 510(k) clearance or pre-market approval from the US FDA, unless specifically exempted by that agency. Under the US FDCA, medical devices are classified into one of three classes – Class I, Class II or Class III – depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose a lower risk are categorised as either Class I or II, which requires the manufacturer to submit to the US FDA a 510(k) pre-market notification requesting clearance of the device for commercial distribution in the US. Some low-risk devices are exempted from this requirement. Devices deemed by the US FDA to pose the greatest risk, such as life sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously 510(k)-cleared device, are categorised as Class III, requiring approval of a PMA application.

#### *510(k) Clearance Process*

To obtain 510(k) clearance, LivaNova must submit a pre-market notification to the US FDA demonstrating that the proposed device is substantially equivalent to a previously-cleared 510(k) device, a device that was in commercial distribution before 28 May 1976 for which the US FDA has not yet called for the submission of approval PMA application, or a device that has been reclassified from Class III to either Class II or I. In rare cases, Class III devices may be cleared through the 510(k) process. The US FDA's 510(k) clearance process usually takes three to twelve months from the date the application is submitted

and filed with the US FDA, but may take significantly longer and clearance is never assured. Although many 510(k) pre-market notifications are cleared without clinical data, in some cases, the US FDA requires significant clinical data to support substantial equivalence. In reviewing a pre-market notification submission, the US FDA may request additional information, including clinical data, which may significantly prolong the review process.

After a device receives 510(k) clearance, any subsequent modification of the device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new 510(k) clearance or could require a PMA. The US FDA requires each manufacturer to make this determination initially, but the US FDA may review any such decision and may disagree with a manufacturer's determination. If the US FDA disagrees with a manufacturer's determination, the US FDA may require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or approval of a PMA is obtained. Under these circumstances, the US FDA may also subject a manufacturer to significant regulatory fines or other penalties. In addition, the US FDA is currently evaluating the 510(k) process and may make substantial changes to industry requirements, including which devices are eligible for 510(k) clearance, the ability to rescind previously granted 510(k)s and additional requirements that may significantly impact the process.

### *Pre-market Approval Process*

A PMA application must be submitted if the medical device is in Class III (although the US FDA has the discretion to continue to allow certain pre-amendment Class III devices to use the 510(k) process) or cannot be cleared through the 510(k) process. A PMA application must be supported by, among other things, extensive technical, preclinical and clinical trials, and manufacturing and labelling data to demonstrate to the US FDA's satisfaction the safety and effectiveness of the device.

After a PMA application is submitted and filed, the US FDA begins an in-depth review of the submitted information, which typically takes between one and three years, but may take significantly longer. During this review period, the US FDA may request additional information or clarification of information already provided. Also during the review period, an advisory panel of experts from outside the US FDA will usually be convened to review and evaluate the application and provide recommendations to the US FDA as to the approvability of the device. In addition, the US FDA will conduct a pre-approval inspection of the manufacturing facility to ensure compliance with the QSR, which imposes elaborate design development, testing, control, documentation and other quality assurance procedures in the design and manufacturing process. The US FDA may approve a PMA application with post-approval conditions intended to ensure the safety and effectiveness of the device including, among other things, restrictions on labelling, promotion, sale, and distribution and collection of long-term follow-up data from patients in the clinical study that supported approval. Failure to comply with the conditions of approval can result in materially adverse enforcement action, including, among other things, the loss or withdrawal of the approval. New PMA applications or supplements are required for significant modifications to the manufacturing process, labelling of the product and design of a device that is approved through the PMA process. PMA supplements often require submission of the same type of information as an original PMA application, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA application, and may not require as extensive clinical data or the convening of an advisory panel.

### *Clinical Studies*

One or more clinical trials may be required to support a 510(k) application and are almost always required to support a PMA application. Clinical trials of unapproved or uncleared medical devices or devices being studied for uses for which they are not approved or cleared (investigational devices) must be conducted in compliance with US FDA requirements. If human clinical trials of a device are required and the device presents a significant risk, the sponsor of the trial must file an investigational device exemption, or IDE, application prior to commencing human clinical trials. The IDE application must be supported by data, typically including the results of animal and/or laboratory testing. If the IDE application is approved by the US FDA and one or more IRBs, human clinical trials may begin at a specific number of institutional investigational sites with the specific number of patients approved by the US FDA. If the device presents a non-significant risk to the patient, a sponsor may begin the clinical trial after obtaining approval for the trial by one or more IRBs without separate approval from the US FDA. During the trial, the sponsor must comply with the US FDA's IDE requirements including, for example, investigator selection, trial monitoring, adverse event reporting and recordkeeping. The investigators must obtain patient informed consent, rigorously follow the investigational plan and trial protocol, control the disposition of investigational devices and comply with reporting and recordkeeping requirements. LivaNova, the US FDA and the IRB at each institution at which a clinical trial is being conducted may suspend a clinical trial at any time for various reasons, including a belief that the subjects are being exposed to an unacceptable risk.

## *Continuing Regulation*

After a device is cleared or approved for marketing in the US, numerous and pervasive regulatory requirements continue to apply and LivaNova will continue to be subject to inspection by the US FDA to determine its compliance with these requirements, as will its suppliers, contract manufacturers and contract testing laboratories. These requirements include, among others:

- the QSR, which governs, among other things, how manufacturers design, test, manufacture, modify, label, exercise quality control over and document manufacturing and quality issues regarding their products;
- Establishment Registration, which requires establishments involved in the production and distribution of medical devices, intended for commercial distribution in the US, to register with the US FDA;
- Medical Device Listing, which requires manufacturers to list the devices they have in commercial distribution with the US FDA;
- labelling and claims regulations, which require that all advertising and promotion of devices be truthful, not misleading and fairly balanced and provide adequate directions for use, and that all claims be substantiated;
- prohibition of marketing devices for off-label uses, including requirements relating to dissemination of articles and information and responding to unsolicited requests for off-label information;
- medical device reporting regulations, which require reporting to the US FDA if a device may have caused or contributed to a death or serious injury, or if a device has malfunctioned and would be likely to cause or contribute to a death or serious injury if the malfunction were to recur;
- reporting and record keeping for certain corrections or removals initiated by a manufacturer to reduce a risk to health posed by a device or to remedy a violation of the US FDCA caused by the device that may present a risk to health;
- new statutory and regulatory requirements for Unique Device Identifiers on devices and submission of certain information about each device to the US FDA's Global Unique Device Identification Database; and
- in some cases, ongoing monitoring and tracking of a device's performance and periodic reporting to the US FDA of such performance results.

The US FDA enforces these requirements by inspection and market surveillance. The US FDA periodically inspects LivaNova's manufacturing facilities, which potentially includes LivaNova's suppliers. If the US FDA observes conditions that may constitute violations, LivaNova must correct the conditions or satisfactorily demonstrate the absence of the violations. The US FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed by LivaNova. Recently, the US FDA has placed an increased emphasis on enforcement of the QSR and other post-market regulatory requirements. LivaNova continues to expend resources to maintain compliance with LivaNova's obligations under the US FDA's regulations. Failure to comply with applicable regulatory requirements may result in enforcement action by the US FDA, which may include one or more of the following sanctions:

- untitled letters or warning letters;
- fines, injunctions and civil penalties;
- mandatory recall or seizure of LivaNova's products;
- administrative detention or banning of LivaNova's products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing LivaNova's request for 510(k) clearance or pre-market approval of new product versions;
- revocation of 510(k) clearance or pre-market approvals previously granted; and
- criminal prosecution and penalties.



In December 2015, LivaNova received an US FDA Warning Letter alleging certain violations of US FDA regulations applicable to LivaNova's 3T Heater Cooler devices and LivaNova's Munich, Germany and Arvada, Colorado manufacturing facilities.

## ***International***

Outside the US, LivaNova is subject to government regulation in the countries in which it operates. Although many of the regulations applicable to LivaNova's products in these countries are similar to those of the US FDA, these regulations vary significantly from country to country and with respect to the nature of the particular medical device. The time required to obtain foreign approvals to market LivaNova's products may be longer or shorter than the time required in the US, and requirements for such approvals may differ from US FDA requirements. In the EEA, a single regulatory approval process exists, and conformity with the legal requirements is represented by the CE Mark. To obtain CE Mark certification, defined products must meet minimum standards of performance, safety and quality (i.e., the essential requirements) set out in the EU Medical Devices Directives (Council Directive 93/42/EEC on Medical Devices and Council Directive 90/385/EEC on Active Implantable Medical Devices). To demonstrate compliance with the essential requirements LivaNova must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Except for low-risk medical devices (Class I with no measuring function and which are not sterile), where the manufacturer can issue an EC Declaration of Conformity based on a self-assessment of the conformity of its products with the essential requirements of the EU Medical Devices Directives, a conformity assessment procedure requires the intervention of an organisation accredited by a Member State of the EU or an EEA competent authority to conduct conformity assessments, or a Notified Body. Depending on the relevant conformity assessment procedure, the Notified Body would typically audit and examine the technical file and the quality system for the manufacture, design and final inspection of LivaNova's devices. Following successful completion of a conformity assessment procedure the Notified Body issues a certification that entitles the manufacturer to affix the CE Mark to its medical devices after having prepared and signed a related EC Declaration of Conformity. Manufacturers with CE Marked devices are subject to regular inspections by Notified Bodies to monitor continued compliance with the essential requirements.

As a general rule, demonstration of conformity of medical devices and their manufacturers with the essential requirements must be based, among other things, on the evaluation of clinical data supporting the safety and performance of the products during normal conditions of use. Specifically, a manufacturer must demonstrate that the device achieves its intended performance during normal conditions of use, that the known and foreseeable risks, and any adverse events, are minimised and acceptable when weighed against the benefits of its intended performance, and that any claims made about the performance and safety of the device (e.g., product labelling and instructions for use) are supported by suitable evidence.

In the EEA, clinical trials for medical devices usually require the approval of an ethics review board and approval by or notification to the national regulatory authorities. Both regulators and ethics committees also typically require the submission of adverse event reports during a study and may request a copy of the final study report.

In September 2012, the European Commission published proposals for the revision of the EU regulatory framework for medical devices. The proposal would replace the Medical Devices Directive and the Active Implantable Medical Devices Directive with a new regulation, known as the Medical Devices Regulation. Unlike the Directives that must be implemented into national laws, the Medical Devices Regulation would be directly applicable in all EEA countries and so is intended to eliminate current national differences in regulation of medical devices.

In October 2013, the European Parliament approved a package of reforms to the European Commission's proposals. Under the revised proposals, only designated "special notified bodies" would be entitled to conduct conformity assessments of high-risk devices, such as active implantable devices. These special notified bodies will need to notify the European Commission when they receive an application for a conformity assessment for a new high-risk device. The European Commission will then forward the notification and the accompanying documents on the device to the MDCG, (a new, yet to be created, body chaired by the European Commission, and representatives of Member States) for an opinion. These new procedures may result in the re-assessment of LivaNova's existing medical devices, or a longer or more burdensome assessment of LivaNova's new products.

If finally adopted, the Medical Devices Regulation is expected to enter into force during 2016 and become effective three years thereafter. In its current form it would, among other things, also impose additional reporting requirements on manufacturers of high risk medical devices, impose an obligation on manufacturers to appoint a "qualified person" responsible for regulatory compliance, and provide for more strict clinical evidence requirements.

The competent authorities of the EEA countries oversee the clinical research for medical devices and are responsible for market surveillance of products once they are placed on the market. LivaNova is required to report device failures and injuries potentially related to product use to these authorities in a timely manner. Various penalties exist for non-compliance with the laws setting forth the medical device directives.

The US FDA enforces these requirements by inspection and market surveillance. The US FDA periodically inspects LivaNova's manufacturing facilities, which potentially includes LivaNova's suppliers. If the US FDA observes conditions that may constitute violations, LivaNova must correct the conditions or satisfactorily demonstrate the absence of the violations; if LivaNova is unable to do so, it may face regulatory action. Non-compliance with applicable US FDA requirements can result in, among other things, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the US FDA to grant marketing approvals, withdrawal of marketing approvals, a recommendation by the US FDA to prevent LivaNova from entering into government contracts, and criminal prosecutions. The US FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed by LivaNova. Recently, the US FDA has placed an increased emphasis on enforcement of the QSR and other post-market regulatory requirements. LivaNova continues to expend resources to maintain compliance with LivaNova's obligations under the US FDA's regulations.

To be sold in Japan, most medical devices must undergo thorough safety examinations and demonstrate medical efficacy before they are granted approval, or "*shonin*". The Japanese government, through the MHLW, regulates medical devices under the PAL. Oversight for medical devices is conducted with participation by the PMDA, a quasi-government organisation performing many of the review functions for MHLW. Penalties for a company's noncompliance with PAL could be severe, including revocation or suspension of a company's business licence and criminal sanctions. MHLW and PMDA also assess the quality management systems of the manufacturer and the product conformity to the requirements of the PAL. LivaNova is subject to inspection for compliance by these agencies.

Many countries in which LivaNova operates (outside of the EU, US, or Japan) have their own regulatory requirements for medical devices. Most countries outside of the EU, US or Japan require that product approvals be recertified on a regular basis, generally every five years. The recertification process requires that LivaNova evaluates any device changes and any new regulations or standards relevant to the device and, where needed, conduct appropriate testing to document continued compliance. Where recertification applications are required, they must be approved in order to continue selling LivaNova's products in those countries. Since export control and economic sanctions laws and regulations are complex and constantly changing, LivaNova cannot ensure that laws and regulations may not be enacted, amended, enforced or interpreted in a manner materially impacting LivaNova's ability to sell or distribute its products.

LivaNova's global regulatory environment is becoming increasingly stringent and unpredictable, which could increase the time, cost and complexity of obtaining regulatory approvals for LivaNova's products. Several countries that did not have regulatory requirements for medical devices have established such requirements in recent years and other countries have expanded, or plan to expand, existing regulations. Certain regulators are requiring local clinical data in addition to global clinical data. While harmonisation of global regulations has been pursued, requirements continue to differ significantly among countries. LivaNova expects that this global regulatory environment will continue to evolve, which could impact its ability to obtain future approvals for its products, or could increase the cost and time to obtain such approvals in the future. LivaNova cannot ensure that any new medical devices it develops will be approved in a timely or cost-effective manner, or approved at all.

### **Promotional Restrictions**

Both before and after a product is commercially released, LivaNova has ongoing responsibilities under various laws and regulations governing medical devices. In addition to US FDA regulatory requirements, the US FDA and other US regulatory bodies (including the US Federal Trade Commission, the US Office of the Inspector General of the Department of Health and Human Services, the US Department of Justice and various US state Attorneys General) monitor the manner in which LivaNova promotes and advertises its products. Although physicians are permitted to use their medical judgment to employ medical devices for indications other than those cleared or approved by the US FDA, LivaNova is prohibited from promoting products for such "off-label" uses and can only market its products for cleared or approved uses.

### **Governmental Trade Regulations**

The sale and shipment of LivaNova's products and services across international borders, as well as the purchase of components and products from international sources, subjects LivaNova to extensive governmental trade regulations. A variety of laws and regulations apply to the sale, shipment and provision of goods, services and technology across international borders.

Many countries control the export and re-export of goods, technology and services for reasons including public health, national security, regional stability, anti-terrorism policies and other reasons. Some governments may also impose economic sanctions against certain countries, persons or entities. In certain circumstances, approval from governmental authorities may be required before goods, technology or services are exported or re-exported to certain destinations, to certain end-users and for certain end-uses. Since LivaNova is subject to extensive regulations in the countries in which it operates, LivaNova is subject to the risk that laws and regulations could change in a way that would expose it to additional costs, penalties or liabilities. These laws and regulations govern, among other things, LivaNova's import and export activities.

In addition to LivaNova's need to comply with such regulations in connection with its direct export activities, LivaNova also sells and provides goods, technology and services to agents, representatives and distributors who may export such items to customers and end-users. If these third parties violate applicable export control and economic sanctions laws and regulations when engaging in transactions involving LivaNova's products, LivaNova may be subject to varying degrees of liability dependent upon LivaNova's participation in the transaction. The activities of LivaNova's third parties may cause disruption or delays in the distribution and sales of LivaNova's products, or result in restrictions being placed upon LivaNova's international distribution and sales of products, which may materially impact its business activities.

### **Patient Privacy and Security Laws**

Various laws worldwide protect the confidentiality of certain patient health information, including patient medical records, and restrict the use and disclosure of patient health information by healthcare providers. Privacy standards in Europe and Asia are becoming increasingly strict, enforcement action and financial penalties related to privacy in the EU are growing, and new laws and restrictions are being passed. The management of cross-border transfers of information among and outside of EU member countries is becoming more complex, which may complicate LivaNova's clinical research activities, as well as product offerings that involve transmission or use of clinical data. LivaNova will continue its efforts to comply with those requirements and to adapt its business processes to those standards.

With respect to the US, the HIPAA, as amended by the HITECH and their respective implementing regulations, including the final omnibus rule published on 25 January 2013, imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to "business associates," defined as independent contractors or agents of covered entities that create, receive, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys new general authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways, thus complicating compliance efforts. LivaNova potentially operates as a business associate to covered entities in a limited number of instances. In those cases, the patient data that LivaNova receives may include protected health information, as defined under HIPAA. Enforcement actions can be costly and interrupt regular operations of LivaNova's business. Nonetheless, these requirements affect a limited subset of LivaNova's business. While LivaNova has not been named in any such suits, if a substantial breach or loss of data from LivaNova's records were to occur, it could become a target of such litigation.

### **Cost Containment Initiatives**

Government and private sector initiatives to limit the growth of healthcare costs, including price regulation, competitive pricing, bidding and tender mechanics, coverage and payment policies, comparative effectiveness of therapies, technology assessments, and managed-care arrangements, are continuing in many countries where LivaNova does business. These changes are causing the marketplace to put increased emphasis on the delivery of more cost-effective medical devices and therapies. Government programmes, private healthcare insurance and managed-care plans have attempted to control costs by limiting the extent of coverage or amount of reimbursement available for particular procedures or treatments, tying reimbursement to outcomes, shifting to population health management, and other mechanisms designed to constrain utilisation and contain costs. Hospitals, which purchase implants, are also seeking to reduce costs through a variety of mechanisms, including, for example, creating centralised purchasing functions that set pricing and in some cases limit the number of vendors that can participate in the purchasing program. Hospitals are also aligning their interests with physicians' through employment and other arrangements, such as gainsharing, whereby a hospital agrees with physicians to share



certain realised cost savings resulting from the physicians' collective change in practice patterns, such as standardisation of devices where medically appropriate, and participation in affordable care organisations. Such alignment has created increasing levels of price sensitivity among customers for LivaNova's products.

Some third-party payers must also approve coverage and set reimbursement levels for new or innovative devices or therapies before they will reimburse healthcare providers who use the medical devices or therapies. Even though a new medical device may be cleared for commercial distribution, LivaNova may find limited demand for the device until coverage and sufficient reimbursement levels have been obtained from governmental and private third-party payers. In addition, some private third-party payers require that certain procedures or the use of certain products be authorised in advance as a condition of coverage.

In the US, the implementation of the Affordable Care Act, for example, has the potential to substantially change healthcare financing and delivery by both governmental and private insurers, and significantly impact the pharmaceutical and medical device industries. The Affordable Care Act imposed, among other things, a new federal excise tax on the sale of certain medical devices, which due to subsequent legislative amendments, has been suspended from 1 January 2016 to 31 December 2017, and, absent further legislative action, will be reinstated starting 1 January 2018. In addition, the Affordable Care Act provided incentives to programmes that increase the federal government's comparative effectiveness research. The Affordable Care Act also implemented payment system reforms including a national pilot programme on payment bundling to encourage hospitals, physicians and other providers to improve the coordination, quality and efficiency of certain healthcare services through bundled payment models.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. On 2 August 2011, President Obama signed into law the US Budget Control Act of 2011, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals on spending reductions. The Joint Select Committee did not achieve a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, triggering the legislation's automatic reduction of several government programmes. These included reductions to Medicare payments to providers of 2 per cent. per fiscal year, which went into effect on 1 April 2013, and, due to subsequent legislative amendments, will stay in effect through 2025 unless additional Congressional action is taken. On 2 January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers, including hospitals.

International examples of cost containment initiatives and healthcare reforms in markets significant to LivaNova's business include Japan, where the government reviews reimbursement rate benchmarks every two years, such reviews may significantly reduce reimbursement for procedures using LivaNova's medical devices or result in the denial of coverage for those procedures.

In addition, the Italian Parliament has introduced new rules for entities that supply goods and services to the Italian National Healthcare System. The new healthcare law is expected to impact the business and financial reporting of companies operating in the medical technology sector that sell medical devices in Italy. A key provision of the law is a 'payback' measure, requiring companies selling medical devices in Italy to make payments to the Italian state if medical device expenditures exceed regional maximum ceilings. Companies are required to make payments equal to a percentage of expenditures exceeding maximum regional caps. There is considerable uncertainty about how the law will operate and the exact timeline for finalisation.

As a result of LivaNova's manufacturing efficiencies, cost controls and other cost-savings initiatives, LivaNova believes it is well-positioned to respond to changes resulting from this worldwide trend toward cost-containment; however, uncertainty remains as to the nature of any future legislation or other reforms, making it difficult for LivaNova to predict the potential impact of cost-containment trends on future operating results.

### **Applicability of Anti-Corruption Laws and Regulations**

LivaNova worldwide business is subject to the US FCPA, the UK Bribery Act and other anti-corruption laws and regulations applicable in the jurisdictions where it operates.

### **Health Care Fraud and Abuse Laws**

LivaNova is also subject to healthcare regulation and enforcement by the states, the federal government, and foreign states in which it conducts its business. These laws include, without limitation, state and federal anti-kickback, fraud and abuse, false claims and physician sunshine laws and regulations.

The US federal Anti-Kickback Statute prohibits, among other things, any person from knowingly and wilfully offering, soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programmes such as Medicare and Medicaid. The US Anti-Kickback Statute is subject to evolving interpretations. In the past, the government has enforced the US Anti-Kickback Statute to reach large settlements with healthcare companies based on sham consulting and other financial arrangements with physicians. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. In addition, the government may assert that a claim including items or services resulting from a violation of the federal US Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the US False Claims Act. The majority of states also have anti-kickback laws which establish similar prohibitions, and in some cases may apply to items or services reimbursed by any third-party payer, including commercial insurers.

Additionally, the civil US False Claims Act prohibits knowingly presenting or causing the presentation of a false, fictitious, or fraudulent claim for payment to the US government. Actions under the US False Claims Act may be brought by the US Attorney General or as a *qui tam* action by a private individual in the name of the government. Violations of the US False Claims Act can result in very significant monetary penalties and treble damages. The federal government is using the US False Claims Act, and the accompanying threat of significant financial liability, in its investigation and prosecution of device and biotechnology companies throughout the country, for example, in connection with the promotion of products for unapproved uses and other sales and marketing practices. The government has obtained multi-million and multi-billion dollar settlements under the US False Claims Act in addition to individual criminal convictions under applicable criminal statutes. Given the significant size of actual and potential settlements, it is expected that the government will continue to devote substantial resources to investigating healthcare providers' and manufacturers' compliance with applicable fraud and abuse laws.

HIPAA also created new federal criminal statutes that prohibit, among other actions, knowingly and wilfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, including private third-party payers; knowingly and wilfully embezzling or stealing from a healthcare benefit program; wilfully obstructing a criminal investigation of a healthcare offence; and knowingly and wilfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. Similar to the federal US Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.

There has also been a recent trend of increased federal and state regulation of payments made to physicians and other healthcare providers. The Affordable Care Act, among other things, imposes new reporting requirements on certain device manufacturers for payments made by them to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members. Failure to submit required information may result in civil monetary penalties of up to an aggregate of \$150,000 per year (or up to an aggregate of \$1 million per year for "knowing failures"), for all payments, transfers of value, or ownership or investment interests that are not timely, accurately and completely reported in an annual submission. Device manufacturers must submit reports to the government by the 90<sup>th</sup> day of each calendar year. Certain states also mandate implementation of compliance programmes, impose restrictions on device manufacturer marketing practices, and/or require the tracking and reporting of gifts, compensation, and other remuneration to physicians.

The shifting commercial compliance environment and the need to build and maintain robust systems to comply with different compliance and/or reporting requirements in multiple jurisdictions increase the possibility that a healthcare company may violate one or more of the requirements. If LivaNova's operations are found to be in violation of any of such laws or any other governmental regulations that apply to it, it may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of its operations, exclusion from participation in federal and state healthcare programmes and imprisonment, any of which could adversely affect its ability to operate its business and its financial results.

In addition, the FCPA can be used to prosecute companies in the US for arrangements with physicians, or other parties outside the US, if the physician or party is a government official of another country and the arrangement violates the law of that country. There are similar laws and regulations applicable to LivaNova outside the US, all of which are subject to evolving interpretations.

## **Environmental Health and Safety Laws**

LivaNova is also subject to various environmental health and safety laws and regulations worldwide. Like other medical device companies, LivaNova's manufacturing and other operations involve the use and transportation of substances regulated under environmental health and safety laws including those related to the transportation of hazardous materials. To the best of the Company's knowledge at this time, it does not expect that compliance with environmental protection laws will have a material impact on its consolidated results of operations, financial position, or cash flows.

## **Patent Litigation Risks**

LivaNova operates in an industry characterised by extensive patent litigation. Patent litigation can result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products broadly, or in specified markets, or result in significant royalty payments in order to continue selling the products. Although LivaNova is not currently a party to any patent litigation, LivaNova has in the past been involved as both a plaintiff and a defendant in patent infringement actions. At any given time, LivaNova may be involved again as either a plaintiff or a defendant in a patent infringement action; the outcome of which may not be known for prolonged periods of time. While it is not possible to predict participation in, or the outcome of, patent litigation incidental to LivaNova's business, it believes the costs associated with future litigation of this type could have a material adverse impact on its consolidated results of operations, financial position, or cash flows.

## **Product Liability and Insurance**

The development, manufacture, and sale of LivaNova's products subject LivaNova to the risk of product liability claims. LivaNova is currently named as a defendant in one or more product liability lawsuits. As the manufacturer of medical devices, LivaNova likely will be named in the future as a defendant in other product liability lawsuits. The Company does not believe that LivaNova's products involved in the current lawsuits are defective; however, the outcome of litigation is inherently unpredictable and could result in an adverse judgment and an award of substantial and material damages against LivaNova. Although LivaNova maintains product liability insurance in amounts that the Company believes to be reasonable, coverage limits may prove to be inadequate in some circumstances. Product liability insurance is expensive and in the future may only be available at significantly higher premiums or not available on acceptable terms, if at all. A successful claim brought against LivaNova in excess of LivaNova's insurance coverage could severely harm LivaNova's business and consolidated results of operations and financial position. LivaNova has undertaken field corrections to address product defects, and there can be no assurance that LivaNova will not be required to perform field corrections and product recalls or removals in the future.

LivaNova has sent safety alert letters and recommendations and published field notifications for its products. All of LivaNova's US FDA related field notifications and safety alerts affecting a significant patient population are available on its website, [www.livanova.com](http://www.livanova.com). Any such current or future product defects may result in legal claims with material adverse consequences to LivaNova's business.

LivaNova endeavours to maintain executive and organisation liability insurance in a form and with aggregate coverage limits that the Company believes are adequate for LivaNova's business purposes, but the coverage limits may prove not to be adequate in some circumstances. In addition, executive and organisation liability insurance is expensive and in the future may be available only at significantly higher premiums or not be available on acceptable terms, if at all. Further, insurance companies may be unable to meet their obligations under the policies they have issued or will issue in the future.

## **K. Working Capital Practices**

LivaNova's goal is to carry sufficient levels of inventory to ensure adequate supply of raw materials from suppliers and meet the product delivery needs of LivaNova's customers. To meet the operational demands of LivaNova's customers, LivaNova also provides payment terms to customers in the normal course of business and rights to return product under warranty.

## **L. Employees**

As of 31 December 2015, LivaNova employed approximately 4,700 employees worldwide. LivaNova's employees are vital to LivaNova's success, and LivaNova is engaged in an ongoing effort to identify, hire, manage, and maintain the talent necessary to meet LivaNova's business objectives. The Company believes that LivaNova has thus far been successful in attracting and retaining qualified personnel in a highly competitive labour market due, in large part, to LivaNova's competitive compensation and benefits, and LivaNova's rewarding work environment, fostering employee professional training and development and providing employees with opportunities to contribute to LivaNova's continued growth and success.

As at 31 December 2015:

- LivaNova had 8 directors, of whom 7 were male and 1 was female;
- LivaNova had 10 persons discharging managerial responsibilities, all of whom were male; and
- LivaNova had 4,653 employees, of whom 2,004 were male and 2,649 were female.

In March 2016, LivaNova announced a reorganisation plan for CRM, further details of which are set out in part B of this section II in the paragraph headed "*CRM Recent Developments*".

## **M. Environment and Other Social Matters**

LivaNova is committed to conducting its business in compliance with all applicable environmental laws and regulations in a manner that has the highest regard for the environment and the health and safety, and well-being of employees and the general public.

## **N. Seasonality**

For all product segments, the number of medical procedures incorporating LivaNova's product sales is generally lower during summer months due to summer vacation schedules. This is particularly relevant to European countries.

## **O. Properties**

LivaNova's principal executive office is located in the United Kingdom and is leased. LivaNova's business unit headquarters are located in France, Italy and the US, with the location in France being leased and the locations in Italy and the US being owned. Manufacturing and research facilities are located in Belgium, Brazil, British Columbia, Costa Rica, Dominican Republic, France, Germany, Italy, The People's Republic of China, Australia and the US. LivaNova's total manufacturing and research facilities are approximately 1,662,178 square feet, of which approximately 32 per cent. are located within the US. Approximately 60 per cent. of LivaNova's manufacturing or research facilities are owned and the balance are leased.

LivaNova also maintains 21 primary administrative offices in 15 countries. Most of these locations are leased. LivaNova is using substantially all of its currently available productive space to develop, manufacture and market its products. LivaNova's facilities are in good operating condition, suitable for their respective uses and adequate for current needs. LivaNova is currently evaluating its properties for additional cost savings and efficiencies, due to the Mergers.

### III. Business Review

#### A. Introduction

The Mergers became effective on 19 October 2015 and LivaNova became the holding company of the combined businesses of Cyberonics and Sorin. Based on the structure of the Mergers, management determined that Cyberonics is considered to be the acquirer and predecessor for accounting purposes.

LivaNova is reporting in its consolidated financial statements in this UK Annual Report the results from operations for Cyberonics for the period 25 April 2015 to 31 December 2015 and the results of operations for Sorin for the period 19 October 2015 to 31 December 2015, being the Transitional Period.

Historically, Sorin and Cyberonics prepared their financial statements in accordance with IFRS and US GAAP, respectively. Following completion of the Mergers, LivaNova is preparing its consolidated financial statements in accordance with both (i) US GAAP in accordance with US securities law and reporting requirements, and (ii) IFRS in accordance with the requirements of the Companies Act and the DTRs. The US GAAP financial statements for the Transitional Period were contained in the Annual Report on Form 10-K filed with the SEC on 4 March 2016 and the IFRS financial statements are contained in this UK Annual Report.

The basis of presentation, critical accounting estimates and significant accounting policies are set out in note 2 to the consolidated IFRS financial statements contained in this UK Annual Report.

LivaNova reported a loss from operations of \$23.7 million on net sales of \$415.7 million for the Transitional Period. This period included a \$24.5 million impact from amortisation of the step-up in inventory and fixed assets. Also included in this period is \$72 million in exceptional items, including merger, integration and restructuring expenses, and an impairment of an equity investment, along with \$23 million in accelerated equity compensation expenses. The directors believe that, due to the timing of completion of the Mergers, and the time period covered by the transitional results, the results are not comparable to prior periods.

#### B. Key Performance Indicators

The directors of LivaNova consider that the most important KPIs for 2016 are those set out below. As LivaNova only began operating as a combined entity on 19 October 2015 on completion of the Mergers, it is not possible to provide KPI information for 2015.

- **Net sales growth (on a constant currency basis, or adjusted net sales)**

Due to the number of currencies in which LivaNova's sales are invoiced to customers, the directors believe that constant currency sales growth is a more appropriate way to measure operational performance. Constant currency growth measures the change in sales between any particular year and the immediate prior year using average foreign exchange rates during the immediate prior year.

- **Adjusted income from operations**

Income from operations, as adjusted for various costs arising from the Mergers (including those costs incurred as a result of purchase price accounting), measures LivaNova's management of sales, gross profit and normalized operating expenses.

- **Adjusted net profit**

Net profit, as adjusted for the items referred to above, and also adjusted for unusual costs from finance related matters, minority investments and accounting for taxation, measures the totality of LivaNova's income statement.

- **Adjusted earnings per share**

Earnings per share, as adjusted for the items referred to above, is a measure often used by investors to arrive at a value for each share issued by a company, including the dilutive effect of incentive shares issued to management.

An important KPI to be evaluated over a period longer than one year is the **share price**, which reflects not only the management of LivaNova's earnings on a consistent basis, but also management's ability to articulate medium and longer term strategy and communicate both of these to investors.

## C. Results of Operations

On 19 October 2015, pursuant to the terms of the Merger Agreement Sorin merged with and into the Company, with the Company continuing as the surviving company, immediately followed by the merger of Merger Sub with and into Cyberonics, with Cyberonics continuing as the surviving company and as a wholly owned subsidiary of the Company. Upon the consummation of the Mergers, the historical financial statements of Cyberonics became the Company's historical financial statements. Accordingly, the historical financial statements of Cyberonics are included in the comparative prior period.

Prior to the Mergers, Cyberonics had a 52/53-week financial year that ended on the last Friday in April. The financial year ended 24 April 2015 on the accompanying consolidated statement of income is a 52-week year. As a result of the Mergers, Cyberonics changed to a calendar year ending 31 December of each year. The change in financial year, effective as of 19 October 2015, resulted in a transitional period which began on 25 April 2015 and ended on 31 December 2015. Therefore, the comparative amounts for the financial year ended 24 April 2015 are not comparable.

Upon completion of the Mergers, LivaNova reorganised its reporting structure and aligned its segments and the underlying divisions and businesses. The Cyberonics operations and historical data are included in the Neuromodulation segment, and the Sorin businesses activities are included in the Cardiac Surgery and the CRM segments.

### Net Sales

The table below illustrates net sales by operating segment for the Transitional Period as compared to the financial year ended 24 April 2015 (which uses historical Cyberonics data), or Cyberonics FY 2015 (in thousands):

	Transitional Period 25 April 2015 to 31 December 2015	Financial year ended 24 April 2015	% Change
Net revenues			
Neuromodulation . . . . .	\$ 214,761	\$ 291,558	(26.3)
Cardiac Surgery . . . . .	147,635	—	
Cardiac Rhythm Management . . . . .	52,470	—	
Corporate and New Venture . . . . .	841	—	
Total . . . . .	<u>\$ 415,707</u>	<u>\$ 291,558</u>	

The Cardiac Surgery and CRM segment sales occurred from 19 October 2015 to 31 December 2015 following the accounting acquisition of Sorin as a result of the Mergers.

Neuromodulation net sales for the Transitional Period decreased \$76.8 million, or 26.3 per cent., compared to Cyberonics FY 2015. The decrease in Neuromodulation net sales is primarily due to the Transitional Period including approximately 36 weeks compared to 52 weeks in Cyberonics FY 2015. The successful US launch of AspireSR in June 2015 provided an important impetus for net sales.

The table below illustrates net sales by market geography for the Transitional Period as compared to Cyberonics FY 2015 (in thousands):

	Transitional Period 25 April 2015 to 31 December 2015				Financial year ended 24 April 2015
	Neuromodulation	Cardiac Surgery	Cardiac Rhythm Management	New Ventures and Corporate	Neuromodulation
United States . . . . .	\$ 180,764	\$ 48,960	\$ 2,537	\$ —	\$ 235,712
Europe <sup>(1)</sup> . . . . .	21,081	40,272	43,188	242	41,484
Rest of World . . . . .	12,916	58,403	6,745	599	14,362
Total . . . . .	<u>\$ 214,761</u>	<u>\$ 147,635</u>	<u>\$ 52,470</u>	<u>\$ 841</u>	<u>\$ 291,558</u>

<sup>(1)</sup> Includes those countries in Europe where LivaNova has a direct sales presence. Countries where sales are made through distributors are included in Rest of World.



## Cost of Sales and Expenses

The table below illustrates LivaNova's cost of sales and major expenses as a percentage of sales for the Transitional Period, as compared to Cyberonics FY 2015:

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Financial year ended 24 April 2015</b>	<b>% Change</b>
Cost of sales . . . . .	35.8%	9.4%	26.4%
Selling, general and administrative . . . . .	40.3%	42.3%	(2.0)%
Research and development . . . . .	12.2%	14.9%	(2.7)%
Merger related expenses . . . . .	10.1%	3.0%	7.1%
Integration expenses . . . . .	3.3%	—%	3.3%
Restructuring expenses . . . . .	2.7%	—%	2.7%

### Cost of Sales

Cost of sales consisted primarily of direct labour, allocated manufacturing overhead, the acquisition cost of raw materials and components and the MDET. MDET began on 1 January 2013 and has been suspended for the period 1 January 2016 to 31 December 2017.

LivaNova's cost of sales as a percentage of net sales increased to 35.8 per cent. for the Transitional Period, as compared to 9.4 per cent. for Cyberonics FY 2015. Cost of sales, as a percentage of net sales, increased as a result of including lower margin sales in Cardiac Surgery and CRM from the date of the Mergers, as well as the product transitions in CRM and Neuromodulation.

#### Looking ahead

The Company expects the cost of sales as a percentage of net sales in the year ending 31 December 2016 will be approximately the same as the Transitional Period.

### SG&A Expenses

SG&A expenses are comprised of sales, marketing, general and administrative activities. SG&A expenses exclude expenses incurred in connection with the merger between Cyberonics and Sorin, integration costs after the Mergers and restructuring costs under the Restructuring Plan.

SG&A expenses as a percentage of net sales for the Transitional Period decreased by 2.0 per cent. to 40.3 per cent. as compared to Cyberonics FY 2015. SG&A expenses, as a percentage of net sales, declined due to the higher sales base arising from the Mergers, and the initial impact of certain cost savings due to the elimination of duplicate overhead costs.

#### Looking ahead

LivaNova's SG&A expenses in future years could be favourably impacted by synergies from the Restructuring Plan.

### R&D Expenses

R&D expenses consist of product design and development efforts, clinical trial programmes and regulatory activities. R&D expenses as a percentage of net sales were 12.2 per cent. for the Transitional Period, as compared to 14.9 per cent. for Cyberonics FY 2015. R&D expenses, as a percentage of net sales, decreased due to changes in the R&D programmes within Neuromodulation, the initial impact of cost savings as well as lower R&D costs for Cardiac Surgery and CRM from the date of the Mergers.

#### Looking ahead

LivaNova's R&D expenditures could be affected by future impairment of intangible assets utilised in R&D projects that may be cancelled or by the delay or cancellation of a project based on LivaNova's review and product priorities. Ongoing projects include opportunities in the area of heart failure. LivaNova's R&D expenses in future years could, however, be favourably impacted by synergies from the Restructuring Plan.

## ***Exceptional Items***

### ***Merger Related Expenses***

In the Transitional Period, LivaNova incurred \$42.1 million in expenses related to the Mergers. These expenses consisted of professional fees for legal services, accounting services, due diligence, a fairness opinion and the preparation of registration and regulatory filings in the US and Europe, as well as investment banking fees.

The Company reported these expenses as a part of exceptional item separately in the Company's consolidated income statement. Share-based compensation triggered by the Mergers is included under merger related expenses.

#### *Looking ahead*

The Company expects merger related expenses to be significantly reduced in the year ending 31 December 2016.

### ***Integration Expenses***

LivaNova incurred \$13.7 million in the Transitional Period in integration expenses related to the Mergers. These expenses consisted primarily of consultation with regard to: LivaNova's systems integration, organisation structure integration, finance, synergy and tax planning, the transition to US GAAP for Sorin activity, the Company's LSE listing and certain re-branding efforts. The Company reported these expenses as a part of exceptional item separately in the Company's consolidated income statement.

#### *Looking ahead*

The Company expects integration expenses to continue to be material in the year ending 31 December 2016.

### ***Restructuring Expenses***

LivaNova incurred \$11.3 million in the Transitional Period in restructuring expenses. The Company reported these expenses as a part of exceptional item separately in the Company's consolidated income statement. Termination payments triggered by the Mergers are included in restructuring expenses. Certain termination payments occurred following efforts to eliminate duplicate corporate expenses. LivaNova also initiated its Restructuring Plan which is intended to leverage economies of scale and streamline distributions, logistics and office functions in order to reduce overall costs.

#### *Looking ahead*

The Company expects Restructuring Plan expenses to increase in the year ending 31 December 2016, particularly with respect to the Reorganisation Plan for the CRM Business Unit announced on 10 March 2016 (see note 33 to the consolidated Financial Statements).

### ***Impairment of Investments***

LivaNova fully impaired a cost-method equity investment in Cerbomed, a European company developing a t-VNS device for epilepsy treatment, for a loss of \$5.1 million. The Company reported these expenses as a part of exceptional item separately in the Company's consolidated income statement.

### ***Interest Expense***

LivaNova incurred interest expense of \$1.5 million for the Transitional Period, primarily from LivaNova's outstanding borrowings, amortisation of debt issuance costs and debt discounts and interest accrued on unrealised tax benefits.

#### *Looking ahead*

The Company expects LivaNova's interest expense to increase in the year ending 31 December 2016.



## ***Foreign Exchange and Other Income (Expense), Net***

Foreign exchange and other expenses of \$7.5 million recognised during the Transitional Period included loss of \$5.6 million from both realised and unrealised foreign currency hedges. These derivative contracts were established to hedge against exchange rate movements on the loan from the EIB and other loans, which are denominated in Euros. The loss on the hedge was recorded in the Company's consolidated income statement, whereas the hedged instrument's gain was recorded in comprehensive income in the Company's consolidated financial statements. Other losses included net foreign currency transaction losses of \$1.9 million.

## ***Income Taxes***

LivaNova's effective tax rate for the Transitional Period was 15.9 per cent., primarily due to the foreign tax rate differential between the UK tax rate and the non-UK tax rates of \$11.2 million in the jurisdictions in which LivaNova operates; unfavourable effect of change in tax rate of \$3.3 million; the tax benefit of notional interest deduction of \$3.1 million; non-deductible transaction costs of \$5.4 million; a US R&D tax credit of \$1.6 million; unfavourable change in unrecognised deferred tax assets of \$2.2 million; equity compensation adjustment of \$5.8 million; and other permanent differences, including US IRC subpart F income, US domestic manufacturing deduction and other non-deductible expenses.

LivaNova files federal and local tax returns in many jurisdictions throughout the world and is subject to income tax examinations for financial year 1992 for the legacy Cyberonics business and subsequent years, with certain exceptions. Tax authorities may disagree with certain positions LivaNova has taken and assess additional taxes, and as a result LivaNova establishes reserves for uncertain tax positions, which requires a significant degree of management judgment. LivaNova regularly assesses the likely outcomes of LivaNova's tax positions in order to determine the appropriateness of LivaNova's reserves for uncertain tax positions. The total amount of unrecognised tax benefit as of 31 December 2015, if recognised, would reduce LivaNova's income tax expense by approximately \$20.2 million. The Company is unable to estimate the amount of change of the majority of LivaNova's unrecognised tax benefits over the next 12 months; however, approximately \$0.9 million will be resolved over the next 12 months due to the expected completion of an audit.

As of closing of the Mergers, there were several investments in subsidiaries where the book basis was greater than the tax basis, whereby the deferred tax liability was recognised through the acquisition method of accounting. The deferred tax liability recognised through purchase accounting related to these subsidiaries was approximately \$17.9 million. No further provision has been made for income taxes on undistributed earnings of foreign subsidiaries as of 31 December 2015, because it is the Company's intention to indefinitely reinvest undistributed earnings of LivaNova's foreign subsidiaries. In the event of the distribution of those earnings in the form of dividends, a sale of the subsidiaries or certain other transactions, LivaNova may be liable for income taxes. There should be no material tax liability on future distributions as most jurisdictions with undistributed earnings have various participation exemptions or no withholding tax. As of 31 December 2015, it was not practicable to determine the amount of the income tax liability related to those investments.

## ***Losses from Equity Method Investments***

LivaNova recognised a loss of \$3.3 million from LivaNova's share of the losses at LivaNova's equity method investments during the Transitional Period, primarily due to losses at Highlife, Caisson, Respicardia and MicroPort Sorin CRM.

## ***Looking ahead***

LivaNova's share of its investees' losses during the Transitional Period was incurred during the period 19 October 2015 to 31 December 2015. In the year ending 31 December 2016, LivaNova's share of its investees' losses will be incurred for the period 1 January 2016 to 31 December 2016, and the Company expect the losses to be significantly greater.

## **D. Liquidity and Capital Resources**

Based on LivaNova's current business plan, the Company believes that LivaNova's existing cash, investments and future cash generated from operations will be sufficient to fund its expected operating needs, working capital requirements, R&D opportunities, capital expenditures and debt service requirements over the next 12 months. LivaNova regularly reviews its capital needs and considers various investing and financing alternatives to support its requirements.

## **Cash Flows**

Net cash and cash equivalents provided by (used in) operating, investing and financing activities and the net increase (decrease) in the balance of cash and cash equivalents were as follows (in thousands):

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Financial Year Ended 24 April 2015</b>
Operating activities . . . . .	\$ (9,288)	\$ 79,676
Investing activities . . . . .	16,182	(9,765)
Financing activities . . . . .	(18,127)	(48,256)
Effect of exchange rate changes on cash and cash equivalents . . . . .	(341)	(767)
Net increase (decrease) . . . . .	<u>\$ (11,574)</u>	<u>\$ 20,888</u>

### **Operating Activities**

Cash utilised in LivaNova's consolidated operating activities during the Transitional Period was \$9.3 million. In Cyberonics FY 2015, Cyberonics' cash flow provided by operations was \$79.6 million.

During the Transitional Period, cash flow from operating activities benefited from a cash inflow of \$36.3 million primarily due to the reduction of Sorin's inventory that was acquired in the Mergers. The Company acquired \$233.8 million of Sorin inventory as of 19 October 2015. In addition, during the Transitional Period, accounts payable and accrued liabilities decreased by \$32.8 million, primarily due to payment of accrued merger costs.

### **Investing Activities**

Cash provided by investing activities of \$16.2 million during the Transitional Period was due to the transfer of \$20.0 million to cash and cash equivalents from short-term investments and an increase in cash of \$12.5 million obtained in the business acquisition, offset by net investment activity of \$16.4 million.

### **Financing Activities**

LivaNova utilised cash of \$18.1 million for financing activities during the Transitional Period, which included the repayment of long-term debt of \$32.0 million, and the purchase of treasury shares for \$7.3 million, partially offset by cash proceeds from net short-term debt borrowing of \$11.1 million and stock based compensation activities of \$8.8 million. In Cyberonics FY 2015, LivaNova utilised cash for treasury stock repurchases of \$55.0 million, while stock-based compensation activity provided \$4.7 million for a net utilisation of \$48.3 million.

### **Debt and Capital**

LivaNova's capital structure consists of debt and equity. As of 31 December 2015, LivaNova's total debt of \$174.3 million was 9.6 per cent. of total equity of \$1,809.9 million.

#### *Debt Acquired in the Mergers*

At the consummation of the Mergers on 19 October 2015, LivaNova acquired all of the outstanding debt of Sorin in the aggregate principal amount of \$203.0 million payable to various financial and non-financial institutions. Prior to the Mergers, Cyberonics had no debt.

#### *Debt – Post Mergers*

During the period between 19 October 2015 and 31 December 2015, LivaNova repaid \$32.0 million of long-term debt and borrowed \$11.1 million against short-term credit facilities.

#### *Factoring*

As of 31 December 2015, LivaNova includes an obligation of \$1.2 million related to advances on customer receivables in Accrued Liabilities in the consolidated balance sheet, with the balance of \$23.3 million as an offset against customer receivables. The Company expects to reduce or eliminate this form of financing in fiscal year 2016.

## Contractual Obligations

A summary of contractual and contingent obligations as of 31 December 2015 is as follows (in thousands):

	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	Total Contractual Obligations
Contingent obligations					
Guarantees on governmental bids <sup>(1)</sup> . . . . .	\$ 25,879	\$ —	\$ —	\$ —	\$ 25,879
Guarantees – commercial <sup>(2)</sup> . . . . .	5,010	—	—	—	5,010
Guarantees to tax authorities <sup>(3)</sup> . . . . .	11,163	—	—	—	11,163
	<u>\$ 42,052</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 42,052</u>
Contractual obligations related to off-balance sheet arrangements:					
Operating leases obligations <sup>(4)</sup> . . . . .	\$ 17,798	\$ 33,429	\$ 20,139	\$ 29,300	\$ 100,666
Interest payments <sup>(5)</sup> . . . . .	1,364	1,751	768	61	3,944
Minimum royalty obligations <sup>(6)</sup> . . . . .	50	100	100	50	300
Inventory purchase commitments . . . . .	30,147	3,828	51	214	34,240
	<u>\$ 49,359</u>	<u>\$ 39,108</u>	<u>\$ 21,058</u>	<u>\$ 29,625</u>	<u>\$ 139,150</u>
Long-term debt, including current portion	\$ 82,513	\$ 42,124	\$ 39,649	\$ 10,018	\$ 174,304
Capital leases . . . . .	4	—	—	—	4
Derivatives and other . . . . .	1,815	1,414	368	11	3,608
	<u>\$ 84,332</u>	<u>\$ 43,538</u>	<u>\$ 40,017</u>	<u>\$ 10,029</u>	<u>\$ 177,916</u>
<b>Total<sup>(7)</sup> . . . . .</b>	<b><u>\$ 175,743</u></b>	<b><u>\$ 82,646</u></b>	<b><u>\$ 61,075</u></b>	<b><u>\$ 39,654</u></b>	<b><u>\$ 359,118</u></b>

(1) Government bid guarantees include such items as unconditional bank guarantees, irrevocable letters of credit and bid bonds.

(2) Commercial guarantees include LivaNova's Canadian production site lease guarantee of \$4.1 million.

(3) Tax guarantees include the Milan VAT Authority security of €10.2 million.

(4) Operating lease commitments include facilities, office equipment and automobiles.

(5) Interest payments reflect the contractual interest due on LivaNova's outstanding debt and exclude the impact of interest rates swap agreements.

(6) Minimum royalty fees are payable to Flint Hills L.L.C. for cardiac-based seizure detection intellectual property. Other royalty payments are not disclosed as they cannot be determined at this time.

(7) Unrecognised tax benefits of \$20.2 million are not reflected in the above schedule due to LivaNova's inability to make a reasonably reliable estimate of the timing of any income tax payments.

## **E. Quantitative and Qualitative Disclosures about Market Risk**

LivaNova is exposed to certain market risks as part of its ongoing business operations, including risks from foreign currency exchange rates, interest rate risks and concentration of procurement suppliers that could adversely affect LivaNova's consolidated balance sheet, income statement and cash flow. LivaNova manages these risks through regular operating and financing activities and, at certain times, derivative financial instruments.

### **Foreign Currency Exchange Rate Risk**

Due to the global nature of LivaNova's operations, it is exposed to foreign currency exchange rate fluctuations. LivaNova generally utilises foreign exchange forward contracts that are designed to hedge the variability of material cash flows associated with forecast revenue and costs denominated in a currency different from the functional currency of the consolidated income statement that will take place in the future.

LivaNova does not enter into currency exchange rate derivative instruments for speculative purposes.

Based on its exposure to foreign currency exchange rate risk, a sensitivity analysis indicates that if the US dollar had uniformly weakened or strengthened by 10 per cent. against the pound sterling and the yen the effect on LivaNova's unrealised income or expense for its derivatives outstanding as at 31 December 2015 would have been approximately \$2.3 million.

Any gains or losses on the fair value of derivative contracts would generally be offset by gains and losses on the underlying transactions. These offsetting gains and losses are not reflected in the above analysis.

### **Interest Rate Risk**

LivaNova is subject to interest rate risk on its investments and debt. LivaNova manages a portion of its interest rate risk with contracts that swap floating-rate interest payments for fixed rate interest payments. If interest rates were to increase or decrease by 0.5 per cent., the effects on LivaNova's consolidated income statement would have been immaterial.

### **Concentration of Credit Risk**

LivaNova's trade accounts receivable represents potential concentrations of credit risk. This risk is limited due to the large number of customers and their dispersion across a number of geographic areas, as well as LivaNova's efforts to control its exposure to credit risk by monitoring its receivables and the use of credit approvals and credit limits. In addition, LivaNova has historically had strong collections and minimal write-offs. Whilst the Company believes that LivaNova's reserves for credit losses are adequate, essentially all of LivaNova's trade receivables are concentrated in the hospital and healthcare sectors worldwide and, accordingly, LivaNova is exposed to their respective businesses, economic and country-specific variables. Although the Company does not currently foresee a concentrated credit risk associated with these receivables, repayment is dependent on the financial stability of these industry sectors and their respective countries' national economies and healthcare systems.

## **IV. Principal Risks and Uncertainties**

You should carefully consider the specific risks and uncertainties set forth below and the other information contained within this Strategic Report, as these are important factors that could cause LivaNova's actual results, performance or achievements to differ materially from its expected or historical results. Some of the statements within this Strategic Report and in LivaNova's IFRS financial statements are "forward-looking" statements. For a discussion of those statements and of other factors to consider see the "Cautionary Statement about Forward-Looking Statements" section below.

### ***Global healthcare policy changes, including US healthcare reform legislation, may have a material adverse effect on LivaNova.***

In response to perceived increases in healthcare costs, there have been and continue to be proposals by governments, regulators, and third-party payers to control these costs. The adoption of some or all of these proposals could have a material adverse effect on LivaNova's financial position and results of operations. These proposals have resulted in efforts to reform the US healthcare system which may lead to pricing restrictions, limits on the amounts of reimbursement available for LivaNova's products and could limit the acceptance and availability of LivaNova's products.

In the US, the federal government enacted legislation, including the Affordable Care Act to overhaul the nation's healthcare system. While one goal of healthcare reform is to expand coverage to more individuals, it also involves increased government price controls, additional regulatory mandates and other measures designed to constrain medical costs. Among other things, the Affordable Care Act:

- imposes an annual excise tax of 2.3 per cent. on any entity that manufactures or imports medical devices offered for sale in the US. Due to subsequent legislative amendments, the excise tax has been suspended from 1 January 2016 to 31 December 2017, and, absent further legislative action, will be reinstated starting 1 January 2018;
- establishes a new Patient-Centered Outcomes Research Institute to oversee and identify priorities in comparative clinical effectiveness research in an effort to coordinate and develop such research; and
- implements payment system reforms including a national pilot programme on payment bundling to encourage hospitals, physicians and other providers to improve the coordination, quality, and efficiency of certain healthcare services through bundled payment models.

In addition, other legislative changes have been proposed and adopted in the US since the Affordable Care Act was enacted. On 2 August 2011, the Budget Control Act of 2011, among other things, created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programmes. This includes aggregate reductions of Medicare payments to providers of 2 per cent. per fiscal year, which went into effect in April 2013, and, due to subsequent legislative amendments to the statute, will remain in effect through 2025 unless additional Congressional action is taken. On 2 January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers, including hospitals. The Company cannot predict what healthcare programmes and regulations will be ultimately implemented at the federal or state level, or the effect of any future legislation or regulation. However, any changes that lower reimbursement for LivaNova's products or reduce medical procedure volumes could adversely affect LivaNova's business and results of operations.

The Affordable Care Act also focuses on a number of Medicare provisions aimed at decreasing costs. It is uncertain at this point what unintended consequences these provisions will have on patient access to new technologies. The Medicare provisions include value-based payment programmes, increased funding of comparative effectiveness research, reduced hospital payments for avoidable readmissions and hospital-acquired conditions, and pilot programmes to evaluate alternative payment methodologies that promote care coordination (such as bundled physician and hospital payments). Additionally, the law includes a reduction in the annual rate of inflation for hospitals that began in 2011 and the establishment of an independent payment advisory board to recommend ways of reducing the rate of growth in Medicare spending beginning in 2014. The Company cannot predict what healthcare programmes and regulations will be implemented at the global level or the US federal or state level, or the effect of any future legislation or regulation. However, any changes that lower reimbursement for LivaNova's products or reduce medical procedure volumes could adversely affect LivaNova's business and results of operations.

The Italian Parliament introduced new rules for entities that supply goods and services to the Italian National Healthcare System. The new healthcare law is expected to impact the business and financial reporting of companies operating in the medical technology sector that sell medical devices in Italy. A key provision of the law is a 'payback' measure, requiring companies selling medical devices in Italy to make payments to the Italian state if medical device expenditures exceed regional maximum ceilings. Companies are required to make payments equal to a percentage of expenditures exceeding maximum regional caps. There is considerable uncertainty about how the law will operate and what the exact timeline is for finalisation. The Company's current assessment of the Italian medical device payback law involves significant judgment regarding the expected scope and actual implementation terms of the measure as the latter have not been clarified to date by Italian authorities. LivaNova accounts for the estimated cost of the medical device payback as a deduction from revenue.

Outside of the US, reimbursement systems vary significantly by country. Many foreign markets have government-managed healthcare systems that govern reimbursement for medical devices and procedures. Additionally, some foreign reimbursement systems provide for limited payments in a given period and therefore result in extended payment periods. If adequate levels of reimbursement from third-party payers outside of the US are not obtained, international sales of LivaNova's products may decline.

In addition, in the US, certain state governments and the federal government have enacted legislation aimed at increasing transparency of LivaNova's interactions with healthcare providers, for example, federal "sunshine" requirements imposed by the Affordable Care Act on certain manufacturers of devices for which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program regarding any "transfer of value" made or distributed to physicians and teaching hospitals. Failure to submit required information may result in civil monetary penalties of up to an aggregate of \$150,000 per year (or up to an aggregate of \$1 million per year for "knowing failures"), for all payments, transfers of value or ownership or investment interests that are not timely, accurately, and completely reported in an annual submission. Manufacturers must submit reports by the 90<sup>th</sup> day of each calendar year.

Similar laws exist outside the US, such as in France, which adopted the "Physician Payments Sunshine Act" in 2011. The French act requires companies to publicly disclose agreements with, and certain benefits provided to, certain French healthcare professionals. Other countries are considering or may enact laws or regulations comparable to those implemented in the US and France. Any failure to comply with these legal and regulatory requirements could impact LivaNova's business. In addition, LivaNova may continue to devote substantial additional time and financial resources to further develop and implement policies, systems, and processes to comply with enhanced legal and regulatory requirements, which may also impact LivaNova's business. The Company anticipates that governmental authorities will continue to scrutinise LivaNova's industry closely, and that additional regulation may increase compliance and legal costs, exposure to litigation, and other adverse effects to LivaNova's operations.

***LivaNova may be unable to obtain and maintain adequate third-party reimbursement on its products, which could have a significant negative impact on its future operating results.***

LivaNova's ability to commercialise its products is dependent, in large part, on whether third-party payers, including private healthcare insurers, managed care plans, governmental programmes and others agree to cover the costs and services associated with LivaNova's products and related procedures in the US and internationally.

LivaNova's products are purchased principally by healthcare providers that typically bill various third-party payers, such as governmental programmes (e.g., Medicare and Medicaid in the US), private insurance plans and managed care plans, for the healthcare services provided to their patients. The ability of customers to obtain appropriate reimbursement for their services and the products they provide from government and third-party payers is critical to the success of medical technology companies. The availability of adequate reimbursement affects which procedures customers perform, the products customers purchase and the prices customers are willing to pay. Reimbursement varies from country to country and can significantly impact the acceptance of new technology. After LivaNova develops a promising new product, it may find limited demand for the product unless reimbursement approval is obtained from private and governmental third-party payers. In addition, periodic changes to reimbursement methodologies could have an adverse impact on LivaNova's business.

LivaNova may also experience decreasing prices for its goods and services due to pricing pressure experienced by customers from governmental payers, managed care organisations and other third-party payers, increased market power of LivaNova's customers as the medical device industry consolidates and increased competition among medical engineering and manufacturing services providers. If the prices for goods and services decrease and LivaNova is unable to reduce expenses, LivaNova's results of operations will be adversely affected.

***Cost-containment pressures and legislative or administrative reforms resulting in restrictive reimbursement practices of third-party payers or preferences for alternate therapies could decrease the demand for products purchased by LivaNova's customers, the prices they are willing to pay for those products and the number of procedures using LivaNova's devices.***

Major third-party payers for healthcare provider services continue to work to contain healthcare costs. The introduction of cost containment incentives, combined with closer scrutiny of healthcare expenditures by both private health insurers and employers, could result in increased discounts and contractual adjustments to healthcare provider charges for services performed and in the shifting of services between inpatient and outpatient settings. Initiatives to limit the growth of healthcare costs, including price regulation, are also underway in several countries in which LivaNova does business. Implementation of healthcare reforms in the US and in significant overseas markets such as Germany, Italy, France, Japan and other countries may limit the price of, or the level at which, reimbursement is provided for LivaNova's products and adversely affect both LivaNova's pricing flexibility and the demand for LivaNova's products. Healthcare providers may respond to such cost-containment pressures by substituting lower cost products or other therapies for LivaNova's products.



The continuing efforts of governmental authorities, insurance companies, and other payers of healthcare costs to contain or reduce these costs could lead to patients being unable to obtain approval for payment from these payers. If payment approval cannot be obtained by patients, sales of finished medical devices or those that use LivaNova's components may decline significantly, and LivaNova's customers may reduce or eliminate purchases of its products and/or components. This could have a material or adverse impact on LivaNova's results of earnings and cash flows.

***Patient confidentiality and federal and state privacy and security laws and regulations in the US may adversely impact LivaNova's selling model.***

HIPAA establishes federal rules protecting the privacy and security of personal health information. The privacy and security rules address the use and disclosure of individual healthcare information and the rights of patients to understand and control how such information is used and disclosed. HIPAA provides both criminal and civil fines and penalties for covered entities or business associates that fail to comply. If LivaNova fails to comply with the applicable regulations, it could suffer civil penalties up to or exceeding \$50,000 per violation, with a maximum of \$1.5 million for multiple violations of an identical requirement during a calendar year and criminal penalties with fines up to \$250,000 and potential imprisonment.

In addition to HIPAA, virtually every state has enacted one or more laws to safeguard privacy, and these laws vary significantly from state to state and change frequently. Even if LivaNova's business model is compliant with the HIPAA Privacy and Security Rule and the privacy laws of the states it operates in, it may not be compliant with the privacy laws of all states. As the operation of LivaNova's business involves the collection and use of substantial amounts of "protected health information," it endeavours to conduct its business as a "covered entity" under the HIPAA Privacy and Security Rule and consistent with the state privacy laws, obtaining HIPAA-compliant patient authorisations where required to support LivaNova's use and disclosure of patient information. LivaNova also sometimes act as a "business associate" for a covered entity. The US Office for Civil Rights of the Department of Health and Human Services or another government enforcement agency may determine that LivaNova's business model or operations are not in compliance with the HIPAA Privacy and Security Rules, which could subject it to penalties, could severely limit its ability to market and sell its products under its existing business model and could harm its business growth and consolidated financial position.

***Britain is holding a referendum on its continued membership in the EU, and if the referendum favours an exit from the EU, there could be a material adverse effect on LivaNova's financial position, business and results of operations.***

Following the renegotiation of the terms of the UK's membership of the EU, as agreed by all 28 EU Member States on 19 February 2016, a referendum will be held on 23 June 2016 for eligible members of the electorate in the UK to decide whether to remain a member of the EU or to leave the EU. In the event voters elect to leave the EU (the so-called "Brexit"), LivaNova will face risks associated with the potential uncertainty and consequences that may flow from the Brexit vote. Since a significant proportion of the regulatory framework in the UK is derived from EU directives and regulations, the referendum could materially change the regulatory regime applicable to LivaNova's operations in the future. A Brexit vote would also result in the UK no longer being an EU Member State and a member of the EU single market, which may result in increased trade barriers, which could impact LivaNova's results of operations and share price. Any increased costs may result in higher costs being passed to customers. As a company domiciled in the UK, and with operations across Europe, Brexit could result in restrictions on the movement of capital, distribution and sale of goods, and the mobility of LivaNova's personnel, which could have adverse material effect on LivaNova's operations. Conversely, a vote to remain in the EU may also create similar uncertainties and adverse policy consequences in the event the UK Government and the EU enter into negotiations to further reform the UK's membership of the EU.

***LivaNova's information technology systems may be vulnerable to hacker intrusion, malicious viruses and other cybercrime attacks, which may harm its business and expose it to liability.***

LivaNova's operations depend to a great extent on the reliability and security of its information technology system, software and network, which are subject to damage and interruption caused by human error, problems relating to the telecommunications network, software failure, natural disasters, sabotage, viruses and similar events. Any interruption in LivaNova's systems could have a negative effect on the quality of products and services offered and, as a result, on customer demand and therefore volume of sales.

***LivaNova's product sales are subject to regulatory clearance or approval and its business is subject to extensive regulatory requirements. If LivaNova fails to maintain regulatory clearances and approvals, or is unable to obtain, or experiences significant delays in obtaining, such clearances or approvals for future products or product enhancements, its ability to commercially distribute and market these products could suffer.***

LivaNova's medical device products and operations are subject to extensive regulation by the US FDA and various other federal, state and foreign government authorities. Government regulation of medical devices is meant to assure their safety and effectiveness and includes regulation of, among other things:

- design, development and manufacturing;
- testing, labelling, packaging, content and language of instructions for use, and storage;
- clinical trials;
- product safety;
- pre-market clearance and approval;
- marketing, sales and distribution (including making product claims);
- advertising and promotion;
- product modifications;
- recordkeeping procedures;
- reports of corrections, removals, enhancements, recalls and field corrective actions;
- post-market surveillance, including reporting of deaths or serious injuries and malfunctions that, if they were to recur, could lead to death or serious injury;
- complying with the new federal law and regulations requiring Unique Device Identifiers on devices and also requiring the submission of certain information about each device to the US FDA's Global Unique Device Identification Database; and
- product import and export laws.

***If LivaNova's marketed medical devices are defective or otherwise pose safety risks, the US FDA and similar foreign governmental authorities could require their recall, or LivaNova may initiate a recall of its products voluntarily.***

The US FDA and similar foreign governmental authorities may require the recall of commercialised products in the event of material deficiencies or defects in design or manufacture or in the event that a product poses an unacceptable risk to health. Manufacturers, on their own initiative, may recall a product if any material deficiency in a device is found. LivaNova has initiated voluntary product recalls in the past.

A government-mandated or voluntary recall by LivaNova or one of its sales agencies could occur as a result of an unacceptable risk to health, component failures, manufacturing errors, design or labelling defects or other deficiencies and issues. Recalls of any of LivaNova's products would divert managerial and financial resources and have an adverse effect on its financial condition and operating results. Any recall could impair LivaNova's ability to produce its products in a cost-effective and timely manner in order to meet its customers' demands. LivaNova also may be required to bear other costs or take other actions that may have a negative impact on its future revenue and the ability to generate profits. LivaNova may initiate voluntary actions to withdraw or remove or repair its products in the future that it determines do not require notification of the US FDA as a recall. If the US FDA disagrees with LivaNova's determinations, it could require LivaNova to report those actions as recalls. In addition, the US FDA could take enforcement action for failing to report the recalls when they were conducted.

In addition, depending on the corrective action LivaNova takes to redress a product's deficiencies or defects, the US FDA may require, or LivaNova may decide, that LivaNova will need to obtain new approvals or clearances for the device before LivaNova may market or distribute the corrected device. Seeking such approvals or clearances may delay LivaNova's ability to replace the recalled devices in a timely manner. Moreover, if LivaNova does not adequately address problems associated with its devices, it may face additional regulatory enforcement action, including US FDA warning letters, product seizure, injunctions, administrative penalties, or civil or criminal fines.



In the EEA, LivaNova's European operations must comply with the EU Medical Device Vigilance System, the purpose of which is to improve the protection of health and safety of patients, users and others by reducing the likelihood of reoccurrence of incidents related to the use of a medical device. Under this system, incidents must be reported to the competent authorities of the Member States of the EU or the EEA countries. An incident is defined as any malfunction or deterioration in the characteristics and/or performance of a device, as well as any inadequacy in labelling or instructions that may, directly or indirectly, lead or have led to death or serious health deterioration of a patient. Incidents are evaluated by the relevant competent authorities to whom they have been reported, and where appropriate, information is disseminated between them in the form of National Competent Authority Reports. The Medical Device Vigilance System is further intended to facilitate a direct, early and harmonised implementation of FSCAs, across the Member States where the device is in use. An FSCA is an action taken by a manufacturer to reduce a risk of death or serious deterioration in the state of health associated with the use of a medical device that is already placed on the market. An FSCA may include the recall, modification, exchange, destruction or retrofitting of the device. FSCAs must be communicated by the manufacturer or its legal representative to its customers and/or to the end users of the device through Field Safety Notices.

A future recall announcement in the US, EEA or elsewhere could harm LivaNova's reputation with customers and negatively affect LivaNova's revenue.

***LivaNova's manufacturing operations require LivaNova to comply with the US FDA's and other governmental authorities' laws and regulations regarding the manufacture and production of medical devices, which is costly and could subject LivaNova to enforcement action.***

LivaNova and certain of its third-party manufacturers are required to comply with the US FDA's current Good Manufacturing Practice requirements, as embodied in the QSR which covers the design, testing, production, control, quality assurance, labelling, packaging, sterilisation, storage and shipping of medical device products in the US. LivaNova and certain of its suppliers also are subject to the regulations of foreign jurisdictions regarding the manufacturing process for products marketed outside of the US. The US FDA enforces the QSR through periodic announced (routine) and unannounced (for cause or directed) inspections of manufacturing facilities, during which the US FDA may issue Forms US FDA-483 listing inspectional observations which, if not addressed to the US FDA's satisfaction, can result in further enforcement action. Similar inspections are carried out in the EEA by Notified Bodies and competent authorities within the EEA. The failure by LivaNova or one of its suppliers to comply with applicable statutes and regulations administered by the US FDA and other regulatory bodies, or the failure to timely and adequately respond to any adverse inspectional observations or product safety issues could result in:

- untitled letters, warning letters, fines, injunctions or consent decrees;
- customer notifications or repair, replacement, refund, recall, detention or seizure of products;
- operating restrictions or partial suspension or total shutdown of production;
- refusal to grant or delay in granting 510(k) clearance or PMA approval of new products or modified products;
- withdrawing 510(k) clearances or PMA approvals that have already been granted;
- refusal to grant export approval for LivaNova's products; or
- civil penalties or criminal prosecution.

Any of these actions could impair LivaNova's ability to produce its products in a cost-effective and timely manner in order to meet customers' demands. LivaNova also may be required to bear other costs or take other actions that may have a negative impact on its future revenue and ability to generate profits. Furthermore, LivaNova's key component suppliers may not currently be or may not continue to be in compliance with all applicable regulatory requirements, which could result in failure to produce products on a timely basis and in the required quantities, if at all.

***Product liability claims could adversely impact LivaNova's consolidated financial condition and LivaNova's earnings and impair its reputation.***

LivaNova's business exposes it to potential product liability risks that are inherent in the design, manufacture and marketing of medical devices. In addition, many of the medical devices LivaNova manufactures and sells are designed to be implanted in the human body for long periods of time. Component failures, manufacturing defects, design flaws or inadequate disclosure

of product-related risks or product-related information with respect to these or other products LivaNova manufactures or sells could result in an unsafe condition or injury to, or death of, a patient. The occurrence of such an event could result in product liability claims or a recall of, or safety alert relating to, one or more of LivaNova's products. LivaNova has elected to self-insure with respect to a portion of its product liability risks and hold global insurance policies in amounts the Company believes are adequate to cover future losses. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could have a material adverse effect on LivaNova's business and reputation and on its ability to attract and retain customers for its products.

***LivaNova's failure to comply with rules relating to healthcare fraud and abuse, false claims and privacy and security laws may subject LivaNova to penalties and adversely impact its reputation and business operations.***

LivaNova's devices and therapies are subject to regulation regarding quality and cost by various governmental agencies worldwide responsible for coverage, reimbursement and regulation of healthcare goods and services. In the US, for example, federal government healthcare laws apply when a customer submits a claim for an item or service that is reimbursable under a US federal government-funded healthcare program, such as Medicare or Medicaid. The principal US federal laws implicated include:

- the US Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and wilfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programmes, such as the Medicare and Medicaid programmes. A person or entity does not need to have actual knowledge of the US Anti-Kickback Statute or specific intent to violate it to have committed a violation; in addition, the government may assert that a claim including items or services resulting from a violation of the US Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the US False Claims Act;
- federal civil and criminal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid or other federal third-party payers that are false or fraudulent. Private individuals can file suits on behalf of the government under the US False Claims Act, known as "qui tam" actions and such individuals, commonly known as "whistleblowers," may share in any amounts paid by the entity to the government in fines or settlement. When an entity is determined to have violated the US False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim;
- the federal US Civil Monetary Penalties Law, which prohibits, among other things, offering or transferring remuneration to a federal healthcare beneficiary that a person knows or should know is likely to influence the beneficiary's decision to order or receive items or services reimbursable by the government from a particular provider or supplier;
- federal criminal laws that prohibit executing a scheme to defraud any federal healthcare benefit programme or making false statements relating to healthcare matters. Similar to the federal US Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;
- HIPAA, as amended by the HITECH, which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information;
- the federal Physician Payment Sunshine Act, which requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to the CMS information related to payments or other "transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and requires applicable manufacturers and group purchasing organisations to report annually to the government ownership and investment interests held by the physicians described above and their immediate family members and payments or other "transfers of value" to such physician owners. Manufacturers are required to submit reports to CMS by the 90th day of each calendar year;

- the FCPA, which prohibits corporations and individuals from paying, offering to pay or authorising the payment of anything of value to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity; the UK Bribery Act, which prohibits both domestic and international bribery, as well as bribery across both public and private sectors; and bribery provisions contained in the German Criminal Code, which, pursuant to draft legislation being prepared by the German government, may make the corruption and corruptibility of physicians in private practice and other healthcare professionals a criminal offence; and
- analogous state and foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payer, including commercial insurers; state laws that require device companies to comply with the industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require device manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

The risk of LivaNova being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbours available under such laws, it is possible that some of LivaNova's business activities, including its relationships with surgeons and other healthcare providers, some of whom recommend, purchase and/or prescribe LivaNova's devices, group purchasing organisations and its independent sales agents and distributors, could be subject to challenge under one or more of such laws. LivaNova is also exposed to the risk that its employees, independent contractors, principal investigators, consultants, vendors, independent sales agents and distributors may engage in fraudulent or other illegal activity. While LivaNova has policies and procedures in place prohibiting such activity, misconduct by these parties could include, among other infractions or violations, intentional, reckless and/or negligent conduct or unauthorised activity that violates US FDA regulations, including those laws that require the reporting of true, complete and accurate information to the US FDA, manufacturing standards, federal and state healthcare fraud and abuse laws and regulations, laws that require the true, complete and accurate reporting of financial information or data or other commercial or regulatory laws or requirements. It is not always possible to identify and deter misconduct by LivaNova's employees and other third parties, and the precautions it takes to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting LivaNova from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations.

There are similar laws and regulations applicable to LivaNova outside the US, all of which are subject to evolving interpretations. Global enforcement of anti-corruption laws has increased substantially in recent years, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by governmental agencies, and assessment of significant fines and penalties against companies and individuals. LivaNova's operations create the risk of unauthorised payments or offers of payments by one of its employees, consultants, sales agents, or distributors because these parties are not always subject to LivaNova's control. It is LivaNova's policy to implement safeguards to discourage these practices. However, LivaNova's existing safeguards and any future improvements may prove to be less than effective, and LivaNova's employees, consultants, sales agents, or distributors may engage in conduct for which LivaNova might be held responsible. Any alleged or actual violations of these regulations may subject LivaNova to government scrutiny, severe criminal or civil sanctions and other liabilities, including exclusion from government contracting or government healthcare programmes, and could negatively affect its business, reputation, operating results, and financial condition. In addition, a governmental authority may seek to hold LivaNova liable for successor liability violations committed by any companies in which it invests or that it acquires.

If a governmental authority were to conclude that LivaNova is not in compliance with applicable laws and regulations, LivaNova and its officers and employees could also be subject to exclusion from participation as a supplier of product to beneficiaries. If LivaNova is excluded from participation based on such an interpretation it could adversely affect its reputation and business operations. Any action against LivaNova for violation of these laws, even if it successfully defends against it, could cause LivaNova to incur significant legal expenses and divert its management's attention from the operation of its business.

***LivaNova's insurance policies may not be adequate to cover future losses.***

LivaNova's insurance policies (including general and products liability) provide insurance in such amounts and against such risks LivaNova has reasonably determined to be prudent in accordance with industry practices or as is required by law or regulation. Although, based on historical loss trends, the Company believes that LivaNova's insurance coverage will be adequate to cover future losses; the Company cannot guarantee that this will remain true. Historical trends may not be indicative of future losses, and losses from unanticipated claims could have a material adverse impact on LivaNova's consolidated earnings, financial condition, and/or cash flows.

***Consolidation in the healthcare industry could have an adverse effect on LivaNova's revenue and results of operations.***

Many healthcare industry companies, including medical device companies, are consolidating to create new companies with greater market power. As the healthcare industry consolidates, competition to provide goods and services to industry participants will become more intense. These industry participants may try to use their market power to negotiate price concessions or reductions for medical devices that incorporate components LivaNova produces. Increasing pricing pressures as a result of industry consolidation could have an adverse effect on LivaNova's revenue, results of operations, financial position and cash flows.

***LivaNova is substantially dependent on patent and other proprietary rights and failing to protect such rights or to be successful in litigation related to LivaNova's rights or the rights of others may result in LivaNova's payment of significant monetary damages and/or royalty payments, negatively impact its ability to sell current or future products, or prohibit it from enforcing its patent and other proprietary rights against others.***

LivaNova operates in an industry characterised by extensive patent litigation. Patent litigation against LivaNova could result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products or require LivaNova to pay significant royalties in order to continue to manufacture or sell affected products.

LivaNova also relies on a combination of patents, trade secrets, and non-disclosure and non-competition agreements to protect its proprietary intellectual property and LivaNova will continue to do so. While LivaNova intends to defend against any threats to its intellectual property, these patents, trade secrets, or other agreements may not adequately protect its intellectual property. Further, pending patent applications may not result in patents being issued to LivaNova. Patents issued to or licensed by LivaNova in the past or in the future may be challenged or circumvented by competitors and such patents may be found invalid, unenforceable or insufficiently broad to protect LivaNova's technology and may limit its competitive advantage. Third parties could obtain patents that may require LivaNova to negotiate licences to conduct its business, and the required licences may not be available on reasonable terms or at all. LivaNova also relies on non-disclosure and non-competition agreements with certain employees, consultants, and other parties to protect, in part, trade secrets and other proprietary rights. The Company cannot be certain that these agreements will not be breached, that LivaNova will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information, or that third parties will not otherwise gain access to LivaNova's trade secrets or proprietary knowledge.

In October 2009 for example, the legacy Cyberonics business entered into a licence arrangement with Flint Hills Scientific, L.L.C., which was amended in January 2011 and January 2015. The licence relates to the ability of the AspireSR generator to, among other things, provide additional stimulation automatically by responding to a patient's relative heart-rate changes that exceed variable thresholds. The licence provides for a royalty fee in the low single digit percentages as it relates to AspireSR sales. Failure to protect such a licence arrangement could have a material adverse effect on the Neuromodulation Business Unit.

In addition, the laws of certain countries in which LivaNova markets its products are not uniform and may not protect LivaNova's intellectual property rights equally. If LivaNova is unable to protect its intellectual property in particular countries, it could have a material adverse effect on LivaNova's business, financial condition or results of operations.

***LivaNova is exposed to foreign currency exchange risk.***

LivaNova transacts business in numerous countries around the world and expects that a significant portion of its business will continue to take place in international markets. Consolidated financial statements are prepared in the Company's functional currency, while the financial statements of each of the Company's subsidiaries are prepared in the functional currency of that entity.

Accordingly, fluctuations in the exchange rate of the functional currencies of the Company's foreign currency entities against the functional currency of the Company will impact its results of operations and financial condition. Several of the Company's subsidiaries conduct transactions in currencies different to their functional currency. As such, it is expected that the Company's revenue and earnings will continue to be exposed to the risks that may arise from fluctuations in foreign currency exchange rates, which could have a material adverse effect on the Company's business, results of operation or financial condition. Although the Company may elect to hedge certain foreign currency exposure, the Company cannot be certain that the hedging activity will eliminate the Company's currency risk.

***Changes in tax laws or exposure to additional income tax liabilities could have a material impact on LivaNova's financial condition and results of operations.***

LivaNova is exposed to potentially adverse changes in the tax regime in each jurisdiction in which it operates. LivaNova is subject to income taxes as well as non-income based taxes, in the US, the EU and various jurisdictions. LivaNova is also subject to ongoing tax audits in various other foreign jurisdictions. Tax authorities may disagree with certain positions LivaNova has taken and assess additional taxes. The Company believes that LivaNova's accruals reflect the probable outcome of known contingencies. However, there can be no assurance that LivaNova will accurately predict the outcomes of ongoing audits, and the actual outcomes of these audits could have a material impact on LivaNova's consolidated net income or financial condition. Changes in tax laws or tax rulings could materially impact LivaNova's effective tax rate or results of operations.

Furthermore, the increased international scrutiny of the tax payments of multinational companies, together with the complexity of tax rules and other business activities, are such that LivaNova's decisions related to tax may be publicly criticised and may result in reputational damage.

***LivaNova is subject to lawsuits.***

LivaNova is or has been a defendant in a number of lawsuits for, among other things, alleged products liability and suits alleging patent infringement, and could be subject to additional lawsuits in the future. Given the uncertain nature of litigation generally, LivaNova is not able in all cases to estimate the amount or range of loss that could result from an unfavourable outcome of the litigation (including tax litigation) to which LivaNova is a party. Any such future losses, individually or in the aggregate, could have a material adverse effect on LivaNova's results of operations and cash flows.

***Risks related to access to financial resources.***

The credit lines provided by LivaNova's lenders are governed by clauses, commitments and covenants. The failure to comply with these provisions can constitute a failure to perform a contractual obligation, which authorises the lender banks to demand the immediate repayment of the facilities, making it difficult to obtain alternative resources.

Changes in LivaNova's financial position are the result of a number of factors, specifically including the achievement of budgeted objectives and the trends shaping general economic conditions, and the financial markets and the industry within which LivaNova operates. LivaNova expects to generate the resources needed to repay maturing indebtedness and fund scheduled investments from the cash flow produced by LivaNova's operations, LivaNova's available liquidity, the renewal or refinancing of bank borrowings and possibly, access to the capital markets. Even under current market conditions, the Company expects that LivaNova's operations will generate adequate financial resources. Nevertheless, given the volatility in current financial markets, the possibility that problems in the banking and monetary markets could hinder the normal handling of financial transactions cannot be excluded.

***Certain of LivaNova's debt instruments will require it to comply with certain affirmative covenants and specified financial covenants and ratios.***

Certain restrictions in LivaNova's debt instruments could affect its ability to operate and may limit LivaNova's ability to react to market conditions or to take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect LivaNova's ability to finance its operations, make strategic acquisitions, investments or alliances, restructure its organisation or finance capital needs. Additionally, LivaNova's ability to comply with these covenants and restrictions may be affected by events beyond LivaNova's control such as prevailing economic, financial, regulatory and industry conditions. If any of these restrictions or covenants is breached, LivaNova could be in default under one or more of its debt instruments, which, if not cured or waived, could result in acceleration of the indebtedness under such agreements and cross defaults under its other debt instruments. Any such actions could result in the enforcement of LivaNova's lenders' security interests and/or force LivaNova into bankruptcy or liquidation, which could have a material adverse effect on LivaNova's financial condition and results of operations.



***Risks related to the reduction or interruption in supply and an inability to develop alternative sources for supply may adversely affect LivaNova's manufacturing operations and related product sales.***

LivaNova maintains manufacturing operations in nine countries located throughout the world and purchases many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. Some of these companies are highly unionised. A close collaborative relationship between a manufacturer and its suppliers is typical in the medical device industry. While this approach can produce economic benefits in terms of lower costs, it also causes LivaNova to rely heavily on its suppliers. As a result, any problem affecting a supplier (whether due to external or internal causes) could have a negative impact on LivaNova.

In addition, LivaNova manufactures its products at its own facilities or through subcontractors located in various countries, purchasing the components and materials used to manufacture these products from numerous suppliers in various countries. However, in a few limited cases, specific components and raw materials are purchased from primary or main suppliers (or in some cases, a single supplier) for reasons related to quality assurance, cost-effectiveness ratio and availability. While LivaNova works closely with its suppliers to ensure supply continuity, the Company cannot guarantee that LivaNova's efforts will always be successful. Moreover, due to strict standards and regulations governing the manufacture and marketing of LivaNova's products, LivaNova may not be able to quickly locate new supply sources in response to a supply reduction or interruption, with negative effects on its ability to manufacture its products effectively and in a timely fashion.

LivaNova manufactures its products at production facilities in Italy, France, Costa Rica, Germany, the US, Canada, Brazil, Australia and the Dominican Republic, all of which are exposed to the risk of production stoppages caused by exceptional or accidental events (fires, shutdowns of access roads, etc.) or natural calamities (floods, earthquakes, etc.). Even though LivaNova has implemented what the Company believes to be appropriate preventive actions and insurance coverage, the possibility that the occurrence of events of exceptional severity or duration could have an impact on LivaNova's performance cannot be excluded.

***LivaNova's inability to integrate recently acquired businesses or to successfully complete future acquisitions could limit its future growth or otherwise be disruptive to its ongoing business.***

From time to time, LivaNova expects to pursue acquisitions in support of its strategic goals. In connection with any such acquisitions, LivaNova faces significant challenges in managing and integrating any expanded or combined operations, including acquired assets, operations and personnel. There can be no assurance that acquisition opportunities will be available on acceptable terms or at all, or that LivaNova will be able to obtain necessary financing or regulatory approvals to complete potential acquisitions. LivaNova's success in implementing this strategy will depend to some degree upon the ability of management to identify, complete and successfully integrate commercially viable acquisitions. Acquisition transactions may disrupt LivaNova's ongoing business and distract management from other responsibilities.

The success of any acquisition, investment or alliance may be affected by a number of factors, including LivaNova's ability to properly assess and value the potential business opportunity or to successfully integrate any businesses LivaNova may acquire into its existing business. The integration of the operations of acquired businesses requires significant efforts, including the coordination of information technologies, R&D, sales and marketing, operations, manufacturing and finance. These efforts result in additional expenses and involve significant amounts of management's time that cannot then be dedicated to other projects. Failure to successfully manage and coordinate the growth of the combined company could also have an adverse impact on LivaNova's business. In addition, LivaNova cannot be certain that its investments, alliances and acquired businesses will become profitable or remain so. If LivaNova's investments, alliances or acquisitions are not successful, it may record unexpected impairment charges. Factors that could affect the success of potential future acquisitions include:

- the presence or absence of adequate internal controls and/or significant fraud in the financial systems of acquired companies;
- adverse developments arising out of investigations by governmental entities of the business practices of acquired companies;
- any decrease in customer loyalty and product orders caused by dissatisfaction with the combined companies' product lines and sales and marketing practices, including price increases;
- LivaNova's ability to retain key employees; and
- the ability of the combined company to achieve synergies among its constituent companies, such as increasing sales of the combined company's products, achieving cost savings and effectively combining technologies to develop new products.



***LivaNova may not realise the cost savings, synergies and other benefits that are anticipated as a result of the Mergers.***

The combination of two independent companies is a complex, costly and time-consuming process. As a result of the completed Mergers, LivaNova has been required to devote significant management attention and resources to integrating the business practices and operations of Sorin and Cyberonics. The integration process may disrupt LivaNova's business operations and, if implemented ineffectively, could preclude realisation of the full benefits expected to be realised in connection with the Mergers. LivaNova's failure to meet the challenges involved in successfully integrating the operations of Sorin and Cyberonics or otherwise to realise the anticipated benefits of the Mergers could cause an interruption of LivaNova's activities and could seriously harm LivaNova's results of operations. In addition, the overall integration of the two companies may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of client relationships and diversion of management's attention, and may cause the combined company's stock price to decline. The difficulties of combining the operations of the companies include, among others:

- managing a significantly larger company;
- coordinating geographically separate organisations;
- the potential diversion of management focus and resources from other strategic opportunities and from operational matters;
- retaining existing customers and attracting new customers;
- maintaining employee morale and retaining key management and other employees;
- integrating two unique business cultures, which may prove to be incompatible;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- coordinating distribution and marketing efforts;
- integrating information technology, communications and other systems;
- changes in applicable laws and regulations;
- managing tax costs or inefficiencies associated with integrating the operations of the combined company;
- unforeseen expenses associated with the Mergers; and
- effecting actions that may be required in connection with obtaining regulatory approvals.

Many of these factors are outside of LivaNova's control and any one of them could result in increased costs, decreased revenue and diversion of management's time and energy, which could materially impact LivaNova's business, financial condition and results of operations. In addition, even if the operations of Sorin and Cyberonics are integrated successfully, LivaNova may not realise the full benefits of the Mergers, including the synergies, cost savings or sales or growth opportunities that the Company expects. These benefits may not be achieved within the anticipated time frame, or at all. As a result, the Company cannot assure the Company's shareholders that the combination of Sorin and Cyberonics will result in the realisation of the full benefits anticipated.

***LivaNova's business relationships may be subject to disruption due to uncertainty associated with the Mergers.***

Parties with which LivaNova does business may experience uncertainty associated with the Mergers. LivaNova's business relationships may be subject to disruption as customers, distributors, suppliers, vendors and others may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than LivaNova. These disruptions could have an adverse effect on LivaNova's business, financial condition, and/or results of operations or prospects, including an adverse effect on LivaNova's ability to realise the anticipated benefits of the Mergers.

LivaNova may have difficulty attracting, motivating and retaining executives and other key employees due to uncertainty associated with the recent Mergers.

Since the Mergers are now complete, LivaNova's success will depend in part upon its ability to retain key employees of Sorin and Cyberonics and hire new personnel. Competition for qualified personnel can be intense. Current and prospective employees may experience uncertainty about the effect of the Mergers, which may impair LivaNova's ability to attract, retain and motivate key management, sales, marketing, technical and other personnel.

In addition, pursuant to change-in-control provisions in LivaNova's employment and transition agreements, certain of LivaNova's key employees are entitled to receive severance payments upon a constructive termination of employment. Certain of LivaNova's key employees potentially could terminate their employment following specified circumstances set forth in the applicable employment or transition agreement, including certain changes in such key employees' title, status, authority, duties, responsibilities or compensation, and collect severance. Such circumstances could occur in connection with the Mergers as a result of changes in roles and responsibilities. If LivaNova's key employees depart, the continued integration of Sorin's and Cyberonics' businesses may be more difficult and LivaNova's operations may be harmed. Furthermore, LivaNova may have to incur significant costs in identifying, hiring and retaining replacements for departing employees and may lose significant expertise and talent relating to the businesses of Sorin or Cyberonics, and LivaNova's ability to realise the anticipated benefits of the Mergers may be adversely affected. In addition, there could be disruptions to or distractions for the workforce and management associated with activities of labour unions or works councils or integrating employees into the combined company. Accordingly, no assurance can be given that LivaNova will be able to attract or retain key employees to the same extent that the legacy Sorin and Cyberonics companies were able to attract or retain employees in the past.

***LivaNova has and will continue to incur certain transaction and merger-related costs in connection with the Mergers.***

LivaNova has incurred and expects to incur a number of non-recurring direct and indirect costs associated with the Mergers. These costs and expenses include fees paid to financial, legal and accounting advisors, filing fees, printing expenses and other related charges as well as ongoing expenses related to facilities and systems consolidation costs, severance payments and other potential employment-related costs, including payments remaining to be made to certain Sorin and Cyberonics executives. In the Transitional Period, LivaNova incurred \$42.1 million in expenses related to the Mergers and expects additional expenses in future for the integration of the two merged businesses. In addition, LivaNova incurred \$13.7 million and \$11.3 million in integration and restructuring expenses, respectively, during the Transitional Period, of which integration expenses related to systems integration, organisation structure integration, finance, synergy and tax planning, transitioning of accounting methodologies, the Company's listing in London and certain re-branding efforts, and restructuring efforts related to LivaNova's intent to leverage economies of scale, eliminate overlapping corporate expenses and streamline distributions, logistics and office functions in order to reduce overall costs. While the Company has assumed a certain level of expenses in connection with the terms of the Merger Agreement, there are many factors beyond the Company's control, including unanticipated costs that could affect the total amount or the timing of these expenses. Although the Company expects that the benefits of the Mergers will offset the transaction expenses and implementation costs over time, this net benefit may not be achieved in the near term or at all.

***The IRS may not agree with the conclusion that the Company should be treated as a foreign corporation for US federal tax purposes, and the Company may be required to pay substantial US federal income taxes.***

The Company believes that under current law, it is treated as a foreign corporation for US federal tax purposes because it is a UK incorporated entity. Although the Company is incorporated in the UK, the IRS may assert that it should be treated as a US corporation (and, therefore, a US tax resident) for US federal tax purposes pursuant to Section 7874. For US federal tax purposes, a corporation is considered a tax resident in the jurisdiction of its organisation or incorporation, except as provided under Section 7874. Subject to the discussion of Section 7874 below, because the Company is a UK incorporated entity, it would be classified as a foreign corporation (and, therefore, a non-US tax resident) under these rules. Section 7874 provides an exception under which a foreign incorporated entity may, in certain circumstances, be treated as a US corporation for US federal tax purposes.

For the Company to be treated as a foreign corporation for US federal tax purposes under Section 7874, in connection with the Mergers completed on 19 October 2015, either (i) the former stockholders of Cyberonics must own (within the meaning of Section 7874) less than 80 per cent. (by both vote and value) of the Company's Ordinary Shares by reason of holding shares of Cyberonics common stock, or (ii) the Company must have substantial business activities in the UK after the Mergers (taking into account the activities of the Company's expanded affiliated group). For purposes of Section 7874, "expanded affiliated group" means a foreign corporation and all subsidiaries in which the foreign corporation, directly or indirectly, owns more than 50 per cent. of the shares by vote and value. The Company does not expect to have substantial business activities in the UK within the meaning of these rules.

The Company believes that because the former stockholders of Cyberonics own (within the meaning of Section 7874) less than 80 per cent. (by both vote and value) of the Ordinary Shares by reason of holding shares of Cyberonics common stock, the test set forth above to treat the Company as a foreign corporation was satisfied in connection with the Mergers completed on 19 October 2015. However, the IRS may disagree with the calculation of the percentage of the Ordinary Shares deemed held by former holders of Cyberonics common stock by reason of being former holders of Cyberonics common stock due to the calculation provisions laid out under Section 7874 and accompanying guidance, or the Section 7874 Percentage. The rules relating to calculating the Section 7874 Percentage are new and subject to uncertainty, and thus it cannot be assured that the IRS will agree that the ownership requirements to treat the Company as a foreign corporation were met. In addition, there have been legislative proposals to expand the scope of US corporate tax residence, including by potentially causing the Company to be treated as a US corporation if the management and control of the Company and its affiliates were determined to be located primarily in the US. There have also been recent IRS publications expanding the application of Section 7874 and there could be prospective or retroactive changes to Section 7874 or the US Treasury Regulations promulgated thereunder that could result in the Company being treated as a US corporation. For example, the IRS and US Treasury recently issued new rules that (i) make changes to the manner in which the Section 7874 Percentage is calculated, (ii) limit the ability to acquire certain US companies within a 36 month period and (iii) recharacterise certain intercompany indebtedness as equity in certain circumstances. Certain of these changes may affect the Company's ability to undertake future planning and acquisition strategies (see discussion *"The Company's ability to engage in certain acquisition strategies and certain tax planning may be impacted by recent IRS guidance. Status as a foreign corporation for US federal income tax purposes could be affected by a change in law"* below).

The IRS may not agree with the conclusion that Section 7874 does not limit Cyberonics' and its US affiliates' ability to utilise their US tax attributes and does not impose an excise tax on gain recognised by certain individuals.

If the Section 7874 Percentage is calculated to be at least 60 per cent. but less than 80 per cent., Section 7874 imposes a minimum level of tax on any "inversion gain" of a US corporation (and any US person related to the US corporation) after the acquisition. Inversion gain is defined as (i) the income or gain recognised by reason of the transfer of property to a foreign related person during the 10-year period following the Cyberonics merger, and (ii) any income received or accrued during such period by reason of a license of any property by the US corporation to a foreign related person. The effect of this provision is to deny the use of certain US tax attributes (including net operating losses and certain tax credits) to offset US tax liability, if any, attributable to such inversion gain. In addition, the IRS and the US Treasury Department have issued guidance that has further limited benefits of certain post-combination transactions for combinations resulting in a Section 7874 Percentage of at least 60 per cent. but less than 80 per cent., and have announced the intention to issue future guidance that could potentially limit benefits of interest deductions from intercompany debt or other deductions deemed to inappropriately "strip" US source earnings.

Additionally, if the Section 7874 Percentage is calculated to be at least 60 per cent. but less than 80 per cent., Section 7874 and rules related thereto would impose the Section 4985 Excise Tax on the gain recognised by certain "disqualified individuals" (including the former officers and directors of Cyberonics) on certain Cyberonics stock-based compensation held thereby at a rate equal to 15 per cent. If the Section 4985 Excise Tax is applicable, the compensation committee of the Cyberonics board previously determined that it is appropriate to provide such individuals with a payment with respect to the Section 4985 Excise Tax, so that, on a net after-tax basis, they would be in the same position as if no such Section 4985 Excise Tax had been applied.

The Company believes the Section 7874 Percentage following the combination of Cyberonics and Sorin was less than 60 per cent. As a result, the Company believes that (i) Cyberonics and its US affiliates will be able to utilise their US tax attributes to offset their US tax liability, if any, resulting from certain subsequent specified taxable transactions, and (ii) "disqualified individuals" will not be subject to the Section 4985 Excise Tax. However, the rules relating to calculating the Section 7874 Percentage are new and subject to uncertainty, and thus it cannot be assured that the IRS will agree that the Section 7874 Percentage following the combination of Cyberonics and Sorin was less than 60 per cent.

***The Company's ability to engage in certain acquisition strategies and certain internal restructurings may be impacted by recent IRS guidance.***

The IRS and US Treasury recently issued new rules that materially change the manner in which the Section 7874 Percentage will be calculated in certain future acquisitions of US businesses in exchange for Company equity, which may impact the Company's ability to engage in particular acquisition strategies. For example, the new temporary regulations would impact certain acquisitions of US companies for stock in the Company in the 36 month period beginning 19 October 2015 by

excluding from the Section 7874 Percentage the portion of shares of the Company that are allocable to the legacy Sorin shareholders. This new rule would generally have the effect of increasing the otherwise applicable Section 7874 Percentage with respect to a future acquisition of a US business.

New rules also provide that certain intercompany debt instruments issued on or after 4 April 2016 will be treated as equity for US federal income tax purposes, therefore limiting US tax benefits and resulting in possible US withholding taxes. Moreover, while these new rules are not retroactive, they could impact the Company's ability to engage in future restructurings if such transactions cause an existing debt instrument to be treated as reissued.

***The Company's status as a foreign corporation for US federal income tax purposes could be affected by a change in law.***

The Company believes that under current law, it is treated as a foreign corporation for US federal tax purposes because it is a UK incorporated entity. However, changes to the inversion rules in Section 7874 or the US Treasury Regulations promulgated thereunder could adversely affect the Company's status as a foreign corporation for US federal tax purposes, and any such changes could have prospective or retroactive application to the Company and its respective stockholders, shareholders and affiliates. For example, the IRS and US Treasury recently issued new rules that (i) make changes to the manner in which the Section 7874 Percentage is calculated in the case of future acquisitions, (ii) limit the ability to acquire certain US companies within a 36 month period and (iii) characterise certain intercompany indebtedness as equity in certain circumstances. See discussion "*The Company's ability to engage in certain acquisition strategies and certain tax planning may be impacted by recent IRS guidance. Status as a foreign corporation for US federal income tax purposes could be affected by a change in law*" above.

In addition, recent legislative proposals and IRS guidance have aimed to expand the scope of US corporate tax residence, including by reducing the Section 7874 Percentage threshold at or above which the Company would be treated as a US corporation or by determining the Company's US corporate tax residence based on the location of the management and control of the Company and its affiliates. Any such changes to Section 7874 or other such legislation, if passed, could have a significant adverse effect on the Company's financial results.

***Future changes to US and foreign tax laws could adversely affect the Company.***

The US Congress, the UK Government, the Organisation for Economic Co-operation and Development and other government agencies in jurisdictions where the Company and its affiliates do business have had an extended focus on issues related to the taxation of multinational corporations. One example is in the area of "base erosion and profit shifting," where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. In addition, other recent legislative proposals in the US would treat the Company as a US corporation if the management and control of the Company and its affiliates were determined to be located primarily in the US and/or would reduce the Section 7874 Percentage threshold at or above which the Company would be treated as a US corporation. Furthermore, the 2016 US Model Income Tax Convention recently released by the US Treasury Department would reduce potential tax benefits with respect to the Company and its affiliates if the Section 7874 Percentage were calculated to be at least 60 per cent. but less than 80 per cent. by imposing full withholding taxes on payments pursuant to certain financing structures, distributions from US subsidiaries and payments pursuant to certain licensing arrangements. Thus, the tax laws in the US, the UK and other countries in which the Company and its affiliates do business could change on a prospective or retroactive basis, and any such changes could adversely affect the Company.

***The Company may not qualify for benefits under the tax treaty entered into between the UK and the US.***

The Company believes that it operates in a manner such that it is eligible for benefits under the tax treaty entered into between the UK and the US. However, its ability to qualify for such benefits will depend upon the requirements contained in such treaty.

The failure by the Company or its subsidiaries to qualify for benefits under the tax treaty entered into between the UK and the US could result in adverse tax consequences for the Company and its subsidiaries.

The 2016 US Model Income Tax Convention recently released by the US Treasury Department would reduce potential tax benefits with respect to the Company and its affiliates if the Section 7874 Percentage is calculated to be at least 60 per cent. but less than 80 per cent. by imposing full withholding taxes on payments pursuant to certain financing structures, distributions from US subsidiaries and payments pursuant to certain licensing arrangements. If the proposed treaty is enacted with applicability to the Company or its affiliates, it would result in material reductions in the benefit of qualifying for a treaty.

***The Company believes that it operates so as to be treated exclusively as a resident of the UK for tax purposes, but the relevant tax authorities may treat it as also being a resident of another jurisdiction for tax purposes.***

The Company is a company incorporated in the UK. Current UK law provides that the Company will be regarded as being a UK resident for tax purposes from incorporation and shall remain so unless (a) it is concurrently resident in another jurisdiction (applying the tax residence rules of that jurisdiction) that has a double tax treaty with the UK and (b) there is a provision or procedure in that tax treaty which allocates or determines exclusive residence to that other jurisdiction.

Based upon the Company's management and organisational structure, the Company believes that it should be regarded as resident exclusively in the UK from its incorporation for tax purposes. However, because this analysis is highly factual and may depend on future changes in the Company's management and organisational structure, there can be no assurance regarding the final determination of its tax residence. Should the Company be treated as resident in a country or jurisdiction other than the UK, it could be subject to taxation in that country or jurisdiction on its worldwide income and may be required to comply with a number of material and formal tax obligations, including withholding tax and/or reporting obligations provided under the relevant tax law, which could result in additional costs and expenses for the Company, as well as its shareholders, lenders and/or bondholders.

***The effective tax rate that will apply to the Company is uncertain and may vary from expectations.***

No assurances can be given as to what the Company's worldwide effective corporate tax rate will be because of, among other things, uncertainty regarding the tax policies of the jurisdictions where it operates. The Company's actual effective tax rate may vary from its expectations and that variance may be material. Additionally, tax laws or their implementation and applicable tax authority practices could change in the future.

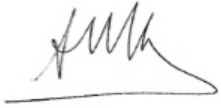
### **Cautionary Statement about Forward-Looking Statements**

Certain statements in this Strategic Report are "forward-looking statements". These statements include, but are not limited to, statements about the benefits of the business combination of Cyberonics and Sorin, LivaNova's plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, LivaNova's actual financial results, performance, achievements or prospects may differ significantly from those expressed or implied by these forward-looking statements. In some cases, forward-looking statements can be identified by use of words such as "may", "could", "seek", "guidance", "predict", "potential", "likely", "believe", "will", "should", "expect", "anticipate", "estimate", "plan", "intend", "forecast", "foresee" or variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by LivaNova and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and shareholders should not place undue reliance on forward-looking statements.

There are a number of risks, uncertainties and other important factors, many of which are beyond LivaNova's control, that could cause LivaNova's actual results to differ materially from the forward-looking statements contained in this Strategic Report. Such risks, uncertainties and important factors include, among others: the statements included in this section of the Strategic Report, and other documents that have been published and/or publicly filed by LivaNova; LivaNova's ability to hire and retain key personnel; LivaNova's ability to attract new customers and retain existing customers in the manner anticipated; the reliance on and integration of information technology systems; changes in legislation or governmental regulations affecting LivaNova; changes relating to competitive factors in the industries in which LivaNova operates; international, national or local economic, social or political conditions that could adversely affect LivaNova, its partners or customers; conditions in the credit markets; risks associated with assumptions made in connection with critical accounting estimates and legal proceedings; LivaNova's organisational and governance structure; risks that the business of legacy Cyberonics and Sorin will not be integrated successfully or that the combined companies will not realise the estimated cost savings, value of certain tax assets, synergies or growth, or that such benefits may take longer to realise than expected; the inability of LivaNova to meet expectations regarding the timing, completion and accounting of tax treatments; risks relating to unanticipated costs of integration, including the operating costs, customer loss or business disruption being greater than expected; reductions in customer spending, a slowdown in customer payments and changes in customer demand for products and services; LivaNova's international operations, which are subject to the risks of currency fluctuations and foreign exchange controls; and the potential of international unrest, economic downturn or effects of currencies, tax assessments, tax adjustments, anticipated tax rates, raw material costs or availability, benefit or retirement plan costs or other regulatory compliance costs.

These factors are not necessarily all of the important factors that could cause LivaNova's actual financial results, performance, achievements or prospects to differ materially from those expressed in or implied by any of such forward-looking statements. Other unknown or unpredictable factors also could harm LivaNova's results. All forward-looking statements attributable to LivaNova or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements set out above. Forward-looking statements speak only as of the date they are made, and the Company does not undertake or assume any obligation to update publicly any of these forward-looking statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If LivaNova updates one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to these forward-looking statements.

**The Strategic Report for the period ended 31 December 2015 has been reviewed and approved by the Board of directors of the Company on 27 April 2016.**

A handwritten signature in black ink, appearing to read 'AMB', with a long horizontal line extending from the bottom of the signature.

**ANDRÉ-MICHEL BALLESTER**  
CHIEF EXECUTIVE OFFICER



## DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the period ended 31 December 2015.

### **Corporate Governance statement**

The Corporate Governance statement as required by DTR 7.2.1 is set out on page 55 of this UK Annual Report. All information detailed in the Corporate Governance statement is incorporated by reference into this Directors' Report and is deemed to form part of the Directors' Report.

### **DTRs**

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8, this Directors' Report and the Strategic Report on pages 1 to 48 comprise the Management Report.

### **Directors**

The directors of the Company, who held office from 19 October 2015 (save where otherwise stated) and up to the date of this Directors' Report, were as follows:

#### **Chairman**

Daniel J. Moore (from 14 September 2015)

#### **Executive Director**

André-Michel Ballester (from 14 September 2015)

#### **Non-executive directors**

Rosario Bifulco (to 16 November 2015)

Hugh Morrison

Alfred J. Novak

Dr. Arthur L. Rosenthal

Francesco Bianchi

Stefano Gianotti

Dr. Sharon O'Kane

In addition, Brian Sheridan (from the date of incorporation of the Company on 20 February 2015) and Demetrio Mauro (from 17 April 2015) were directors of the Company until 14 September 2015.

The appointment and replacement of the directors is governed by the Companies Act and the Company's articles of association.

The Board of directors is responsible for promoting the long-term success of the Company. The Board is responsible for determining the strategy of the Company, relying upon a framework of corporate governance and internal controls which are designed to protect the Company's assets. The day-to-day management of the business is delegated to the executive leadership team, primarily comprised of senior business managers, apart from matters specifically reserved for the board's decision. The Board delegates some of its duties and powers to board committees, each of which has a written charter, available on the Company's website.

Pursuant to the Company's articles of association, the current directors of the Company have been appointed for a term that will expire at the first annual meeting of members of the Company following the completion of the Company's second full financial year in 2017. Subject to the articles of association, a director may be appointed by an ordinary resolution at a general meeting or by a decision of the Board of directors.

### **Directors' indemnities**

Each director is covered by appropriate directors' and officers' liability insurance and there are also deeds of indemnity in place between the Company and each current and former director that were executed during the period under review. These deeds of indemnity provide for the Company to indemnify the directors in respect of any proceedings brought by third parties against them personally in their capacity as directors of the Company. The Company would also fund ongoing costs in defending a legal action as they are incurred rather than after judgment has been given. In the event of an unsuccessful defence in an action against them in a criminal or civil action, individual directors would be liable to repay defence costs

to the extent funded by the Company. In respect of any investigations or actions taken by a regulatory authority, individual directors would be liable to repay defence costs to the extent funded by the Company if that regulatory authority has determined that the relevant director has acted fraudulently, been grossly negligent, or has engaged in wilful misconduct in relation to that claim.

### **Company details and branches outside the UK**

The Company is a public limited company incorporated in England and Wales with registered number 095451374. The Company's registered address is 5 Merchant Square, North Wharf Road, London, W2 1AY.

The Company has one branch outside the UK: LivaNova PLC Filiale Italiana in Italy.

### **Share capital and the articles of association of the Company**

The issued and fully paid share capital of the Company as at the close of business on 27 April 2016, being the latest practicable date prior to the publication of this Directors' Report, was made up as follows:

<b>Class of shares</b>	<b>Number of shares</b>	<b>Nominal value</b>
Ordinary . . . . .	49,047,152	£49,047,152

There are no specific restrictions on the size of a holding or on the transfer of shares. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or voting rights.

Subsequent to the year end, the majority of the merger relief reserve as at 31 December 2015 was capitalised by way of a bonus share issue, which gave rise to an increase in the Company's share premium account. Following previously obtained shareholder approval on 16 October 2015, and following the approval by the High Court Justice, Chancery Division on 6 April 2016, the share premium of the Company in the amount of \$2,587 million was cancelled. The purpose of the cancellation of the share premium account was to create distributable reserves in the books of account of the Company to be used for any corporate purpose of the Company for which realised profits are required.

Shareholders shall not be entitled to vote at any shareholders' meetings or at a separate meeting of the holders of any class of shares, either in person or by representative or proxy, in respect of any share held by them unless all amounts presently payable by them in respect of that share have been paid.

If at any time the Board of directors is satisfied that any shareholder, or any other person appearing to be interested in the Company's shares held by such a shareholder, has been duly served with a notice under section 793 of the Companies Act and is in default for the prescribed period in supplying to the Company the information thereby required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, then the Board of directors may, in its absolute discretion at any time thereafter by notice to such shareholder, direct that, in respect of the shares in relation to which the default occurred, the shareholder shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll.

Details of employee share schemes are provided in note 21 to the consolidated Financial Statements.

The process of amending the articles of association is subject to the procedure outlined in the Companies Act.

### **Share repurchases**

The Company has not acquired any of its own shares since its incorporation on 20 February 2015. The directors will be seeking shareholder authority to repurchase the Company's shares "on-market" and "off-market" pursuant to the Companies Act at the 2016 Annual General Meeting.

The Company established its EBT, an off-shore discretionary employee benefit trust on 19 October 2015. On 19 October 2015, the EBT was loaned £222,728 by LivaNova UK Limited (a subsidiary of the Company), to enable the EBT to subscribe for 222,728 Ordinary Shares. The EBT has been used to transfer fully paid Ordinary Shares to employees of the Company and its subsidiaries, to settle equity awards held by such employees pursuant to the Incentive Award Plan.

## **Significant shareholdings**

As at 27 April 2016, being the latest practicable date prior to the publication of this Directors' Report, the Company's significant shareholders who had notified the Company in accordance with the DTRs that they are interested in 3 per cent. or more of the issued Ordinary Shares with voting rights of the Company are as follows:

	<b>Number of shares held</b>	<b>% in the issued share capital</b>
Bios S.p.A. . . . .	4,262,285	8.69
BlackRock Inc. . . . .	3,721,152	7.58
Fidelity Management & Research Company . . . . .	2,347,923	4.78
Paulson & Co., Inc . . . . .	2,253,040	4.59
Tower 6 S.A.R.L. . . . .	1,486,084	3.02
RWC European Focus Fund Inc. . . . .	1,480,000	3.01

## **Dividend**

No dividend has been proposed during, or in respect of, the course of the year under review. There is no immediate intention for the Company to pay dividends. The declaration and payment by the Company of any future dividends and the amount of any such dividends will depend upon the Company's results, financial condition, future prospects, profits being available for distribution and any other factors deemed by the directors to be relevant at the time, subject always to the requirements of applicable law.

## **Change of control**

The Companies Act requires the Company to identify (i) those significant arrangements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, (ii) the effects of any such agreements, and (iii) any agreements with the Company and its directors or employees for compensation for loss of office or employment that occurs because of a takeover bid.

The legacy Sorin business entered into a loan agreement with the EIB for €100 million on 6 May 2014. The facility provides that the EIB may require the Company to repay the loan amount in the event of a change of control. On 2 October 2015, prior to the closing of the Mergers, Sorin entered into an amendment and restatement agreement with the EIB where the parties agreed that the Mergers did not constitute a change of control.

In addition, provisions under the rules of the Company's share incentive schemes, or awards made under those schemes, may cause options and awards granted under those schemes to vest and become exercisable in the event of a change in control.

## **Political donations**

The Company has not made any political donations, or incurred any political expenditure, in the period under review. In addition, the Company has not made any contributions to a non-EU political party during the period under review. The legacy Cyberonics business had a PAC, which was entirely funded by employee donations. The PAC was formally closed in January 2016 and made its final donation in April 2015.

## **Employee policies**

LivaNova has a culture of continuous improvement through investment in people at all levels within LivaNova. LivaNova is committed to pursuing equality and diversity in all its employment activities, including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. LivaNova supports the principle of equal opportunities in employment and opposes all forms of unlawful or unfair discrimination on the grounds of race, age, nationality, religion, ethnic or national origin, sexual orientation, gender or gender reassignment, marital status or disability. Wherever possible, vacancies are filled from within LivaNova and efforts are made to create opportunities for internal promotion.

It is LivaNova's policy to encourage applications for employment from disabled people and to assist with their training and development, particularly in light of their aptitudes and abilities. If an existing employee becomes disabled, it is LivaNova's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development, and promotion to the disabled employee to the fullest extent possible.

Employees are consulted regularly about changes that may affect them either through their trade union-appointed or works council representatives or by means of regular meetings with particular groups of employees. The consultations and meetings are used to ensure that employees are kept up to date with LivaNova's business performance and the financial and economic factors affecting that performance. LivaNova also cascades information regularly to all employees, either by means of LivaNova's intranet or through employees' managers, to provide them with important and up-to-date information regarding key events and to obtain feedback from them.

LivaNova encourages share ownership among its employees by granting equity awards to selected employees under the Incentive Award Plan.

In addition, the Company operates through local subsidiaries in many countries, some of which, including France, Germany and Italy, have legal requirements to have works councils, which include employee representatives.

### **Greenhouse gas emissions**

This Directors' Report does not include information on emissions of carbon dioxide. Neither the legacy Cyberonics business nor the legacy Sorin business recorded such emissions information on a group-wide basis, although certain local operations recorded some limited information in compliance with local environmental laws. Therefore, for the purposes of this Directors' Report, being the first year the Company has operated as a combined business, the cost of collecting the information and estimating emissions was not considered to be proportionate to the benefit. The Company will provide its first year of emission information in its UK Annual Report for the year ended 31 December 2016.

### **Financial risk management objectives/policies and hedging arrangements**

Please refer to note 4 to the consolidated Financial Statements for information on LivaNova's financial risk management objectives/policies and hedging arrangements.

### **Events since 31 December 2015**

Certain important events affecting the Company and its subsidiaries that have occurred since 31 December 2015 are set out in the following sections of the Strategic Report:

- Section II (Business), part B (Business Units and the New Ventures) paragraph headed "*Cardiopulmonary Recent Developments*";
- Section II (Business), part B (Business Units and the New Ventures) paragraph headed "*Heart Valve Recent Developments*";
- Section II (Business), part B (Business Units and the New Ventures) paragraph headed "*CRM Recent Developments*".

Please also refer to "*Share capital and the articles of association of the Company*" above for further information on the reduction of capital which became effective on 6 April 2016.

## **Future developments**

An indication of certain expected future developments of the Company and its subsidiaries are set out in the following sections of the Strategic Report:

- Section II (Business), part B (Business Units and the New Ventures) paragraph headed “*CRM Recent Developments*”;
- Section II (Business), part B (Business Units and the New Ventures) paragraph headed “*New Ventures – Heart Failure, Sleep Apnea and Mitral Regurgitation*”.

## **Research and Development**

Details of the activities of the Company in the field of research and development are set out in Section II (Business), part C (Research and Development) of the Strategic Report.

## **Statement of disclosure to the Company's UK statutory auditor**

In accordance with section 418 of the Companies Act, each director at the date of this Directors' Report confirms that:

- so far as he or she is aware, there is no relevant audit information of which the Auditor is unaware; and
- he or she has taken all the steps he or she ought to have taken as director to make himself or herself aware of any relevant audit information and to establish that the Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

PricewaterhouseCoopers LLP has indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the 2016 Annual General Meeting.

## **Directors' responsibility statement**

The directors are responsible for preparing the UK Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

The Companies Act requires the directors to prepare financial statements for each financial year. The directors have prepared the LivaNova group and Company financial statements in accordance with IFRS as adopted by the European Union. Under the Companies Act, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LivaNova group and the Company, and of the profit or loss of the LivaNova group and the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the LivaNova group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the LivaNova group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act and, as regards the LivaNova group and the Company's financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of LivaNova and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of each director's knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries and subsidiary undertakings taken as a whole; and
- this Directors' Report and the Strategic Report include a fair review of the development or performance of the business and the position of the Company and its subsidiaries and subsidiary undertakings taken as a whole, together with a description of the principal risks and uncertainties that they face.

**By order of the Board of directors on 27 April 2016,**

A handwritten signature in black ink, appearing to read 'Brian Sheridan', with a stylized flourish at the end.

**Brian Sheridan**  
**Company Secretary**



## CORPORATE GOVERNANCE REPORT

### **Corporate Governance in 2015**

As a dual-listed company with shares listed on NASDAQ and the standard listing segment of the FCA's Official List, the Company is subject to the corporate governance rules under the NASDAQ Rules, which are available on the NASDAQ website [www.nasdaq.com](http://www.nasdaq.com). The Company also complies with the requirement of DTR 7.1 of the DTRs to have an audit committee, which it calls the Audit & Compliance Committee. All members of the Company's Audit & Compliance Committee are independent directors and at least one member, being Hugh Morrison, has competence in accounting and/or auditing.

The Company only complies with the UK Corporate Governance Code to the extent that the relevant provisions overlap, and are consistent with, the NASDAQ Rules and the relevant provisions of the DTRs. Since the Company only has a standard listing in London, the Company is not required to be in full compliance with the UK Corporate Governance Code.

The Company has complied in all respects with the corporate governance rules under the NASDAQ Rules and the relevant provisions of the DTRs from the date of its dual-listing on 19 October 2015 to the end of 2015.

### ***Board Composition and Independence***

The corporate governance provisions of the NASDAQ Rules provide, *inter alia* that:

- The Board is required to have a majority of independent directors.
- The Company is required to have an audit committee consisting of at least three directors, all of whom can read and understand financial statements and are independent directors under the heightened standard of independence applicable to audit committee members. The audit committee must have at least three members, including one with experience that results in the individual's financial sophistication.
- The Company is required to have a compensation committee consisting of at least two directors, all of whom are independent directors under the heightened standard of independence applicable to compensation committee members. The compensation committee must determine, or recommend to the full Board for determination, the compensation of the chief executive officer and all other executive officers.
- Nominees for directors must be selected, or recommended for the Board's selection, either by independent directors constituting a majority of the Board's independent directors or by a nominating committee consisting solely of independent directors.
- The Company must adopt a code of conduct applicable to all directors, officers and employees.

The Board currently has eight directors in total, following the resignation of Rosario Bifulco which took effect on 16 November 2015. The eight directors are currently comprised of a non-executive Chairman, six non-executive directors, and one executive director. The Company has evaluated each of the Board directors by reference to the independence criteria set out in the NASDAQ Rules and has determined that each of Hugh Morrison, Alfred J. Novak, Dr. Arthur L. Rosenthal, Francesco Bianchi, Stefano Gianotti and Dr. Sharon O'Kane are independent, and each of Daniel J. Moore and André-Michel Ballester are not independent, in each case, within the meaning of the NASDAQ Rules. Under the NASDAQ Rules, "independent director" means a person other than an executive officer or employee of the Company or any other individual having a relationship which, in the opinion of the Board of directors, would interfere with the exercise of independent judgement in carrying out the responsibilities of a director. The NASDAQ Rules set out certain prescribed circumstances in which a director will not be considered to be independent.

Further details of the current members of the Board are set out in the table below.

Name	Position	Appointment Date	Tenure
<b>Daniel J. Moore</b> . . . . .	Chairman	14 September 2015	< 1 year
<b>André-Michel Ballester</b> . .	Executive director – Chief Executive Officer	14 September 2015	< 1 year
<b>Hugh Morrison</b> . . . . .	Non-executive director Chairman of the Audit & Compliance Committee Interim Chairman of the Nominating & Governance Committee	19 October 2015	< 1 year
<b>Alfred J. Novak</b> . . . . .	Non-executive director Member of the Audit & Compliance Committee Member of the Compensation Committee	19 October 2015	< 1 year
<b>Dr. Arthur L. Rosenthal</b> . .	Non-executive director Chairman of the Compensation Committee	19 October 2015	< 1 year
<b>Francesco Bianchi</b> . . . . .	Non-executive director Member of the Audit & Compliance Committee Member of the Compensation Committee	19 October 2015	< 1 year
<b>Stefano Gianotti</b> . . . . .	Non-executive director Member of the Nominating & Governance Committee	19 October 2015	< 1 year
<b>Dr. Sharon O’Kane</b> . . . . .	Non-executive director Member of the Nominating & Governance Committee	19 October 2015	< 1 year

As at the date of this Corporate Governance Report, one of the eight directors on the Board is female, constituting 12.5 per cent. of the Board.

### ***Internal Control over Financial Reporting***

On 19 October 2015, the Mergers were completed. The Company has incorporated internal controls over significant processes to the extent that it believes appropriate and necessary considering the level of integration during the period since the Mergers.

As a result of the Mergers, the internal controls over financial reporting utilised by Cyberonics prior to the Mergers became the internal controls over financial reporting of LivaNova and LivaNova is currently in the process of evaluating and integrating Sorin’s historic internal controls over financial reporting with Cyberonics.

The Company has based its internal control structure on the COSO Framework. In accordance with the COSO Framework, the Board of directors is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company’s assets;
- provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company’s receipts and expenditures are being made only in accordance with authorisations of the Company’s management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

## **Management of Financial Risk**

Increasing market fluctuations may result in significant earnings and cash flow volatility risk for the Company. The Company's operating business as well as its investment and financing activities are affected particularly by changes in foreign exchange rates, interest rates and concentration of procurement suppliers. In order to optimise the allocation of the financial resources across the Company's segments and entities, as well as to achieve its aims, the Company identifies, analyses and manages the associated market risks. The Company seeks to manage and control these risks primarily through its regular operating and financing activities, and uses derivative financial instruments when deemed appropriate.

The CFO oversees the management of these risks. The CFO is supported by a senior financial management team that advises on financial risks and the appropriate financial risk governance framework for the Company. The senior financial management team provides assurance to the Company's senior management that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken. Intercompany financing or investments of operating units are preferably carried out in their functional currency or on a hedged basis. The Board of directors reviews and agrees policies for managing each of these risks.

## **Board Committees**

### **Audit & Compliance Committee**

*Please see below for the Audit & Compliance Committee Report for further information on the work of the Audit & Compliance Committee in 2015.*

### **Compensation Committee**

The Compensation Committee is comprised of Dr. Arthur L. Rosenthal, Alfred J. Novak and Francesco Bianchi, of whom Dr. Arthur L. Rosenthal is the Chairman. Each member of the Compensation Committee shall be "independent" as defined from time to time by the NASDAQ Rules and by the applicable regulations of the SEC. The Compensation Committee shall meet at least twice each year, and otherwise as required. Appointments made to the Compensation Committee are for a period of up to three years, extendable by no more than two additional three-year periods, so long as the members continue to be independent.

The responsibilities of the Compensation Committee include: (i) the review, evaluation, and approval of agreements, policies, plans and programmes for officer and director compensation for the Company; (ii) the review, evaluation, and approval of the Company's equity awards and equity plans; (iii) the review of the compensation disclosure to be included in the proxy statement for the Company's Annual General Meeting; (iv) to prepare a report of the Compensation Committee for inclusion in the Company's proxy statement; and (v) to perform such other functions as the Board may assign to the Compensation Committee from time to time.

### **Nominating & Governance Committee**

The Nominating & Governance Committee is comprised of Stefano Gianotti, Sharon O'Kane and Hugh Morrison. Following the resignation of Rosario Bifulco on 16 November 2015, Hugh Morrison has acted as the interim Chairman, while the Nominating & Governance Committee has begun the process of searching for an appropriate replacement for the Board of directors. Each member of the Nominating & Governance Committee is required to be "independent" as defined from time to time by the NASDAQ Rules applicable to US listed companies. Appointments to the Nominating & Governance Committee are for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Nominating & Governance Committee. The Nominating & Governance Committee is expected to meet at least twice a year, and otherwise as required.

The responsibilities of the Nominating & Governance Committee include: (i) assisting the Board to identify individuals qualified to become Board members and to recommend nominees to the Board; (ii) to advise the Board about the appropriate composition of the Board and its committees; (iii) to advise the Board about and recommend to the Board appropriate corporate governance practices and to assist the Board in implementing those practices; (iv) to lead the Board in its annual review of the performance of the Board and its committees; and (v) to perform such other functions as the Board may assign from time to time to the Nominating & Governance Committee.

The terms of reference for the Company's Board Committees describing their roles and responsibilities more fully can be found on the Company's website at [www.livanova.com](http://www.livanova.com).

### **Audit & Compliance Committee Report**

The Audit & Compliance Committee is comprised of Hugh Morrison, Alfred J. Novak and Francesco Bianchi, of whom Hugh Morrison is the Chairman and a "financial expert" as defined by the SEC. The Audit & Compliance Committee is required to meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. The members of the Audit & Compliance Committee will serve until their successors are duly elected for a period of up to three years extendable by no more than two additional three-year periods, so long as the members continue to be "independent" as defined from time to time by the NASDAQ Rules and by the applicable regulations of the SEC.

### **Key activities of the Audit & Compliance Committee**

- Reviewing the Company's consolidated financial statements and internal controls with management and the independent auditors.
- Monitoring actions taken by the Company to comply with its internal accounting and control policies as well as external financial, legal and regulatory requirements.
- Monitoring the Company's internal audit function.
- Reviewing the qualifications and independence of the registered public accounting firm engaged for the purpose of auditing the Company's consolidated financial statements.
- Selecting the Company's independent auditors and evaluating their performance.
- Reviewing and approving the Company's investment policy (including, without limitation, any investment guidelines with regard to maturity, liquidity, risk and diversification) and any modifications thereto.

### **Role of the Audit & Compliance Committee**

The work of the Audit & Compliance Committee falls into the six following areas:

#### ***Independent Auditor***

- Review and approve the plan and scope of the audit, non-audit services and the fees to be paid for such services, and ensuring these services are consistent with the terms of engagement.
- Monitor the independent auditor's compliance with relevant ethical and professional guidance on the rotation of the audit partner and the level of fees paid by the Company.
- Review the findings of any audit with the independent auditor, which review shall include but not be limited to a discussion of any major issues which arose during the audit and key accounting and audit judgments.

#### ***Financial Statements***

- Review, discuss with management and the independent auditor the annual audited consolidated financial statements, including major issues regarding accounting and auditing principles and practices.
- Review the Company's major financial risk exposures along with management, including steps management has taken to monitor and control such exposures.
- Discuss with the independent auditor the matters required to be discussed by US GAAP and IFRS relating to the conduct of the Company's audit.

### ***Internal Audit***

- Review and approve an annual internal audit plan regarding the objectives, organisational structure, qualifications and staffing of the internal audit team.
- Monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

### ***Ethical and Legal Compliance***

- Review the Company's procedures for detecting fraud.
- Investigate, at its discretion, any matter brought to its attention by reviewing the Company's books, records and facilities.
- Review regular reports from the money laundering reporting officers and the adequacy and effectiveness of the Company's anti-money laundering system and controls.

### ***Internal Controls and Risk Management***

- Review the adequacy and effectiveness of the Company's internal financial controls and internal controls and risk management systems.

### ***General***

- Conduct an annual self-evaluation of the Audit & Compliance Committee's organisation and operation.

The terms of reference for the Audit & Compliance Committee describes the role of the Audit & Compliance Committee and its responsibilities more fully and can be found on the Company's website at [www.livanova.com](http://www.livanova.com).

## Activities of the Audit & Compliance Committee in 2015 and since the year end

From 19 October 2015 to present, the Audit & Compliance Committee held three physical meetings and three meetings by telephone. Each meeting was quorate, and the CFO and the Company Secretary also attended by invitation. The Audit & Compliance Committee also met regularly with the external auditor without management present. The Audit & Compliance Committee's programme of work in 2015 was as follows:

Month	Activity
October 2015 . . . . .	<ul style="list-style-type: none"><li>• Appointed PricewaterhouseCoopers LLP and PricewaterhouseCoopers S.p.A. as the Company's independent auditors for UK and US reporting purposes, respectively</li></ul>
November 2015. . . . .	<ul style="list-style-type: none"><li>• Reviewed the Auditor's audit plan for 2015</li><li>• Reviewed the Company's IT plan, including IT and cyber-security matters</li><li>• Considered the Company's internal audit plan for 2016</li><li>• Considered the Company's compliance report</li></ul>
December 2015. . . . .	<ul style="list-style-type: none"><li>• Reviewed and approved the Company's transitional Form 10-Q filing for the period from 25 July 2015 to 18 October 2015</li></ul>
Since the year end . . . . .	<ul style="list-style-type: none"><li>• Considered the Company's significant accounting estimates and critical accounting policies</li><li>• Reviewed the Company's draft earnings release</li><li>• Considered the Company's cybersecurity preparedness</li><li>• Discussed the Company's SEC financial filings and financial statements</li><li>• Reviewed and approved the Company's transitional Form 10-K/T filing for the period 25 April 2015 to 31 December 2015</li></ul>

### Further questions

As Chairman of the Audit & Compliance Committee, I shall be pleased to answer any questions that shareholders may have at the 2016 Annual General Meeting.

Yours faithfully,



**HUGH MORRISON**

CHAIRMAN OF THE AUDIT & COMPLIANCE COMMITTEE

27 April 2016



## DIRECTORS' REMUNERATION REPORT

### Letter from the Chairman of the Compensation Committee

Dear Shareholder,

I am pleased to present the first Directors' Remuneration Report following the merger of Sorin and Cyberonics to form LivaNova, which was completed on 19 October 2015. The Company was incorporated on 20 February 2015 and this report covers the period from incorporation to 31 December 2015.

The prospectus published on 12 October 2015 in connection with the admission of the Company's Ordinary Shares to the Official List and to trading on the Main Market of the LSE, set out details of the existing incentive schemes of Sorin and Cyberonics and how those were treated in the Mergers. The prospectus also set out details of the new incentive award plan put in place by the Company on completion of the Mergers.

This Directors' Remuneration Report sets out the Company's proposed future remuneration policy for the new combined company, as well as details of the remuneration paid to the Company's directors in the period ended 31 December 2015. The proposed remuneration policy set out in the Remuneration Policy Report section of this Directors' Remuneration Report will be put to shareholders for approval in a binding vote at the annual general meeting on 15 June 2016, where they will be asked to approve the policy for a period of up to three years.

#### *Major decisions on remuneration in the period*

- In June 2015, prior to the closing of the Mergers, the Cyberonics Compensation Committee engaged Pearl Meyer to recommend a peer group of companies for benchmarking the compensation of LivaNova's directors and executive officers.
- In July 2015, also at the request of the Cyberonics Compensation Committee, Pearl Meyer produced reports describing compensation benchmarks for our non-employee directors and our CEO.
- In August and September 2015, our director designated to serve as the chairman of the Board negotiated the terms of a new U.K. service contract for our CEO-designee, subject to the final approval of the Board.
- In September 2015 the director-designees for the Board and the Compensation Committee (in this Directors' Remuneration Report, the **"Committee"**) met and discussed committee governance, including a draft of the Committee's charter, the appointment of an independent compensation consultant, the independence of the director-designees, and priorities for the Committee's business after the Mergers closed, including the service contract and remuneration for our CEO.
- On 19 October 2015, the day of the Mergers closing, our Board met and confirmed the appointment of the director-designees as members of the Committee, approved the Committee's charter, approved a remuneration scheme for the Board, and approved an award of SARs for our CEO, as contemplated by the merger agreement, among many other matters of Board business. Also at that time, the Committee met and confirmed the independence and appointment of its compensation consultant and approved the service contract for our CEO.
- The Committee met again in November 2015, approving an award of RSUs for our CEO, again as contemplated by the remuneration package negotiated with our CEO in connection with his service contract, and discussing its overarching philosophy on executive officer compensation. During the balance of the financial year, the Committee planned for its first full financial year, 2016.

#### *Our remuneration philosophy*

The key principles underlying LivaNova's remuneration philosophy are:

- **Reward consistent and high-level performance** - to encourage directors to perform in a consistent, responsible way with the focus on long-term creation of value for LivaNova's shareholders;
- **Reinforce business strategy** – to reward directors for setting the business strategy on a path that enables strong execution by LivaNova's management team to achieve business objectives and strategic goals;

- **Stable fixed compensation** – to insulate director remuneration from business strategy decisions that might otherwise favour short-term strategy over long-term strategy, thereby to ensure that our director remuneration packages do not adversely influence business strategy; and
- **Competitive remuneration** – to recruit and retain the key talent, essential to the successful operation of LivaNova's business by ensuring that our remuneration packages are competitive with our market peers.

In forming its director remuneration philosophy, the Committee reviews the total compensation paid to our non-employee directors and non-executive Chairman of our Board. The purpose of the review is to ensure that the level of compensation is appropriate to attract and retain a diverse group of directors with the breadth of experience necessary to perform our Board's duties and to compensate our directors fairly for their services. The review includes the consideration of qualitative and comparative factors. To ensure directors are compensated relative to the scope of their responsibilities, the Committee considers: (i) the time and effort involved in preparing for Board and committee meetings and the additional duties assumed by committee chairs and the Chairman of our Board; (ii) the level of continuing education required to remain informed of broad corporate governance trends and material developments relevant to strategic initiatives within our company; (iii) the risks associated with fulfilling fiduciary duties; and (iv) the compensation paid to directors at a peer group of companies as determined by the Committee's compensation consultant.

As Chairman of the Committee, I am committed to ensuring an open dialogue with our shareholders. If you have any questions about remuneration generally, or the presentation or the content of this report, please contact me via mail sent to the Company Secretary, LivaNova PLC, 5 Merchant Square, North Wharf Road, London, W2 1AY, United Kingdom.



**Dr. Arthur L. Rosenthal**

Chairman of the Compensation Committee  
27 April 2016

## **Introduction and Compliance Statement**

The purpose of this Directors' Remuneration Report is to inform shareholders of the remuneration of the Company's directors for the period ended 31 December 2015 and the remuneration policy for subsequent years. This report is divided into three sections:

- the Chairman's letter on pages 61 to 62 above;
- the Remuneration Policy Report; and
- the Annual Remuneration Report.

The remuneration policy set out in the Remuneration Policy Report will be put to shareholders for approval in a binding vote at the annual general meeting on 15 June 2016 and the policy will be effective from that date. Shareholders will be asked to approve the policy for a period of up to three years starting from the effective date. The Annual Remuneration Report and the Chairman's letter will be put to an advisory vote at the annual general meeting.

This Directors' Remuneration Report has been prepared by the Committee on behalf of the Board in accordance with the Companies Act, Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the Listing Rules of the FCA.

The Remuneration Policy Report (which is not subject to audit) details the role of the Committee, the principles of remuneration and other matters. The Annual Remuneration Report (elements of which are audited) details the directors' and former directors' fixed and variable pay, share awards, benefits and pension arrangements.

The Company was incorporated on 20 February 2015 and its Ordinary Shares were admitted to trading on the NASDAQ market and admitted to the standard segment of the Official List and to trading on the Main Market of the LSE on 19 October 2015. Therefore, this is the first year that shareholders have been asked to approve the directors' remuneration report and the directors' remuneration policy.

## **Remuneration Policy Report – unaudited information**

### **Introduction**

The Committee presents the directors' Remuneration Policy Report, which will be put to shareholders as a binding vote at the Company's annual general meeting to be held on 15 June 2016 and, subject to shareholder approval, shall take immediate effect.

### **Compensation Committee - objectives**

The Board has delegated to the Committee responsibility for determining the policy in relation to the remuneration package for the Company's sole executive director, André-Michel Ballester, and other senior management. This delegation includes their terms and conditions of employment, in addition to the operation of the Group's share-based employee incentive arrangements. The Committee has clearly defined terms of reference in its committee charter, which is available on the Company's corporate website at [www.livanova.com](http://www.livanova.com).

### **Remuneration strategy**

The Company's compensation plans and arrangements have been carefully designed to support the Company's strategic business objectives and align director and shareholder interests as follows:

- **Reward consistent and high-level performance** – The Company recognises its responsibility to maximise long-term value and sustainable growth for shareholders. The level of director remuneration should reflect and be evaluated against the long-term shareholder value that results from the Company's business strategy, as guided by the directors;
- **Independence** – our director remuneration package ensures that business strategy decisions are independent of the potential impact those decisions may have on a director's remuneration, consistent with our directors' duties and responsibilities to our shareholders;

- **Share ownership** – we want our directors to think and act like business owners to ensure there is affinity between shareholder and director interests; directors are partly remunerated in equity and encouraged through our share ownership guidelines to hold a meaningful number of shares so as to achieve this objective; and
- **Value for money** – our compensation packages seek to recruit and retain key talent to ensure competitiveness and reward individual skills and experience whilst also incentivising our executive team to build value for LivaNova through share based incentives.

## Future policy tables

### *Executive directors*

The following table and accompanying notes explain the different elements of remuneration paid to the Company's executive directors. Currently, André-Michel Ballester, the Company's CEO, is the Company's sole executive director.

### **Base salary (fixed remuneration)**

- Purpose and link to strategy . In order to attract and retain executive directors with the capability of driving LivaNova's corporate strategy, the Company needs to provide base salaries for executive directors that are appropriate for the role and that reflect what such executive directors would receive were they to work for one of LivaNova's competitors. Base salaries help balance the incentive portions of the remuneration program and thereby provide stability and reduce the incentive for excessive risk-taking.
- Operation . . . . . Salary levels and increases reflect a range of factors, including responsibilities, experience, tenure, individual performance, market conditions, changes in compensation for other members of senior management, changes in size, value or complexity of the company, benchmarking analysis and external advice relating to any of the foregoing.

Salaries are normally reviewed annually, with any increase applying from 1 April of each year.

Salaries for any new appointment of an executive director will be set in accordance with the recruitment policy set out on page 72 of this Remuneration Policy Report.

The Committee takes into consideration the impact of base salary increases on the package as a whole, as bonuses as well as some other elements of pay (such as pension contributions) are generally worked out based on a percentage of salary.

The Committee considers the following factors in establishing base salaries:

- individual performance during the recently-concluded financial year and potential future contribution;
- responsibilities, including any recent changes in those responsibilities;
- level of expertise and experience of the executive officer compared to that required for a position;
- strategic importance of a position;
- internal pay equity among positions; and
- competitive benchmarking data.

- Maximum opportunity. . . . . The current base salary of André-Michel Ballester, the Company's sole executive director, is disclosed in the Annual Remuneration Report.  
  
The Committee will apply the foregoing factors each year to assess whether André-Michel Ballester's salary should be adjusted. Future salary increases for André-Michel Ballester will take into account the magnitude of salary increases across the Company but will not be based exclusively on this consideration. The Committee retains the discretion to approve higher increases in certain circumstances, for example, following an increase in the scope and/or responsibility of the role, a significant change in market practice or the development of an individual in a role.  
  
The Committee does not specify a maximum salary due to unintended consequences such as setting undue expectations.
- Performance assessment / targets . . . . . Salaries are reviewed annually by the Committee at the appropriate meeting, having due regard to the individual's experience, performance and added value to the business.

**Benefits (fixed remuneration)**

In order to attract and retain executive directors with the capability of driving LivaNova's corporate strategy, the Company needs to provide a range of market-competitive benefits similar to the benefits they would receive if they were to work for one of LivaNova's competitors.

Benefits may vary depending on the personal choices, country of residence and situation of the executive director.

Relocation or other related assistance may be provided to support the appointment or relocation of an executive director.

A wide-range of benefits may be provided to executive directors, including, but not limited to:

- private medical cover (for the executive director and his or her family);
- life assurance;
- long-term incapacity cover;
- critical illness cover;
- childcare vouchers;
- company car or car allowance;
- holiday and sick pay;
- relocation assistance benefits; and
- directors' and officers' insurance.

The Committee retains the discretion to provide additional benefits where necessary or relevant in the context of a particular executive director's role or location.

Relocation or other related assistance could include, but is not limited to, removal and other relocation costs, assistance with accommodation and/or accommodation allowance, living expenses and financial, immigration, visa and tax consultancy advice. In some cases, such payments may be grossed up and/or tax equalisation arrangements may be put in place.

- Maximum opportunity. . . . . The cost to the Company of providing such benefits will vary from year to year in accordance with the cost of providing such benefits, which will be kept under regular review.
- Performance assessments / targets . . . . . Not applicable.

### **Pension (fixed remuneration)**

- Purpose and link to strategy In order to attract and retain executive directors with the capability of driving LivaNova's corporate strategy, the Company needs to provide market-competitive retirement benefits similar to the benefits they would receive if they were to work for one of LivaNova's competitors.
- Operation . . . . . The Company's policy is to provide market competitive pension arrangements or a cash alternative based on a percentage of the executive director's base salary and annual bonus. The Company retains flexibility to accrue funds to contribute to a private pension fund or distribute as cash to the executive director.
- Maximum opportunity. . . . . The maximum pension opportunity is linked to the executive director's maximum salary and bonus opportunity.
- Performance assessment / targets . . . . . Not applicable.

### **Annual performance bonus (variable remuneration)**

- Purpose and link to strategy . Annual performance bonuses are in place to incentivise the delivery of stretching, near-term business targets based on LivaNova's business strategy. These bonuses provide a strong link between reward and performance and drive the creation of further shareholder value.
- Operation . . . . . Bonus payments are determined by the Committee after the financial year end.  
  
The annual bonus is typically paid in April in each year, based on the audited performance of the Company in the previous financial year.  
  
The Committee has ultimate discretion over whether a bonus is paid in cash or in other forms such as shares or share options.  
  
The Company has the right to amend, reduce, hold back, defer, claw back and alter the structure of any payments in certain circumstances including in order to comply with applicable law, regulation and governance codes or policies that regulate or govern executive pay from time to time. The Company is developing a retention and clawback policy in compliance with its legal obligations and the key principles of its remuneration philosophy which will operate in respect of annual performance bonuses as appropriate.
- Maximum opportunity. . . . . Typically executive director annual bonus targets will be set as a percentage of their base salary. In no circumstances will a director's annual bonus target exceed 200 per cent. of base salary.  
  
Bonus payments are based on the percentage achievement of performance objectives set by the Committee at the start of each financial year.  
  
No bonus is payable unless the executive director achieves at least 80 per cent. of the performance objectives. The maximum payment is 200 per cent. of base salary and is only payable if the executive director achieves 150 per cent. of the performance objectives.



- Performance assessment / targets . . . . . Performance criteria and bonus targets are set by the Committee at the start of each financial year, with a view to supporting the achievement of LivaNova's strategy.  
  
The relevant performance criteria are designed to capture LivaNova's overall financial and strategic performance and the executive director's individual performance. Performance criteria will encompass financial and non-financial measures and the applicable weighting will be determined by the Committee each year. Examples of financial measures include net sales and net profit targets. Financial measures will typically represent the majority of the bonus with other, non-financial measures representing the balance.

**Long-term incentive schemes (variable remuneration) – Incentive Award Plan**

- Purpose and link to strategy To promote the success and enhance the value of the Company by linking the individual interests of the executive directors (amongst others) to those of the Company's shareholders by providing such individuals with an incentive for outstanding performance to generate superior returns to the Company's shareholders.  
  
The plan also intends to provide flexibility to the Company in its ability to motivate, attract and retain the services of the executive directors (amongst others) upon whose judgement, interest and special effort the successful conduct of the Company's operations is largely dependent.

- Operation . . . . . Awards may be granted under the Incentive Award Plan in the form of options, SARs, restricted stock, RSUs, and other share- and cash-based awards.

The Committee determines on an annual basis, and from time to time as needed (i.e., new employee or promotion), the type of awards to be granted to executives and other employees under the plan. These awards will typically consist of time-based or performance-based RSUs, or SARs, or a combination thereof.

The Committee's current strategy is to grant an annual award to its executive director(s) under the plan. Each annual award is subject to time-based and performance-based vesting over a four year period. Awards will usually comprise four elements as follows:

- an award of RSUs which are subject to performance-based vesting on achievement of appropriate financial performance targets (such as net sales targets). Vesting occurs in four equal annual tranches, subject to the relevant performance criteria being met each year;
- an award of RSUs which are subject to performance-based vesting on achievement of different financial performance targets (such as net income targets). Vesting occurs in four equal annual tranches, subject to the relevant performance criteria being met each year;
- an award of RSUs which are subject to a one-time market-based performance target which is measured in the fourth year of the award; and
- an award of SARs which are subject to time-based vesting e.g. 25 per cent. vesting over a four-year period.

Performance-based RSUs awarded under the Incentive Award Plan may incorporate any of a variety of different performance objectives (as detailed below), but the Committee currently employs objectives that management, our Board, investors and analysts use to evaluate the performance of our business (e.g., adjusted net sales and adjusted net profit), as well as a market-based objective. Generally, the Committee sets a target annual equity value for each participating director based on the scope of the director's responsibilities, actual performance during the past year, anticipated future performance, internal equity considerations, and compensation benchmarking data from the Committee's independent consultant, and grants awards with a grant date value equal to the target annual value.

An executive director's rights in respect of unvested RSUs and SARs will lapse automatically upon termination of the executive director's employment.

All awards are subject to the terms of applicable law, regulation and governance codes that regulate or govern executive remuneration and compensation from time to time. The Company is developing a retention and clawback policy in compliance with its legal obligations and the key principles of its remuneration philosophy which will operate in respect of awards under the Incentive Award Plan as appropriate.

- Maximum opportunity. . . . . The maximum aggregate number of Ordinary Shares with respect to which awards may be granted to any person in any calendar year under the Incentive Award Plan is one million and the maximum aggregate amount that may be paid to any one person during any calendar year with respect to one or more awards payable in cash under the Incentive Award Plan is \$10 million. The Company's current practice is to limit an executive director's annual award to a value in the range of four to five times base salary. The Company currently intends to adhere to this range except as necessary to induce a new executive director to join the Company.
- Performance assessment / targets . . . . . The Committee can select any one or more of a number of performance criteria to serve as objectives for the vesting of equity awards including (but not limited to): (i) a growth measure (e.g. net earnings, net sales, net income, earnings per share ); (ii) an investment return measure (e.g. return on assets, capital, shareholder's equity, sales or total shareholder return); (iii) an efficiency measure (e.g. gross or net operating margin, costs, reductions in costs and cost control measures; or (iv) regulatory achievements or compliance measures etc., any of which may be measured in absolute terms or as compared to any incremental increase or decrease or as compared to results of a peer group or to market performance indices or indicators. The Committee's current approach is to combine financial, market and time-based vesting criteria as described above.

*Notes on the future policy tables for executive directors*

Pursuant to the terms of an agreement made in connection with the negotiation of his service contract, in 2015, our executive director received an initial award of SARs and an initial award of RSUs, both subject to time-based service conditions. The award of SARs was anticipated and described in the Merger Agreement. The Committee awarded the RSUs to provide a retention incentive coextensive with our executive director's service contract. The time-based vesting requirement is believed to be appropriate to have our executive director retain a long-term interest in the Company.

Under the terms of the same agreement, our executive director will receive an annual equity award in each of the next four years commencing with 2016. Each annual award will be divided into four tranches. For 2016, two tranches will comprise RSUs subject to two different one-year performance objectives. These performance objectives will include an adjusted net sales objective and an adjusted net profit objective. The Committee selected adjusted net sales and adjusted net profit as appropriate company objectives because they are the financial metrics that are most widely used by management, our Board, investors, and analysts to evaluate the performance of our business. The Committee chose one-year objectives due to the potential for conflicting objectives among annual awards subject to financial metrics measured over an extended period of years.

Also in 2016, one tranche will comprise a market-based condition, with all units vesting if, and only if, the market objective is achieved during the period between 1 May 2019 and 30 April 2020. The Committee chose a market-based objective because the market directly determines the return on investment for our shareholders. Also in 2016, one tranche will comprise SARs subject to a time-based service condition.

In years 2017 to 2019, the Committee may vary the type and mix of equity awards.

For the SARs awarded under the Incentive Award Plan which are subject to time-based vesting, no performance conditions apply as the awards are only subject to continued service as an executive director. The multi-year vesting period for these awards is believed to be appropriate in order to have an executive director retain a long-term interest in the Company. The value of awards will move with the Company share price, which provides an incentive to deliver on the Company's long-term strategic objectives and is in line with our shareholders' interest.

## Non-executive director remuneration

The following table sets out the Company's remuneration policy with respect to its Chairman and other non-executive directors. Non-executive directors do not participate in the Company's bonus arrangements or retirement benefit plans, although they do participate in the Incentive Award Plan.

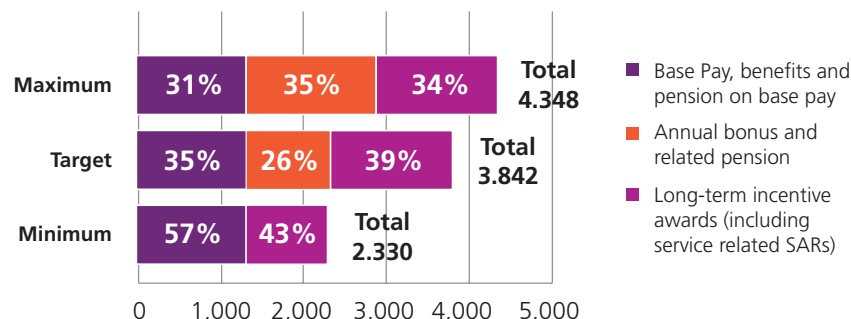
### Non-executive directors and Chairman

- Purpose and link to strategy . . . . . To provide competitive fees, in the form of cash and equity awards, for the performance of non-executive director duties, sufficient to attract and retain high calibre individuals in this role. Payment of a proportion of fees in RSUs – which are subject to a one-year vesting period – aligns non-executive directors' interests with those of shareholders.
- Operation . . . . . The Company has a non-employee director compensation policy, further details of which were set out in the prospectus published on 12 October 2015 in connection with the admission of the Company's Ordinary Shares to the Official List and to trading on the Main Market of the LSE. The policy will be reviewed periodically. Individual fees reflect responsibility and time commitment, as well as the skills and experience of the individual. Additional fees may be paid for further responsibilities, such as serving as Chairman, chairmanship of committees and membership of committees.  
  
Fees will be paid in cash and/or an award of RSUs as determined by the Committee.  
  
Cash payments are made quarterly in advance.  
  
All RSUs have a one-year vesting period – they will be settled immediately preceding the date of each annual general meeting of the Company.  
  
Expenses reasonably incurred in the performance of the role may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the expenses, such as travel expenses to and from Board and committee meetings, expenses for accommodations, and other expenses ancillary to meeting attendance. Non-executive directors will also be covered by the Company's indemnity insurance.
- Maximum opportunity. . . . . Annual fees are determined by the Committee and are subject to periodic review in light of market practice, anticipated workload, tasks and potential liabilities. They currently comprise the following components:
  - a basic cash retainer, plus an additional cash retainer for the Chairman of our Board;
  - an additional cash retainer for each member of the Audit & Compliance Committee, plus an additional cash retainer for the chairperson of the committee;
  - an additional cash retainer for each member of the Committee, plus an additional cash retainer for the chairperson of the committee;
  - an additional cash retainer for each member of the Nominating & Governance Committee, plus an additional cash retainer for the chairperson of the committee; and
  - annual awards of RSUs as detailed in the Company's non-employee director compensation policy.  
The maximum aggregate level of non-executive director fees is detailed in the Company's non-employee director compensation policy.
- Performance assessment / targets . . . . . Not applicable. The RSUs awarded to non-executive directors are subject to time based vesting only.

On 19 October 2015, the non-executive directors received RSU awards pursuant to the Incentive Award Plan. The RSUs are subject to time-based vesting and will vest on the earlier of: (i) the first anniversary of the date of grant; (ii) the day immediately preceding the first annual meeting of the Company's shareholders; and (iii) the date of a change in control of the Company. RSUs awarded to non-executive directors are subject to time-based vesting, no performance conditions apply as the awards are only subject to continued service on the Board. The vesting period for these awards is believed to be appropriate for the non-executive directors. The value of awards will move with the Company share price, which provides an incentive to deliver on the Company's strategic objectives and is in line with our shareholders' interest.

### Illustration of how our remuneration policy works

The bar chart below illustrates the level and mix of the potential total remuneration that André-Michel Ballester, currently the Company's only executive director, could receive under the remuneration policy under three different performance scenarios: minimum, on target and maximum performance.



All figures in (\$'000).

### Notes

- The executive director's pension entitlement is linked to his base salary and bonus payment for 2016 and therefore varies across the minimum, target and maximum performance scenarios.
- The minimum scenario comprises the basic salary, the estimated cost of contractual benefits (housing allowance, company car and health insurance) and the basic pension entitlement which will be paid to André-Michel Ballester during 2016. André-Michel Ballester may also become entitled to a one-off relocation allowance of \$50,000. This figure has not been included in the bar chart as it is not certain that it will become payable in 2016 (and it is not performance-linked).
- Annual bonus has been included in the target scenario (100 per cent. of base salary) and the maximum scenario (150 per cent. of base salary).
- With respect to the award under the Incentive Award Plan made to André-Michel Ballester on 11 March 2016 the following components have been included in the on-target and maximum scenarios: (i) 25 per cent. of the RSUs which are subject to adjusted net-sales target; and (ii) 25 per cent. of the RSUs which are subject to an adjusted net-profit performance target. These RSUs have been valued by multiplying the number of shares underlying the RSUs by the Company share price on the date of grant. RSUs awarded in March 2016 which are subject to performance based vesting after 31 December 2016 have not been included in the bar chart. All SARs awarded on 11 March 2016 have been included in the minimum, target and maximum scenarios as these were awarded in 2016 and are subject only to time-based vesting over a four year period. The intrinsic value for these SARs has been calculated as \$1,000,000 (being the number of SARs multiplied by the Black Scholes value of the Ordinary Shares at the time of grant).
- In order to avoid duplication, any share based awards granted to André-Michel Ballester which are disclosed in the 2015 single total figure of remuneration on page 77 of the Annual Remuneration Report have not been included in this bar chart. This includes the following awards which vest in 2016: (i) legacy Sorin Plan RSUs which could entitle him up to 6,432 Ordinary Shares; (ii) SARs awarded on 19 October 2015 which could entitle him up to 166,703 Ordinary Shares; and (iii) RSUs awarded on 18 November 2015 which could entitle him up to 89,174 Ordinary Shares, 20 per cent. of which will vest in 2016.

## **Policy on recruitment arrangements**

The compensation package for any new executive director would, so far as practicable, be consistent with the policy table set forth above, taking account of the experience and skills of the individual, market conditions and the executive's country of residence. However, the Committee retains the discretion to offer a compensation package needed to meet the individual circumstances of the recruited executive director and enable the hiring of a high-calibre individual with the necessary skills and expertise. In no event, however, will the target variable annual incentive exceed 200 per cent. of base salary. Except as set out below, variable remuneration will follow the policy.

The Company recognises that in many cases, an external appointee may forfeit significant cash bonuses and/or share awards from a prior employer. The Committee believes that it needs the ability to compensate new hires for bonuses and/or incentive awards lost on joining LivaNova. The Committee will use its discretion in settling any such compensation, which will be decided on a case-by-case basis; provided that in no event shall such compensation exceed the value of compensation forfeited by the external appointee, as confirmed by the appointee in a written agreement with the Company.

The Company also recognises that if it requires a new executive director to relocate in connection with accepting a position with the Company, the Company will also pay relocation and related costs as described in the future policy table on page 65.

If the Company appoints an existing employee as an executive director of the Company or if an executive director joins as a result of a transfer of an undertaking, merger, reconstruction or similar reorganisation of the Company, pre-existing obligations with respect to remuneration, such as pension, benefits and legacy equity awards, will be honoured. Should these differ materially from current arrangements, these will be disclosed in the subsequent remuneration implementation report.

Any new non-executive directors will be paid in accordance with the current fee levels on appointment, in line with the policy set out above.

A timely announcement with respect to any director's appointment and, where required by law or the rules of the FCA, remuneration arrangements, will be made to regulatory news services and posted on the Company's website.



## Executive director service contracts and payments for loss of office

The key employment terms and other conditions in an executive director's service contract, including payments for loss of office, are set out below:

Provision	Policy
Notice period . . . . .	<ul style="list-style-type: none"> <li>12 months' prior written notice by either the Company or the executive director. This would also be the maximum notice period for any new executive directors. The notice period in André-Michel Ballester's service contract is 12 months.</li> </ul>
Benefits . . . . .	<ul style="list-style-type: none"> <li>The Company may agree that certain benefits will be specified within an executive director's service contract, including <ul style="list-style-type: none"> <li>private medical cover (for the executive director and his or her family);</li> <li>life assurance;</li> <li>long-term incapacity cover;</li> <li>critical illness cover;</li> <li>childcare vouchers;</li> <li>company car or car allowance;</li> <li>holiday and sick pay; and</li> <li>directors' and officers' insurance.</li> </ul> </li> <li>André-Michel Ballester, as the sole current executive director, is contractually entitled to the foregoing benefits.</li> </ul>
Termination payments . . . . .	<ul style="list-style-type: none"> <li>The service contract may contain provisions that allow the Company to terminate any executive director's employment by making a payment of salary and accommodation allowance only in lieu of notice (the "<b>PILON</b>"). The Company can elect to pay the PILON in equal monthly instalments over a period of twelve months following the termination of the executive director's employment. The PILON shall not exceed two times the sum of the executive director's annual base salary and target annual bonus amount. The PILON in André-Michel Ballester's service contract is equal to 12 months of base salary.</li> <li>The service contract also provides for André-Michel Ballester to receive a bonus (reflecting any accrued bonus entitlement up to the date of termination and in respect of any outstanding notice period), in addition to the PILON if his employment is terminated by the Company within six months following a change of control of the Company or if André-Michel Ballester resigns within six months following a change of control of the Company (and it is determined by a court that he has been constructively dismissed).</li> </ul>
Immediate termination. . . . .	<ul style="list-style-type: none"> <li>The service contract of any executive director may also be terminated immediately and with no liability to make payment in certain circumstances, such as his gross misconduct, material breach of the terms of the service contract or if he is found guilty of a serious breach of the rules or regulations of the FCA or any other regulatory authority relevant to the Company.</li> </ul>
External appointments . . . . .	The service contract of any executive director will require that the executive director must seek Board consent regarding external appointments.

In the event that the employment of an executive director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans in which they participate. The Committee shall be entitled to exercise its judgement with regard to making additional payments in settlement of potential claims, including but not limited to wrongful dismissal, unfair dismissal, breach of contract, whistleblowing and discrimination, where it is appropriate to do so in the interests of the Company and its shareholders. An executive director shall also be entitled to receive a redundancy payment in circumstances where, in the judgement of the Committee, they satisfy the tests governing redundancy payments. Any redundancy payment shall be calculated in accordance with the redundancy payment policy in place for all employees in the relevant country at the time of the redundancy.

Where an executive director's employment with the Company terminates prior to the payment of the annual bonus in respect of a financial year, the Committee in its absolute discretion will determine whether any bonus should be paid. André-Michel Ballester's service contract provides that he will be entitled to his bonus following termination of employment where his employment is terminated by the Company for a reason other than for "cause" or he resigns in circumstances which constitute constructive dismissal. In this scenario André-Michel Ballester's bonus would be pro-rated to the termination date.

The treatment of equity awards made by the Company is governed by the relevant plan rules and applicable award agreements. The Committee retains the discretion to prevent awards from lapsing depending on the circumstances of the departure and the best interests of the Company. The Committee has discretion to treat any departing director as a good leaver. The following table summarises the leaver provisions relating to the SARs, stock options and restricted stock units granted under the Incentive Award Plan held by André-Michel Ballester. The Committee anticipates that future awards made to executive directors and non-executive directors under the Incentive Award Plan would be subject to equivalent leaver provisions.

Plan/Awards	Termination provisions
<i>Incentive Award Plan</i>	
<i>Stock Appreciation Rights (SARs) – October 2015 . . . . .</i>	To the extent that André-Michel Ballester's employment is terminated and it is determined that such termination qualifies for "good leaver" status (which is where André-Michel Ballester is terminated not for "cause" or he resigns for good reason) under the terms of the applicable equity plan and award agreement, André-Michel Ballester will be eligible for pro-rata vesting of the SAR (with the potential for full acceleration at the discretion of the Company ); no lock-up period will apply. In such circumstances, the vested SAR may then be exercised for one year following such termination. The vesting of these SARs will also be accelerated upon a change in control of the Company.
<i>Stock Appreciation Rights (SARs) – March 2016. . . . .</i>	To the extent that André-Michel Ballester's employment is terminated (other than by reason of death or disability), any unvested SARs will lapse on the termination of his employment. In such circumstances, the vested SAR may then be exercised for three months following such termination. The vesting of these SARs will also be accelerated upon a change in control of the Company.
<i>Restricted Stock Units (RSUs) – November 2015 and March 2016 . .</i>	To the extent that André-Michel Ballester's employment is terminated, any unvested RSUs will lapse and expire on the termination of his employment. The vesting of the RSUs granted in November 2015 will also be accelerated upon a change in control of the Company.

For the avoidance of doubt, authority is given to the Company to honour any commitments entered into at a time when the relevant employee was not a director of the Company.

#### **Chairman and non-executive directors' letters of appointment**

The Chairman and non-executive directors have letters of appointment that set out their duties and responsibilities. They do not have service contracts with the Company or any of its subsidiaries.

The key terms of the appointments are set out in the table below. This is the policy for current and any new non-executive directors:

Provision	Policy
Period . . . . .	<ul style="list-style-type: none"> <li>The appointments are ongoing until the annual general meeting following the second full financial year of the Company, subject to earlier termination in accordance with the Company's articles of association and the termination provisions below.</li> </ul>
Termination . . . . .	<ul style="list-style-type: none"> <li>Each non-executive director's appointment can be terminated by the Company or the director with one month's written notice.</li> <li>Appointment will terminate automatically on the termination by shareholders or, where shareholder approval is required for the appointment to continue, the withdrawal of approval by shareholders.</li> </ul>

Executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the Company's registered office.

### ***Statement of consideration of employment conditions elsewhere in the Company and differences to executive director policy***

When reviewing and determining pay for executive directors, the Committee takes into account the level and structure of remuneration as well as salary budgets for other employees in the Company. More specifically, the Committee reviews annual salary increase budgets for the general employee population in the United Kingdom, Europe and North America, as well as the remuneration structure and policy for the global senior management population.

LivaNova employs approximately 4,500 employees and operates in more than 100 countries around the world. Given the Company's global scale and complexity, the Committee has not consulted directly with employees when designing the remuneration policy for its executive directors.

### **Shareholder and employee consultation**

The structure of remuneration for the Company's directors was presented to shareholders in the prospectus published on 12 October 2015 in connection with the admission of the Company's Ordinary Shares to the Official List and to trading on the Main Market of the LSE, prior to the completion of the Mergers.

The Committee is mindful of shareholder views when evaluating and setting ongoing remuneration strategy, and through the Company's Investor Relations department intends to consult with key shareholders on a regular basis on compensation and governance matters. In addition, the Committee will respond to outreach from shareholders as appropriate to address shareholder concerns. No specific consultation with employees has been undertaken relating to director remuneration.

### **Committee discretion**

The Committee has discretion on several areas of the remuneration policy, as set out in this Remuneration Policy Report. The Committee may make minor amendments to the policy set out above for regulatory, exchange control, tax, or administrative purposes, or to take account of a change in legislation, without obtaining shareholder approval for that amendment. In addition, the Committee may also exercise operational and administrative discretions under relevant plan rules, as set out in those rules. These discretions include, but are not limited to, determining entitlement to participate in the plan, when awards or payments are to be made, the size of an award and/or payment (within the rules of the plan), exercising discretion as to the measurement of performance conditions and pro-rating in the event of a change of control, making any adjustment to awards or performance conditions for any significant events or exceptional circumstances and the application of clawback or malus provisions.

## **Annual Remuneration Report**

### **Introduction**

The Committee presents the Annual Remuneration Report, which, together with the Chairman's letter, will be put to shareholders as an advisory vote at the annual general meeting of the Company to be held on 15 June 2016. Some of the information contained in the annual remuneration report is subject to audit. Where the information is subject to audit, this is identified in the relevant heading.

### **Activities of the Committee in 2015 and since the year end**

The Committee was constituted on closing of the Mergers on 19 October 2015. The Chairman of the Committee is Dr. Arthur L. Rosenthal and the other members of the Committee are Alfred J. Novak and Francesco Bianchi, all of whom are non-executive directors that the Company's considers to be independent for the purposes of the NASDAQ Rules and all of whom have served on the Committee since 19 October 2015. The Committee's terms of reference (Compensation Committee Charter) are available on the Company's website.

The Committee met twice in 2015 after completion of the Mergers on 19 October 2015, once in person and once telephonically, and since year end there have been a further three meetings, twice in person and once telephonically. Each Committee member has attended all meetings to date. Daniel J. Moore, Chairman of the Board, attended the three in-person meetings. In addition, exclusive of executive sessions, the following members of senior management attended the in-person meetings by invitation of the Committee: André-Michel Ballester, executive director and CEO; Brian Sheridan, General Counsel and Company Secretary; and David Wise, Senior Vice President, Human Resources & Information Technology.

Prior to the completion of the Mergers, the three Committee members met in person, then as director-designees, met and discussed committee governance, including a draft of the Committee's charter, the appointment of an independent compensation consultant, the independence of the director-designees, and priorities for the Committee's business after the Merger closed, including the compensation package for André-Michel Ballester. In attendance at the Committee's pre-Merger meeting were other non-executive director-designees including Francesco Bianchi, Rosario Bifulco, Daniel J. Moore, Hugh Morrison, Alfred J. Novak, and Dr. Arthur L. Rosenthal. Other attendees included executive director and CEO, André-Michel Ballester and members of senior management, Brian Sheridan and David Wise.

The Committee's main responsibilities are to:

- Review, evaluate, and approve the agreements, plans, policies, and programmes of the Company to compensate the officers and directors of the Company, any major subsidiary undertakings and LivaNova as a whole, as appropriate.
- Review, evaluate, and approve all awards by the Company of equity securities or derivatives of equity securities, including, but not limited to, restricted stock, stock option, and phantom stock awards, to executive officers, non-executive employees, and others as permitted under the Company's equity award plans.
- Review and discuss with the Company's management the Compensation Discussion and Analysis ("CD&A") to be included in the Company's proxy statement for its annual meeting of shareholders and to determine whether to recommend to the Board that the CD&A be included in the proxy statement, in accordance with applicable rules and regulations.
- Produce the Committee report for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations.
- Approve the Directors' Remuneration Report to be included in the Company's UK Annual Report.
- Otherwise discharge the Board's responsibilities relating to compensation of the Company's officers and directors.

In June 2015, acting in anticipation of the Mergers closing, the Cyberonics Compensation Committee engaged Pearl Meyer to recommend a peer group of companies for benchmarking the compensation of the Company's directors and executive officers. Pearl Meyer had acted as the independent compensation consultant for the Cyberonics Compensation Committee since 2007. In July 2015, and again, in September 2015, the Cyberonics Compensation Committee engaged Pearl Meyer to generate benchmarking reports for the compensation of the Company's Chairman, non-executive directors, CEO and

CFO. The Committee director-designees considered the Pearl Meyer benchmarking reports in evaluating the compensation for the non-executive directors, the CEO and the CFO. Cyberonics paid Pearl Meyer a total of \$88,277 computed on the basis of Pearl Meyer's hourly rates for services rendered, multiplied by the number of hours required to generate the reports.

On the date that the Mergers closed, the Committee met telephonically and confirmed the independence of Pearl Meyer according to the standard of independence required under the NASDAQ Rules and approved the engagement of Pearl Meyer as its compensation consultant. NASDAQ rules require that the Committee evaluate a consultant's independence by considering the consultant's provision of other services to the Company, the amount of fees received from the Company as a percentage of total revenue of the consultant, the consultant's policies and procedures designed to prevent conflicts of interest, any business or personal relationship of the consultant with a Committee member or an officer of the Company and any Company shares owned by the consultant. The Committee evaluated each of these considerations, finding that Pearl Meyer has no other business or personal relationship with the Company, its officers, or the Committee members, and determined that Pearl Meyer is independent. At that time, the Committee also approved a service contract for our CEO. Later in October, the Committee engaged Pearl Meyer to generate a benchmarking report regarding the compensation for each of our executive officers, other than for André-Michel Ballester.

The Committee met in person in November 2015, approving an award of RSUs for André-Michel Ballester, as contemplated in the negotiation of his remuneration package at closing of the Mergers. The Committee also considered and discussed the Company's plan for a cycle of annual equity awards for employees early in 2016 and discussed its overarching philosophy on executive officer compensation.

In December, the Committee received Pearl Meyer's report on executive officer compensation and began to discuss with David Wise, Senior Vice President, Human Resources & Information Technology, proposed executive officer compensation adjustments. The Company paid Pearl Meyer a total of £32,297, computed on the basis of Pearl Meyer's hourly rates for services rendered, multiplied by the number of hours required to generate the reports.

In February 2016, the Committee met in person and considered and approved adjustments to the compensation of some of our executive officers and approved the plan and objectives for the Company's annual bonus for the executive officers. The Committee also discussed management's proposal for its initial cycle of annual equity awards for Company employees, including our executive officers.

In March 2016, the Committee met telephonically and approved equity awards for our employees, including our executive officers.

## Remuneration details for the period ended 31 December 2015

### *Single total figure on remuneration – executive director – audited information*

The table below sets out for the Company's sole executive director, André-Michel Ballester, the single figure of his remuneration for the period ended 31 December 2015.

This comprises the total remuneration received over the full year from 1 January 2015 to 31 December 2015, including remuneration received from Sorin prior to completion of the Mergers on 19 October 2015.

As the Company was a newly incorporated and listed company during 2015, there is no disclosure in this report of prior-year information.

	Basic salary and fees (\$'000)	Pension contribution (\$'000)s	Taxable benefits (\$'000)	Annual bonus (\$'000)	Change in control (\$'000)	Total emoluments (\$'000)	Service based awards (\$'000)	Long-term incentive awards (\$'000)	Total <sup>(1)</sup> (\$'000)
André-Michel Ballester - Pre-Mergers. . . . .	631	24	168	180	0	1,004	0	0	1,004
André-Michel Ballester - Post-Mergers. . . . .	179	27	56	189	2,250	2,701	5,000	2,318	10,019

<sup>(1)</sup> The currency conversion rates used are: average currency rate for the period 1 January 2015 to 18 October 2015: EUR/USD = 1.11477; CHF/USD = 1.04985; average currency rate for the period 19 October 2015 to 31 December 2015: GBP/USD = 1.51425.

#### *Salary and benefits – executive director – audited information*

With effect from 19 October 2015, André-Michel Ballester was paid a base salary of £575,000 per annum. Prior to 19 October 2015 as chief executive officer of Sorin, Mr Ballester was paid an annual fee of \$601,530 (€539,600) and received annual remuneration as an employee in Switzerland of \$188,973 (CHF180,000), which includes a representation allowance.

The taxable benefits column in the “Pre-Mergers” line for André-Michel Ballester include: (i) an indemnity for expenses in the role as CEO (\$24,079); (ii) the value of the use of the car as benefit in kind (\$3,763); (iii) the value of the life and health insurance (\$47,843); (iv) the cost of the CEO’s housing (\$55,738); and (v) the value of the CEO’s paid holiday allowance (\$44,080).

The taxable benefits column included in the “Post-Mergers” line for André-Michel Ballester include: (i) the value of the car as benefit in kind (\$6,208); and (ii) the cost of the CEO’s housing (\$50,273).

#### *Pension contributions – executive director – audited information*

With effect from 19 October 2015, the Company has accrued an amount equal to 15 per cent. of André-Michel Ballester’s compensation (base salary and bonus) for the purpose of his pension. Prior to 19 October 2015, André-Michel Ballester received a pension contribution in connection with his Swiss employment, but he received no additional pension contribution in connection with his role as chief executive officer of Sorin.

#### *Bonus payments – executive director – audited information*

As André-Michel Ballester executed a new U.K.-based service contract on 19 October 2015, his pay-out under the 2015 Sorin Group Plan was prorated for the period between 1 January 2015 and 19 October 2015. For the period between 19 October 2015 and 31 December 2015, André-Michel Ballester received a prorated bonus under his U.K. service contract, which provides for a target incentive in the amount of 100 per cent. of his base salary. The Committee awarded an overachievement of 107 per cent. to André-Michel Ballester for this period, based on his leadership during the first 75 days of the Company since closing of the Mergers.

#### *Change in Control payments – executive director – audited information*

In connection with the Mergers, the Sorin board approved a resolution stating that the Mergers constituted a condition under André-Michel Ballester’s Italian collaboration agreement that triggered the right to change in control indemnity payments, pursuant to which André-Michel Ballester was paid a cash payment in an amount equal to two times the sum of his fixed compensation earned in the year before termination and the annual average of the variable compensation earned by him in the most recent three years prior to the date of the Mergers. In addition, pursuant to his Swiss employment agreement, André-Michel Ballester was paid an additional cash payment equal to two times his base salary.

#### *Service-based awards – executive director – audited information*

On 18 November 2015, the Committee approved an award of RSUs to André-Michel Ballester under the Incentive Award Plan having a date of grant value of \$5 million, which could result in him receiving up to 89,174 Ordinary Shares. 20 per cent. of the RSUs will vest on each of the first three anniversaries of the grant date, and the remaining 40 per cent. of the RSUs will vest on the fourth anniversary of the grant date. The RSUs will be satisfied in cash or shares (based on the fair market value as of the vesting date), or a combination of both, as determined by the Company.

#### *Long-term incentive awards – executive director – audited information*

As of the closing of the Mergers, all outstanding equity awards under the Legacy Sorin Plans were assumed by the Company. Accordingly, all then-outstanding equity awards granted to André-Michel Ballester under the Legacy Sorin Plans converted into awards under the Incentive Award Plan at the applicable conversion rate (one Sorin ordinary share converted to 0.0472 of an Ordinary Share).

For our executive directors, the Company uses a net-shares settlement process on vesting of RSUs, pursuant to which a number of shares that would otherwise be distributed to the executive director are withheld to meet the executive director’s tax obligations. Accordingly, the Company actually delivers to the executive director the net number of shares remaining after satisfaction of the tax obligation. The table above reflects the value of the gross number of shares issued at the vesting of RSUs under the Legacy Sorin Plans, prior to net shares settlement of the tax obligation.



On 19 October 2015, André-Michel Ballester was issued 10,808 Ordinary Shares following the net-shares settlement of 15,436 vested performance-based RSUs granted under the Legacy Sorin Plans.

In addition, on closing of the Mergers, André-Michel Ballester became entitled to receive up to 6,432 Ordinary Shares prior to net-share settlement of his tax obligation, on each of 26 February 2016 and 27 February 2017 in respect of performance-based RSUs granted under the Legacy Sorin Plans.

Finally, André-Michel Ballester holds SARs in connection with which a maximum number of 18,806 Ordinary Shares could be received by him. As of the end of the reporting period, these SARs have not been exercised.

*Additional information not included in the executive director remuneration table*

In May 2015, André-Michel Ballester received 105,099 Sorin ordinary shares based on the vesting of performance-based RSUs at a 30.57 per cent. achievement level under the terms of the Sorin 2012-2014 Long-Term Incentive Plan.

On 19 October 2015, in addition to the number indicated in the table, André-Michel Ballester was issued 17,085 Ordinary Shares on net-shares settlement of 24,406 deferred bonus shares granted under the Legacy Sorin Plans.

*Stock Appreciation Rights – executive director – audited information*

On 19 October 2015, André-Michel Ballester was granted SARs with an exercise price of \$69.39 under the Incentive Award Plan in connection with which a maximum number of 166,703 Ordinary Shares could be received by him. These SARs will vest in equal instalments of 50 per cent. on each of the first two anniversaries of 19 October 2015, and André-Michel Ballester shall have three years from the relevant vesting date to exercise his SARs. Payment of the SARs shall be in cash or shares (based on the fair market value as of the date the SARs are exercised), or a combination of both, as determined by the Committee. No value has been assigned to the SARs in the single-figure reported above as the exercise price applicable to the SARs is higher than the Company's share price as at 31 December 2015.

*Single total figure on remuneration – Chairman and non-executive directors – audited information*

The table below sets out for the Company's non-executive Chairman and each of the Company's non-executive directors the single figure of his or her remuneration for the period ended 31 December 2015. This comprises the total remuneration received by them since the effective date of their appointment to the Board.

As the Company was a newly incorporated and listed company during 2015, there is no disclosure in respect of prior year information.

Remuneration received by the Company's non-executive directors since the effective date of appointment to the Board:

	Basic annual fee (\$'000)	Additional fee for acting as chairman, Chair of committee or member of committee (\$'000)	Taxable benefits <sup>(2)</sup> (\$'000)	Total emoluments (\$'000)	Service based share awards (\$'000)	Total (\$'000)
<b>Current directors</b>						
Daniel J. Moore <sup>(1)</sup> . . . . .	18	18	4	39	156	192
Hugh Morrison . . . . .	12	12		24	85	109
Alfred J. Novak . . . . .	12	5		17	85	102
Dr. Arthur L. Rosenthal. . . . .	12	4	4	20	85	105
Francesco Bianchi. . . . .	12	5		17	85	102
Stefano Gianotti . . . . .	12	1	2	16	85	101
Dr. Sharon O'Kane . . . . .	12	1		13	85	98
<b>Former directors</b>						
Rosario Bifulco . . . . .	5	1		6	85	91

<sup>(1)</sup> Daniel J. Moore's remuneration relates to the period 14 September 2015 to 31 December 2015.

<sup>(2)</sup> This corresponds to the gross expenses incurred by directors for attending Board and committee meetings in the UK.

On 19 October 2015, the non-executive directors listed above received RSU awards pursuant to the Incentive Award Plan. The RSUs are subject to time-based vesting and will vest on the earlier of: (i) the first anniversary of the date of grant; (ii) the day immediately preceding the first annual meeting of the Company's shareholders; and (iii) the date of a change in control of the Company.

The following table reflects remuneration received by the Company's non-executive directors in the period from 1 January 2015 through 18 October 2015, including remuneration received from Cyberonics or Sorin prior to or as a consequence of the completion of the Mergers, as applicable. This information has not been audited.

	Basic annual fee (US\$'000)	Additional fee for acting as chairman, Chair of committee or member of committee (US\$'000)	Other (US\$'000)	Change in Control (US\$'000)	Total emoluments (US\$'000)	Service based share awards (US\$'000)	Total (US\$'000)
<b>Current directors</b>							
Daniel J. Moore <sup>(1)</sup> . . . . .	0	0	0	0	0	0	0
Hugh Morrison <sup>(2)</sup> . . . . .	103	0	10	0	113	0	113
Alfred J. Novak . . . . .	43	0	11	0	54	0	54
Dr. Arthur L. Rosenthal. . . . .	55	0	11	0	66	0	66
Francesco Bianchi. . . . .	6	0	0	0	6	0	6
Stefano Gianotti . . . . .	0	0	0	0	0	0	0
Dr. Sharon O'Kane . . . . .	0	0	0	0	0	0	0
<b>Former directors</b>							
Rosario Bifulco . . . . .	15	459	136	3,632	4,241	1,390	5,631

The Company made no payments to former directors Demetrio Mauro and Brian Sheridan in respect of their appointments as directors of the Company.

<sup>(1)</sup> Daniel J. Moore's remuneration relates to the period 14 September 2015 to 31 December 2015.

<sup>(2)</sup> 4,315 Ordinary Shares owned by Hugh Morrison have been pledged as collateral in connection with a margin account.

## Scheme interests awarded during the financial year - audited information

The following table sets out details of scheme interests awarded to André-Michel Ballester and the Company's non-executive directors since 19 October 2015 pursuant to the Incentive Award Plan.

Director	Award type	Basis of Award	Face value of award (\$) <sup>(1)</sup>	No. of shares subject to the award	Exercise price (\$)	Share price on date of award (for face value calculation) (\$)	% of scheme interests achievable on minimum performance	Expiry of performance period	Performance criteria
André-Michel Ballester . .	SARs	2015 Incentive Award Plan	2,001,481	166,703	69.39	N/A	100	19/10/2017	Time based vesting
André-Michel Ballester . .	RSUs	2015 Incentive Award Plan	4,999,986	89,174	N/A	56.07	100	18/11/2019	Time based vesting
Daniel J. Moore . . . . .	RSUs	2015 Incentive Award Plan	156,164	2,233	N/A	69.93	100	14 June 2016	Time based vesting
Hugh Morrison . . . . .	RSUs	2015 Incentive Award Plan	84,603	1,209	N/A	69.93	100	14 June 2016	Time based vesting
Alfred J. Novak . . . . .	RSUs	2015 Incentive Award Plan	84,603	1,209	N/A	69.93	100	14 June 2016	Time based vesting
Dr. Arthur L. Rosenthal . .	RSUs	2015 Incentive Award Plan	84,603	1,209	N/A	69.93	100	14 June 2016	Time based vesting
Francesco Bianchi . . . . .	RSUs	2015 Incentive Award Plan	84,603	1,209	N/A	69.93	100	14 June 2016	Time based vesting
Stefano Gianotti . . . . .	RSUs	2015 Incentive Award Plan	84,603	1,209	N/A	69.93	100	14 June 2016	Time based vesting
Dr. Sharon O'Kane . . . . .	RSUs	2015 Incentive Award Plan	84,603	1,209	N/A	69.93	100	14 June 2016	Time based vesting
Rosario Bifulco <sup>(2)</sup> . . . . .	RSUs	2015 Incentive Award Plan	84,603	1,209	N/A	69.93	100	14 June 2016	Time based vesting

<sup>(1)</sup> Face value of SARs award calculated using Black-Scholes model on date of award.

<sup>(2)</sup> Rosario Bifulco forfeited his RSUs effective with his resignation from the Board on 16 November 2015.

## How the remuneration policy will be applied in the year ending 31 December 2016

### Salary and benefits - executive director

The base salary of the Company's sole executive director, André-Michel Ballester, of £575,000 per annum was set in 2015 as part of the Mergers. The Company proposes no changes to the base salary, pension, or other benefits to André-Michel Ballester in 2016.

### Bonus payments – executive director

The target annual bonus for André-Michel Ballester for 2016 will be 100 per cent. of his base salary. The amount of his bonus will be determined by multiplying the percentage achievement under the 2016 performance objectives, as described below, by such target amount. The performance objectives selected by the Committee for 2016 are as follows:

	Percentage of target bonus
Adjusted net sales objective . . . . .	50%
Adjusted net profit objective . . . . .	50%
<b>Achievement of both performance objectives: . . . . .</b>	<b>100%</b>

The performance objectives for the bonus program include an adjusted net sales objective, which will be the adjusted net sales as reported by the Company at the Company's budgeted currency exchange rates, and an adjusted net income objective, which will be the adjusted non-GAAP (U.S. generally accepted accounting principles) net income as reported by the Company at the actual currency exchange rates. Given that 2016 adjusted net sales and adjusted net profit are key measures of company value, the Board considers the actual target amounts of both objectives to be too commercially sensitive for disclosure at this time. The Committee will disclose the target amounts after the publication of the Company's 2016 financial results.

The percentage achievement of the performance objectives will be scaled down or up by 2 per cent. for each 1 per cent., or portion thereof, of underachievement or overachievement, respectively, between an underachievement of at least 80 per cent. and an overachievement of up to 125 per cent. Applying this scaling factor to the performance objectives, individual bonuses can range from a low of 0 per cent. to a high of 150 per cent. of an executive officer's target bonus amount.

#### *Incentive award plan – executive director*

The Committee approved awards of SARs which could entitle him to up to 56,682 Ordinary Shares and RSUs which could entitle him to up to 52,083 Ordinary Shares to André-Michel Ballester on 11 March 2016. Twenty-five per cent. of the SARs will vest on each of the first four anniversaries of the grant date. The award of RSUs includes the entitlement of up to 34,722 Ordinary Shares subject to performance-based forfeiture restrictions and RSUs which could entitle André-Michel Ballester to up to 17,316 Ordinary Shares subject to a market-based forfeiture restriction. Twenty-five per cent. of the RSUs (a **"tranche"**) subject to the performance-based forfeiture restrictions will vest or lapse following the end of each of the four financial years commencing with financial year 2016. Fewer than all units in each tranche (50 per cent. or 75 per cent. thereof) may vest, and the balance of units will lapse, if the principal performance objective is missed, but a subsidiary performance objective is achieved. All units subject to the market-based forfeiture restriction will vest if and only if the market objective is achieved during the period between 1 May 2019 and 30 April 2020.

#### *Chairman and non-executive directors' fees*

The fees for the Chairman and the non-executive directors are based on the Company's non-employee director compensation policy. Each non-executive director will receive the following fees and awards for 2016:

- a cash retainer of \$60,000, plus an additional \$60,000 for the Chairman;
- an additional cash retainer of \$5,000 for each member of the Audit & Compliance Committee, plus an additional \$15,000 for the chairperson of the committee;
- an additional cash retainer of \$8,000 for each member of the Committee, plus an additional \$12,000 for the chairperson of the Committee;
- an additional cash retainer of \$6,000 for each member of the Nominating & Governance Committee, plus an additional \$9,000 for the chairperson of the Committee; and
- an annual award of RSUs, granted on the date of the annual meeting of shareholders and vesting on the date of the next succeeding annual meeting of shareholders, having a value of \$160,000, plus an additional value of \$90,000 for the Chairman.

#### **Percentage change in remuneration of the Chief Executive Officer**

As the closing of the Mergers occurred on 19 October 2015 and the Company was newly incorporated and listed in 2015, it is not possible to provide this information this year.

#### **Payments made to past directors – audited information**

The Company made no payments to past directors in the period under review.

#### **Payments made for loss of office – audited information**

The Company made no payments for loss of office in the period under review.

#### **Summary of share ownership guidelines – audited information**

The Company has a voluntary share ownership guideline in place for its officers and the directors. The directors believe that meaningful ownership of equity in the Company is an essential element in demonstrating the commitment of its leadership to its primary task of creating value for its shareholders. To further this belief, equity award programs have been established as part of the overall compensation plans for both officers and directors. Awards under these plans are made at levels which not only compensate such individuals at a competitive level in the marketplace, but also present an opportunity

to accumulate equity in the Company. The following guidelines represent minimum amounts of equity ownership in the Company expected to be achieved by the later of (i) 31 December 2018 (approximately three years after the date of approval of this policy), or (ii) five years after the date an individual becomes a corporate officer or director. Although attainment of these ownership guidelines is voluntary, lack of attainment may be a factor considered by the Committee in approving future awards.

At the end of the three-year phase in period and on the last day of each financial year thereafter (the **“Measurement Dates”**), the market value of equity holdings in the Company is encouraged to be at least:

- Chief executive officer: five times base salary
- Officers holding the role of vice president or senior vice president: three times base salary
- Non-executive directors five times a director’s annual cash retainer

Qualifying equity ownership includes:

- common stock owned by the individual or held individually by or jointly with the individual’s spouse or children (valued at the closing price of the Company’s stock on the Measurement Date);
- all unvested RSUs or shares of restricted stock owned by the individual (valued at the closing price of the Company’s shares on the Measurement Date on NASDAQ, minus an estimated tax expense of 40 per cent.); and
- all in-the-money, vested, unexercised SARs or stock options (valued at the closing price of the Company’s Ordinary Shares on the Measurement Date, minus the exercise price, and minus an estimated tax expense of 40 per cent.).

#### Directors’ interests in Ordinary Shares and options/awards in respect of Ordinary Shares– audited information

	Ordinary Shares	Ordinary Shares underlying Stock Options	Ordinary Shares underlying SARs following conversion of Sorin SARs	Maximum number of Ordinary Shares to be awarded under Sorin LTI Awards in Feb 2017	Ordinary Shares underlying SARs	Ordinary Shares underlying RSUs
André-Michel Ballester . . . . .	80,959	—	18,806	6,432	223,385	141,257
Daniel J. Moore <sup>(1)</sup> . . . . .	64,437	103,249	—	—	—	2,233
Hugh Morrison . . . . .	8,815	—	—	—	—	1,209
Alfred J. Novak . . . . .	17,020	—	—	—	—	1,209
Dr. Arthur L. Rosenthal. . . . .	15,265	—	—	—	—	1,209
Francesco Bianchi. . . . .	—	—	—	—	—	1,209
Stefano Gianotti . . . . .	—	—	—	—	—	1,209
Dr. Sharon O’Kane. . . . .	—	—	—	—	—	1,209
<b>Former directors</b>						
Rosario Bifulco . . . . .	127,396	—	10,539	—	—	0 <sup>(2)</sup>
Demetrio Mauro . . . . .	18,759	—	8,742	—	0 <sup>(3)</sup>	—
Brian Sheridan . . . . .	13,051	—	6,262	2,069	59,435	26,041

<sup>(1)</sup> An additional 2,586 Ordinary Shares are held by the DJM Family Partnership Ltd in which Daniel J. Moore has an indirect interest. During the period, Daniel J. Moore also received cash of \$ 2,169,265 in relation to the settlement of Ordinary Shares.

<sup>(2)</sup> The award of RSUs in respect of 1,209 Ordinary Shares were forfeited on 16 November 2015 due to Rosario Bifulco’s resignation.

<sup>(3)</sup> The award of 23,585 SARs was cancelled on 31 December 2015.

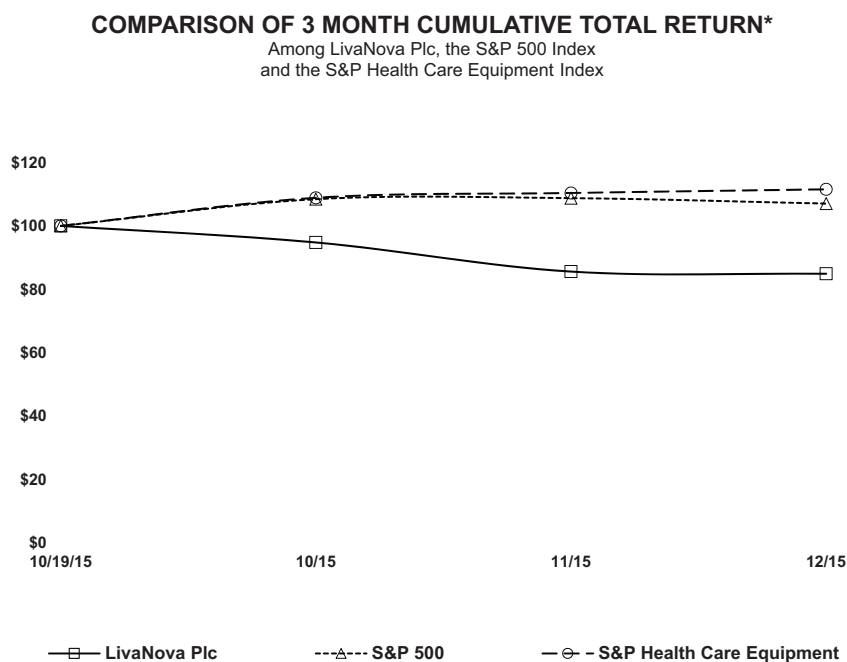
#### Relative importance of spend on pay

As the closing of the Mergers occurred on 19 October 2015 and the Company was newly incorporated and listed in 2015, this section is not applicable to the Company this year.

## Total shareholder return

### Performance graph

The graph below shows the Company's performance measured through total shareholder return on a holding of \$100 in the Company's shares between 19 October 2015 (when the Company first listed) and 31 December 2015, compared to the S&P 500 Index and the S&P Healthcare Equipment Index.



\*\$100 invested on 10/19/15 in stock or 9/30/15 in index, including reinvestment of dividends.  
Fiscal year ending December 31.

Copyright© 2016 S&P, a division of McGraw Hill Financial. All rights reserved.

### CEO Total Compensation

	Pre-Mergers	Post-Mergers
Total single-figure remuneration (\$)	1,027,314	10,019,036
Annual bonus award (as a % of maximum)	47	107
Vesting of long term performance awards (as a % of maximum)	N/A	100

By order of the Board, on 27 April 2016

**Dr. Arthur L. Rosenthal**

Chairman of the Compensation Committee  
27 April 2016



# ***Independent Auditor's Report to the Members of LivaNova PLC***

## **Report on the group financial statements**

---

### **Our opinion**

In our opinion, LivaNova PLC's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2015 and of its loss and cash flows for the 8 month period (the "period") then ended;
  - have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
  - have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.
- 

### **What we have audited**

The financial statements, included within the Annual Report, comprise:

- the consolidated balance sheets as at 31 December 2015;
- the consolidated statements of income (loss) and consolidated statements of comprehensive income (loss) for the period then ended;
- the consolidated statements of cash flows for the period then ended;
- the consolidated statements of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law. Certain disclosures required by the financial reporting framework have been presented elsewhere in the LivaNova PLC Annual Report 2015 (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

---

## **Opinion on other matter prescribed by the Companies Act 2006**

---

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

---

## **Other matters on which we are required to report by exception**

---

### **Adequacy of information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

---

### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

---

# Responsibilities for the financial statements and the audit

---

## Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 53 and 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

---

## What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

---

## Other matter

We have reported separately on the company financial statements of LivaNova PLC for the 10 month period ended 31 December 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.

Jonathan Lambert (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
29 April 2016

- The maintenance and integrity of the LivaNova plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# ***Independent Auditor's Report to the Members of LivaNova PLC***

---

## **Report on the company financial statements**

---

### **Our opinion**

In our opinion, LivaNova PLC's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss and cash flows for the 10 month period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

---

### **What we have audited**

The financial statements, included within the Annual Report, comprise:

- the balance sheet as at 31 December 2015;
- the statement of income (loss) and comprehensive income (loss) for the period then ended;
- the statement of cash flows for the period then ended;
- the statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law. Certain disclosures required by the financial reporting framework have been presented elsewhere in the LivaNova PLC Annual Report 2015 (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

---

## **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

---

## **Other matters on which we are required to report by exception**

### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

---

## Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

---

## Responsibilities for the financial statements and the audit

---

### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 53 and 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

---

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

---

## Other matter

We have reported separately on the group financial statements of LivaNova PLC for the 8 month period ended 31 December 2015.

Jonathan Lambert (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
29 April 2016

- The maintenance and integrity of the LivaNova plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Table of Contents

<b><u>CONSOLIDATED STATEMENTS OF INCOME (LOSS)</u></b>	<b>90</b>
<b><u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</u></b>	<b>91</b>
<b><u>CONSOLIDATED BALANCE SHEETS</u></b>	<b>92</b>
<b><u>CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY</u></b>	<b>94</b>
<b><u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u></b>	<b>95</b>
<b><u>Note 1. Nature of Operations</u></b>	<b>97</b>
<b><u>Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies</u></b>	<b>97</b>
<b><u>Note 3. First-time Adoption of IFRS</u></b>	<b>115</b>
<b><u>Note 4. Financial Risk Management</u></b>	<b>120</b>
<b><u>Note 5. Fair Value Measurements</u></b>	<b>127</b>
<b><u>Note 6. Financial Instruments</u></b>	<b>130</b>
<b><u>Note 7. Business Combinations</u></b>	<b>133</b>
<b><u>Note 8. 2015 Restructuring Plans</u></b>	<b>138</b>
<b><u>Note 9. Property, Plant and Equipment</u></b>	<b>139</b>
<b><u>Note 10. Goodwill and Intangible Assets</u></b>	<b>140</b>
<b><u>Note 11. Investments in Associates, Joint Ventures and Subsidiaries</u></b>	<b>141</b>
<b><u>Note 12. Financial Assets</u></b>	<b>144</b>
<b><u>Note 13. Inventories</u></b>	<b>145</b>
<b><u>Note 14. Trade Receivables and Allowance for Bad Debt</u></b>	<b>146</b>
<b><u>Note 15. Derivative Financial Instruments</u></b>	<b>148</b>
<b><u>Note 16. Shareholders' Equity</u></b>	<b>151</b>
<b><u>Note 17. Financial Liabilities</u></b>	<b>153</b>
<b><u>Note 18. Other Non-Current Liabilities</u></b>	<b>156</b>
<b><u>Note 19. Provisions</u></b>	<b>156</b>
<b><u>Note 20. Other payables</u></b>	<b>158</b>
<b><u>Note 21. Share-Based Incentive Plans</u></b>	<b>158</b>
<b><u>Note 22. Employee Retirement Plans</u></b>	<b>164</b>
<b><u>Note 23. Income Taxes</u></b>	<b>169</b>
<b><u>Note 24. Commitments and Contingencies</u></b>	<b>172</b>
<b><u>Note 25. Earnings Per Share</u></b>	<b>180</b>
<b><u>Note 26. Geographic and Segment Information</u></b>	<b>181</b>
<b><u>Note 27. Related Parties</u></b>	<b>184</b>
<b><u>Note 28. Consolidated Statements of Income (Loss) - Expenses by Nature</u></b>	<b>185</b>
<b><u>Note 29. Employee and Key Management Compensation Costs</u></b>	<b>185</b>
<b><u>Note 30. Exceptional Items</u></b>	<b>186</b>
<b><u>Note 31. Auditors' Remuneration</u></b>	<b>187</b>
<b><u>Note 32. New Accounting Pronouncements</u></b>	<b>187</b>
<b><u>Note 33. Events after the Reporting Period</u></b>	<b>188</b>

**LIVANOVA PLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
(In thousands, except per share amounts)

	Notes	Transitional Period 25 April 2015 to 31 December 2015	Fiscal Year Ended 24 April 2015
Revenue	26	\$ 415,707	\$ 291,558
Cost of sales	28	(148,849)	(27,340)
Gross profit		\$ 266,858	\$ 264,218
Operating expenses:			
Selling, general and administrative	28	(167,655)	(123,331)
Research and development	28	(50,740)	(43,449)
Operating profit before exceptional items		48,463	97,438
Exceptional items	30	(72,172)	(8,692)
Operating (loss)/profit		(23,709)	88,746
Interest income		392	184
Interest expense		(1,509)	(21)
Foreign exchange		(7,522)	479
Share of (loss)/profit from equity method investments	11	(3,308)	—
(Loss)/profit before tax		\$ (35,656)	\$ 89,388
Income tax (benefit)/expense	23	(6,540)	32,385
(Loss)/profit attributable to owners of the parent		\$ (29,116)	\$ 57,003
Basic (loss)/earnings per share	25	\$ (0.89)	\$ 2.16
Diluted (loss)/earnings per share	25	\$ (0.89)	\$ 2.14
Shares used in computing basic (loss)/earnings per share		32,741,357	26,391,064
Shares used in computing diluted (loss)/earnings per share		32,741,357	26,625,721

See accompanying notes to the consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Notes	Transitional Period 25 April 2015 to 31 December 2015	Fiscal Year Ended 24 April 2015
(Loss)/profit attributable to owners of the parent		\$ (29,116)	\$ 57,003
<i>Items of other comprehensive income that will subsequently be reclassified to profit or loss</i>			
Cash flow hedges for interest rate fluctuations	15	124	—
Tax impact		(38)	—
Cash flow hedges for exchange rate fluctuations	15	1,150	—
Tax impact		(348)	—
Foreign currency translation differences		(51,716)	(3,856)
<b>Total items of other comprehensive income that will subsequently be reclassified to profit or loss</b>		<b>(50,828)</b>	<b>(3,856)</b>
<i>Items of other comprehensive income that will not subsequently be reclassified to profit or loss:</i>			
Remeasurements of net (asset) for defined benefits		(180)	—
Tax impact		50	—
<b>Total items of other comprehensive income that will not subsequently be reclassified to profit or loss</b>		<b>(130)</b>	<b>—</b>
<b>Total other comprehensive (loss), net of taxes</b>		<b>(50,958)</b>	<b>(3,856)</b>
<b>Total comprehensive (loss)/income for the period, net of taxes attributable to owners of the parent</b>		<b>\$ (80,074)</b>	<b>\$ 53,147</b>

See accompanying notes to the consolidated financial statements



LIVANOVA PLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

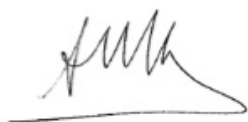
(In thousands)

	Notes	31 December 2015	24 April 2015	26 April 2014
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	9	\$ 228,991	\$ 38,376	\$ 37,528
Intangible assets	10	674,538	12,079	13,662
Goodwill	10	746,860	—	—
Equity investments in associates and joint ventures measured at equity	11	61,639	—	—
Financial assets	12	19,829	17,127	15,944
Deferred tax assets	23	165,729	20,662	34,184
Other assets		1,463	1,563	856
<b>Total non-current assets</b>		<b>\$ 1,899,049</b>	<b>\$ 89,807</b>	<b>\$ 102,174</b>
Inventories	13	212,448	23,963	17,630
Trade receivables	14	249,075	50,569	50,674
Other receivables	14	24,305	4,812	3,690
Other financial assets	12	9,271	27,020	25,029
Tax assets	23	28,418	2,971	2,900
Cash and cash equivalents		112,613	124,187	103,299
<b>Total current assets</b>		<b>636,130</b>	<b>233,522</b>	<b>203,222</b>
<b>Total assets</b>		<b>\$ 2,535,179</b>	<b>\$ 323,329</b>	<b>\$ 305,396</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Equity</b>				
Share capital	16	75,444	321	318
Group reconstruction reserve	16	1,729,764	—	—
Additional paid-in capital/Share premium	16	1,673	456,434	440,203
Treasury shares	16	—	(243,535)	(188,519)
Accumulated other comprehensive income (loss)	16	(54,359)	(3,401)	455
Retained earnings	16	57,340	71,591	14,588
<b>Total equity</b>		<b>\$ 1,809,862</b>	<b>\$ 281,410</b>	<b>\$ 267,045</b>
<b>Non-current liabilities</b>				
Financial derivative liabilities	15	\$ 1,793	\$ —	\$ —
Financial liabilities	17	91,791	—	—
Other liabilities	18	7,047	—	—
Provisions	19	16,985	6,610	4,711
Provision for employee severance indemnities and other employee benefit provisions	22	32,597	3,860	3,742
Public grants		3,918	—	—
Deferred income taxes liability	23	235,342	—	—
<b>Total non-current liabilities</b>		<b>\$ 389,473</b>	<b>\$ 10,470</b>	<b>\$ 8,453</b>

See accompanying notes to the consolidated financial statements

Current liabilities						
Trade payables	\$	106,258	\$	7,251	\$	7,570
Other payables	20	105,679		13,781		16,957
Financial derivative liabilities	15	1,815		—		—
Other financial liabilities	17	82,513		—		—
Provisions	19	12,880		8,334		4,769
Tax payable		26,699		2,083		602
Total current liabilities	\$	335,844	\$	31,449	\$	29,898
Total liabilities and equity	\$	2,535,179	\$	323,329	\$	305,396

The financial statements were approved by the Board of Directors and were signed on its behalf on 29 April 2016 by:



André-Michel Ballester

Chief Executive Officer & Director

See accompanying notes to the consolidated financial statements

# LIVANOVA PLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In thousands)

Notes	Common / Ordinary		Group Reconstruction	Additional Paid-In	Accumulated Other			
	Number of Shares	Share Capital	Reserve	Capital/ Share Premium	Treasury Shares	Comprehensive Income (Loss)	Retained Earnings	Total Equity
21	31,820	\$ 318	\$ —	\$ 440,203	(188,519)	\$ 455	\$ 14,588	\$ 267,045
	235	3	—	14,581	—	—	—	14,584
	—	—	—	1,650	—	—	—	1,650
	—	—	—	—	(55,016)	—	—	(55,016)
Total transactions with owners, recognised directly in shareholders equity								
	235	3	—	16,231	(55,016)	—	—	(38,782)
Net income	—	—	—	—	—	—	57,003	57,003
Other comprehensive loss	—	—	—	—	—	(3,856)	—	(3,856)
Total comprehensive income (loss) for the period								
	32,055	321	—	456,434	(243,535)	(3,856)	57,003	53,147
<b>Balance at 24 April 2015</b>								281,410
Share-based compensation plans	86	1	—	10,028	—	—	—	10,029
Purchase of common share	—	—	—	—	(7,350)	—	—	(7,350)
Cancellation of Cyberonics shares	(32,141)	(322)	—	(466,462)	250,885	—	—	(215,899)
Sub-total	—	—	—	—	—	(3,401)	71,591	68,190
Issuance of LivaNova ordinary shares for Cyberonics shares and equity awards	7,16	26,046	40,213	175,686	—	—	—	215,899
Issuance of LivaNova ordinary shares for Sorin share and equity awards	7,16	22,673	35,005	1,554,078	—	—	—	1,589,083
Tax benefits from share-based compensation plans	—	—	—	—	—	—	2,432	2,432
Share-based compensation plans	21	149	226	1,673	—	—	12,433	14,332
Total transactions with owners, recognised directly in shareholders equity								
	48,868	75,444	1,729,764	1,673	—	—	14,865	1,821,746
Net loss	—	—	—	—	—	—	(29,116)	(29,116)
Other comprehensive loss	16	—	—	—	—	(50,958)	—	(50,958)
Total comprehensive income (loss) for the period								
	48,868	\$ 75,444	\$ 1,729,764	\$ 1,673	\$ —	\$ (54,359)	\$ 57,340	\$ 1,809,862
<b>Balance at 31 December 2015</b>								

See accompanying notes to the consolidated financial statements

**LIVANOVA AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands)**

	<b>Notes</b>	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Cash Flows From Operating Activities:			
(Loss)/profit for the period		\$ (29,116)	\$ 57,003
Non-cash items included in net income (loss):			
Depreciation and amortization	26	20,500	6,807
Share-based compensation	21	27,387	12,557
Deferred income tax expense (benefit)		(35,021)	10,339
Impairment of intangible assets	10	1,689	448
Loss on disposal of assets		102	—
Impairment of available-for-sale	12	5,127	—
Loss from equity method investments		3,308	—
Unrealised (gain) loss in foreign currency transactions		2,576	(434)
Other non-cash items		2,835	—
Changes in operating assets and liabilities:			—
Accounts receivable, net		(15,850)	(2,654)
Inventories		36,326	(7,113)
Other current and non-current assets		4,020	(2,112)
Current and non-current liabilities		(33,171)	4,835
Net cash provided by (used in) operating activities		(9,288)	79,676
Cash Flow From Investing Activities:			
Purchase of short-term investments		(13,990)	(31,985)
Maturities of short-term investments		34,013	30,089
Purchase of property, plant and equipment		(16,057)	(6,687)
Intangible assets purchases		(1,229)	—
Proceeds from asset sales		950	—
Cash obtained in the Merger	7	12,495	—
Investment in cost method equity securities		—	(1,182)
Net cash provided by (used in) investing activities		16,182	(9,765)
Cash Flows From Financing Activities:			
Short-term borrowing		56,956	—
Short-term repayment		(45,844)	—
Repayment of long-term debt obligations		(31,968)	—
Purchase of treasury shares		(7,350)	(55,015)
Proceeds from exercise of options for shares		6,480	3,184
Cash settlement of compensation-based share units		(708)	(1,171)
Realised excess tax benefits - share-based compensation		3,050	4,746
Other financial assets and liabilities		1,257	—

See accompanying notes to the consolidated financial statements

Net cash used in financing activities	(18,127)	(48,256)
Effect of exchange rate changes on cash and cash equivalents	(341)	(767)
Net increase (decrease) in cash and cash equivalents	(11,574)	20,888
Cash and cash equivalents at beginning of period	124,187	103,299
Cash and cash equivalents at end of period	<u>\$ 112,613</u>	<u>\$ 124,187</u>

Supplementary Disclosures of Cash Flow Information:

Cash paid for interest	815	1
Cash paid for income taxes	22,738	15,577
Supplementary disclosure of non-cash financing activity:		
Acquisition financed by ordinary shares of LivaNova	7	1,589,083
		—

See accompanying notes to the consolidated financial statements

## **Note 1. Nature of Operations**

*Company information.* LivaNova PLC is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 09451374). The Company is domiciled in the United Kingdom and its registered address is 5 Merchant Square, North Wharf Road, London, W2 1AY, United Kingdom.

*Background.* LivaNova PLC and its subsidiaries (collectively, the “Company”, “LivaNova”, “we”, or “our”), the successor registrant to Cyberonics, Inc., was incorporated in England and Wales on 20 February 2015 for the purpose of facilitating the business combination of Cyberonics, Inc., a Delaware corporation (“Cyberonics”) and Sorin S.p.A., a joint stock company organized under the laws of Italy (“Sorin”). As a result of the business combination, LivaNova became the holding company of the combined businesses of Cyberonics and Sorin. This business combination became effective on 19 October 2015, at which time LivaNova’s ordinary shares were listed for trading on the NASDAQ Global Market (“NASDAQ”) and on the London Stock Exchange (the “LSE”) as a standard listing under the trading symbol “LIVN”.

The principal legislation under which LivaNova operates is the Companies Act 2006, and regulations made thereunder. The LivaNova Shares are admitted to listing on the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for standard listings. LivaNova complies with Listing Principles 1 and 2 as set out in Chapter 7 of the Listing Rules, as required by the Financial Conduct Authority.

*Description of the business.* Headquartered in London, United Kingdom (“U.K.”), LivaNova, is a global medical device company focused on the development and delivery of important therapeutic solutions for the benefit of patients, healthcare professionals, and healthcare systems throughout the world. Working closely with medical professionals throughout the world in the field of Cardiac Surgery, Neuromodulation and Cardiac Rhythm Management, we design, develop, manufacture and sell innovative therapeutic solutions. These solutions are consistent with our mission to improve our patients’ quality of life, increase the skills and capabilities of healthcare professionals and minimize healthcare costs.

*Description of the Mergers.* On 19 October 2015, pursuant to the terms of a definitive Transaction Agreement entered into by LivaNova, Cyberonics, Sorin and Cypher Merger Sub (the “Merger Sub”), dated 23 March 2015, Sorin merged with and into LivaNova, with LivaNova continuing as the surviving company, immediately followed by the merger of Merger Sub with and into Cyberonics, with Cyberonics continuing as the surviving company and as a wholly owned subsidiary of LivaNova (the “Mergers”). Upon the consummation of the Mergers, the historical financial statements of Cyberonics became the Company’s historical financial statements, as it was considered the accounting acquirer under IFRS 3 Business Combinations. Accordingly, the historical financial statements of Cyberonics are included in the comparative prior periods.

## **Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies**

*Basis of Preparation.* The consolidated financial statements of LivaNova have been prepared on a going concern basis, in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRIC).

For all periods up to and including the transitional period ended 31 December 2015, LivaNova prepared its financial statements in accordance with U.S. generally accepted accounting principles (Local GAAP). These financial statements for the transitional period ended 31 December 2015 are the first LivaNova has prepared in accordance with IFRS. Refer to Note 3 *First-time adoption of IFRS* for information on how LivaNova adopted IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and share awards that have been measured at fair value. The consolidated financial statements are presented in United States (U.S.) dollars and all values are rounded to the nearest thousand, except where otherwise indicated.

*Fiscal Year-End.* Prior to the Mergers, Cyberonics utilized a 52/53-week fiscal year that ended on the last Friday in April. The fiscal years ended 24 April 2015 and 26 April 2014 in the accompanying consolidated statements of income, are 52-week years. As a result of the merger, Cyberonics changed to a calendar year ending the 31st of December each year. The change of fiscal year, effective as of 19 October 2015, resulted in a transitional period which began 25 April 2015 and ended 31 December 2015. Therefore, the comparative amounts for the fiscal year ended 24 April 2015 are not entirely comparable.

*Reporting Period.* LivaNova, as the successor company to Cyberonics, is reporting the results of operations for Cyberonics for the period 25 April 2015 to 31 December 2015 and the results of operations for Sorin and Cyberonics from 19 October 2015 to 31 December 2015.

*Consolidation.* The accompanying consolidated financial statements include LivaNova, our wholly owned subsidiaries and the LivaNova PLC Employee Benefit Trust (“the Trust”).

Subsidiaries are all entities (including structured entities) over which we have control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Company.

Intercompany transactions, balances and unrealised gains on transactions between LivaNova companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

*Investments in Associates.* Associates are all entities over which the group has significant influence but not control or joint control. This is generally where the Company holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

*Joint Arrangements.* Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. In joint operations the Company recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method of accounting, after initially being recognised at cost in the consolidated balance sheet. LivaNova has joint ventures.

*Equity method.* Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Company’s share of the post-acquisition profits or losses of the investee in profit or loss, and the Company’s share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Company’s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.



Unrealised gains on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Company.

*Business Combinations.* We allocate the amounts we pay for on acquisition to the assets we acquire and liabilities we assume based on their fair values at the date of acquisition, including property, plant and equipment, inventories, accounts receivable, long-term debt, and identifiable intangible assets which either arise from a contractual or legal right or are separable from goodwill. We base the fair value of identifiable intangible assets acquired in a business combination, including in-process research and development, on detailed valuations that use information and assumptions provided by management, which consider management's best estimates of inputs and assumptions that a market participant would use. We allocate any excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired to goodwill. Transaction costs associated with these acquisitions are expensed as incurred and are reported as operating expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value going through profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

*Foreign currencies.* The financial statements of all LivaNova entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The U.S. dollar (US\$) is the functional currency of the Company and presentation currency of LivaNova financial statements. Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statements of Income (Loss), except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign currency differences arising from translation are recognised in the income statement, except for available-for-sale equity investments which are recognised in other comprehensive income, unless regarding an impairment, in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to the income statement.

All exchange differences are presented as part of Foreign exchange on the Consolidated Statements of Income (Loss).

The British pound (GBP) exchange rate to the US dollar used in preparing the Company financial statements was as follows.

	<b>Weighted average rate GBP</b>	<b>Closing rate GBP</b>
Transitional period 25 April 2015 to 31 December 2015	0.650364	0.678578
Fiscal year ended 24 April 2015	0.625882	0.661401

*Foreign operations.* The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisitions are translated to U.S. dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to U.S. dollars at exchange rates at the dates of transactions. Foreign currency differences arising on translation of foreign operations into U.S. dollars are recognised in other comprehensive income (loss).

*Current versus non-current classification.* The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- A Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### *Financial Instruments*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(a) *Financial assets*

*Initial recognition and measurement.* Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date on which the Company commits to purchase or sell the asset.

*Impairment of financial assets.* The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Evidence of impairment may also include cases where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The subsequent measurement and impairment of financial assets depends on their classification as described below:

*Financial assets at fair value through profit or loss.* Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. We use freestanding derivative forward contracts to offset exposure to the variability of the value associated with assets and liabilities denominated in a foreign currency. These derivatives are not designated as hedges, and therefore changes in the value of these forward contracts are recognised in income statement, thereby offsetting the current net income (loss) effect of the related change in value of foreign currency denominated assets and liabilities. The Company has not designated any financial assets as at fair value through profit or loss.

*Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The receivable balance consists of trade receivables from direct customers and distributors and loans issued. We maintain an allowance for doubtful accounts for potential credit losses based on our estimates of the ability of customers to make required payments, historical credit experience, existing economic conditions and expected future trends. We write off uncollectible accounts against the allowance when all reasonable collection efforts have been exhausted. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. The losses arising from impairment are recognised in the statement of profit or loss in cost of sales or other operating expenses for receivables. Refer to “*Note 14 Trade Receivables and Allowance for Bad Debt*” for further information.

*Available-for-sale (AFS) financial investments.* The Company has certain investments in equity and other securities of unquoted companies that are in varied stages of development. The investments in these companies are classified as available-for-sale and are valued based on non-market observable information. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management’s estimate of fair value for these unquoted equity investments. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income (loss) in the available-for-sale reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, at which time, the cumulative loss is reclassified to the statement of profit or loss and removed from the available-for-sale reserve. If it is not possible to determine the fair value in the absence of a market value or company plans from which the value in use can be determined using valuation techniques, they are carried at cost and written down for any impairment. These investments are included in non-current “Financial assets” on the consolidated balance sheet.

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss is removed from other comprehensive income and recognised in the Consolidated Statements of Income (Loss). Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairments are recognised in other comprehensive income. The determination of what is ‘significant’ or ‘prolonged’ requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

*Derecognition.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of its continuing involvement in it. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

The Company enters into sale of trade receivables through factoring transactions. The trade receivables that are sold without recourse are derecognised only if such sale transfers substantially all risks and rewards associated with owning the receivables, as required by IAS 39. In other cases of non-recourse sales or with-recourse sales, the receivables continue to be recognised within current assets in the consolidated balance sheet, and the advances received for such receivables are recorded as a financial liability. Refer to "Note 14. *Trade Receivables and Allowance for Bad Debt*" for a detailed description.

#### (b) *Financial liabilities*

*Initial recognition and measurement.* Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings (bank debt), payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and bank debt including bank overdrafts, and derivative financial instruments.

The measurement of financial liabilities depends on their classification, as follows:

*Financial liabilities at fair value through profit or loss.* Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains or losses on liabilities held-for-trading are recognised in the Consolidated Statements of Income (Loss). Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liabilities as at fair value through profit or loss.

*Loans and borrowings (bank debt).* After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of income (loss) when the liabilities are derecognised, as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Consolidated Statements of Income (Loss).

*Financial guarantee contracts.* Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs, because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, and then adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

*Derecognition.* A financial liability is derecognised when the obligation under the liability is discharged, canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of income (loss).

*Derivative financial instruments and hedge accounting.* We use currency exchange rate derivative contracts and interest rate derivative instruments to manage the impact of currency exchange and interest rate changes on the statement of income (loss) and the statement of cash flows. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. We evaluate hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in the statement of income (loss). Cash flows from derivative contracts are reported as operating activities in the consolidated statements of cash flows.

When a hedging instrument expires, is sold or is terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Statements of Income (Loss). When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

In order to minimize income statement and cash flow volatility resulting from currency exchange rate changes, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities and of some revenue. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassified into the Consolidated Statements of Income (Loss) to offset exchange differences originated by the hedged item or to adjust the value of operating income (expense). We do not enter into currency exchange rate derivative contracts for speculative purposes.

We use interest rate derivative instruments designated as cash flow hedges to manage the exposure to interest rate movements and to reduce the risk of the increase of borrowing costs, by converting floating-rate debt into fixed-rate debt. Under these agreements, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts, calculated by reference to agreed-upon notional principal amounts. The interest rate swaps are structured to mirror the payment terms of the underlying loan. The fair value of the interest rate swaps is reported in the consolidated balance sheets financial assets or liabilities (current or non-current) depending upon the gain or loss position of the contract and the maturity of the future cash flows of the fair value of each contract. The effective portion of the gain or loss on these derivatives is reported as a component of accumulated other comprehensive income (loss). The non-effective portion is reported in interest expense in the consolidated statements of income loss.

*Cash and Cash Equivalents.* Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less, consisting of demand deposit accounts and money market mutual funds, and are carried on the consolidated balance sheets at cost, which approximate their fair value. We carried \$41.1 million, \$28.3 million and \$30.2 million in money market mutual funds at 31 December 2015, 24 April 2015 and 26 April 2014, respectively.

*Borrowing costs.* General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

#### *Non-monetary assets*

*Property, Plant and Equipment ("PP&E").* PP&E is carried at cost, less accumulated depreciation and any accumulated impairment losses. Maintenance and repairs, and minor replacements are charged to expense as incurred, while significant renewals and improvements are capitalized. We compute depreciation using the straight-line method over estimated useful lives. Where an item of PP&E comprises several parts with different useful lives, each part is recognised as a separate item and depreciated over its useful life. Useful life and residual value of PP&E are reviewed at each period-end. As necessary, the occurrence of changes to the useful life or residual value is recognised prospectively as a change in accounting estimates.



Leasehold improvements are depreciated over the shorter of the useful life of an asset or the lease term. Capital improvements to the building are added as building components and depreciated over the useful life of the improvement or the building, whichever is less.

The estimated useful lives for all classes of depreciable PP&E except for land and capital investment in process as of 31 December 2015 are as follow:

	<b>Lives in years</b>
Building and building improvements	up to 45
Equipment, furniture, fixtures	up to 16
Other	up to 10

Where there are any internal or external indications that the value of an item of PP&E may be impaired, the recoverable amount of the group of cash generating units (CGUs) to which it belongs is calculated. If the recoverable amount is less than the carrying amount of the group of CGUs, a provision for impairment is recorded. PP&E is reviewed for impairment annually on 1<sup>st</sup> of October.

*Intangible Assets.* Intangible assets shown on the consolidated balance sheet are finite-lived assets. Developed technology rights consist primarily of existing technology and technical capabilities acquired from Sorin in the Mergers, that were recorded at their respective fair values as of the acquisition date. These include patents, related know-how and licensed patent rights, that represent assets expected to generate future economic benefits. Trademarks and trade names include Sorin trade names acquired as part of the Mergers. Customer relationships consist of relationships with hospitals and cardiac surgeons in the countries where we operate. Other intangible assets consist of favorable leases acquired from Sorin in the Mergers. We amortize our intangible assets over their useful lives using the straight-line method.

Amortization expense for developed technology is recorded in cost of sales and research and development costs over the period the product is expected to be marketed. Amortization expense for trade names, customer relationships and other is recorded in Selling, general and administrative expense on the Consolidated Statements of Income (Loss). Amortization expense for software is recorded in Cost of sales, Research and development and Selling, general and administrative expense on the Consolidated Statements of Income (Loss). We evaluate our intangible assets each reporting period to determine whether events and circumstances indicate either a different useful life or impairment. If we change our estimate of the useful life of an asset, we amortize the carrying amount over the revised remaining useful life.

The Company does not have internally generated intangible assets.

*Impairment of Intangible Assets and Goodwill.* The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Usually, the Company applies the fair value less costs of disposal method for its impairment assessment. In most cases no directly observable market inputs are available to measure the fair value less costs of disposal. Therefore, an estimate is derived indirectly and is based on net present value techniques, utilizing post-tax cash flows and discount rates. Fair value less costs of disposal reflects estimates of assumptions that market participants would be expected to use when pricing the asset or CGU, and for this purpose management considers the range of economic conditions that are expected to exist over the remaining useful life of the asset. The estimates used in calculating the net present values are highly sensitive and depend on assumptions specific to the nature of the Company's activities with regard to:

- amount and timing of projected future cash flows;
- outcome of R&D activities (compound efficacy, results of clinical trials, etc.);
- amount and timing of projected costs to develop R&D into commercially viable products;
- probability of obtaining regulatory approval;
- long-term sales forecasts;
- timing of the entry of generic competition;
- selected tax rate;
- behavior of competitors (launch of competing products, marketing initiatives, etc.); and
- selected discount rate.

Generally, for intangible assets with a definite useful life, the Company uses cash flow projections for the whole useful life of these assets with a terminal value based on cash flow projections usually in line with or lower than inflation rates for later periods. Probability-weighted scenarios are typically used.

Discount rates used are based on the Company's estimated weighted average cost of capital adjusted for specific country and currency risks associated with cash flow projections as an approximation of the weighted average cost of capital of a comparable market participant. Due to the above factors, actual cash flows and values could vary significantly from forecasted future cash flows and related values derived using discounting techniques.

Goodwill is tested for impairment annually as at 1 October and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

#### *Research and Development ("R&D").*

Research costs are recognised as an expense for the period in which they are incurred. Development costs are recognised as an intangible asset if the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the Company's intention to complete the intangible asset and use or sell it;

- the Company's ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of technical, financial and other resources to complete the intangible asset; and
- the reliable measurement of development expenditures.

Due to the risks and uncertainties concerning whether the products will be commercially successful, the above criteria are considered as not being fulfilled for LivaNova development projects. Consequently, development costs are recognised as an expense. In case of projects where the confidence of management to respect all the conditions required by the development capitalisation criteria is high, costs will be capitalized as required by the standard.

R&D includes costs of basic research activities as well as engineering and technical effort required to develop a new product or make significant improvement to an existing product or manufacturing process. R&D costs also include regulatory and clinical study expenses, including post-market clinical studies. Amortization of intangible assets not associated with a marketable product is recorded in R&D.

*Inventories.* We state our inventories at the lower of cost and net realizable value. Cost is determined using the first-in first-out ("FIFO") method. Our calculation of cost includes the acquisition cost of raw materials and components, direct labor and overhead. We reduce the carrying value of inventories for those items that are potentially excess, obsolete or slow moving based on changes in customer demand, technology developments or other economic factors.

#### *Revenue Recognition*

*Product Revenue.* We sell our products through a direct sales force and independent distributors. We recognise revenue when significant risks and benefits associated with the products' ownership are transferred, and the amount of revenues can be reliably determined. We estimate expected sales returns based on historical data and record a reduction of sales with a return reserve. We record state and local sales taxes net, that is, we exclude sales tax from revenue.

*Service Revenue.* Services largely consist of technical assistance services provided to hospitals for the installation maintenance and support in the operation of heart lung machines, and autotransfusion systems. Service related revenue is recognised on the basis of progress of the services, when services are rendered, when collectability is probable and when the revenue amount can be reliably measured.

*License Revenue.* We record upfront payments received under license agreements as deferred revenue on the consolidated balance sheet and recognise license revenue over the period of the license agreement.

*U.S. Medical Device Excise Tax ("MDET").* Section 4191 of the Internal Revenue Code enacted by the Health Care and Education Reconciliation Act of 2010, in conjunction with the Patient Protection and Affordable Care Act, established a 2.3% excise tax on medical devices sold domestically beginning on 1 January 2013 and is suspended from 1 January 2016 through 31 December 2017. We include the cost of MDET in cost of sales on the Consolidated Statements of Income (Loss).

*Italian Medical Device Payback.* The Italian Parliament introduced new rules for entities that supply goods and services to the Italian National Healthcare System. The new healthcare law is expected to impact the business and financial reporting of companies operating in the medical technology sector that sell medical devices in Italy. A key provision of the law is a ‘payback’ measure, requiring companies selling medical devices in Italy to make payments to the Italian state if medical device expenditures exceed regional maximum ceilings. Companies are required to make payments equal to a percentage of expenditures exceeding maximum regional caps. There is considerable uncertainty about how the law will operate and what the exact timeline is for finalization. Our current assessment of the Italian Medical Device Payback involves significant judgement regarding the expected scope and actual implementation terms of the measure as the latter have not been clarified to date by Italian authorities. We account for the estimated cost of the Italian Medical Device Payback as a deduction from revenue.

*Defined Benefit Pension Plans and Other Post-Employment Benefits.* The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), defined contribution savings plans and termination indemnity plans, covering substantially all U.S. employees and employees outside the United States. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated balance sheet with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date on which the Company recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under ‘Cost of sales’ and ‘Selling, general and administrative’ expenses in the Consolidated Statements of Income (Loss) (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and nonroutine settlements
- Net interest expense or income

Provision for severance indemnity (TFR) is mandatory for Italian companies and is considered:

- a defined benefit plan with respect to amounts vested up to 31 December 2006 and amounts vesting from 1 January 2007 for employees who have chosen to maintain the TFR at the company, for companies with 50 or fewer employees;
- a defined contribution plan with respect to amounts vesting as from 1 January 2007 for employees who have opted for supplementary pensions or who have chosen to maintain the TFR at the company, for companies with more than 50 employees.

As a defined benefit plan, the TFR is measured using the unit credit projection method based on actuarial assumptions (demographic assumptions: mortality, turnover, disability of the population included in the above plan; financial assumptions: discount rate, benefit growth rate, capitalization rate). The increase in the present value of the TFR is included in personnel expense, with the exception of the revaluation of the net liability, which is recorded among items of other comprehensive income. The cost of TFR accrued through 31 December 2006 no longer includes the component related to future salary increases. Payments of TFR, as a defined contribution plan, are also included in personnel expense, and until they are settled financially, they have a balancing entry in the statement of financial position in the form of current payables.

#### *Share-Based Compensation*

We grant share-based incentive awards to directors, officers, key employees and consultants during each fiscal year. We measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair market value of the award. The cost of equity-settled transactions is recognised in employee benefits expense, together with a corresponding increase in equity (in "Additional paid-in-capital" prior to the Mergers and after the Mergers expense in "Retained earnings") over the period in which the service and the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. We issue new shares upon share option exercise, share appreciation right ("SAR") exercise, the award of restricted share and at our election, on vesting of a restricted share unit. The social security contributions on employee share-based payment awards is accrued over the service period.

The following share-based incentive awards are offered by the Company:

- *Share Appreciation Rights.* A share appreciation right ("SAR") confers upon an employee the contractual right to receive an amount of cash, share, or a combination of both that equals the appreciation in the Company's common share from an award's grant date to the exercise date. SARs may be exercised at the employee's discretion during the exercise period and do not give the employee an ownership right in the underlying share. The SARs may be settled in LivaNova shares and/or cash, as determined by LivaNova and as set forth in the individual award agreements. SARs do not involve payment of an exercise price. We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of SARs. We determine the expected volatility on historical volatility.
- *Share Options.* Options granted under the Share Plans are service-based and typically vest annually over four years, or cliff-vest in one year, following their date of grant, as required under the applicable agreement establishing the award, and have maximum terms of 10 years. Share option grant prices are set equal to the closing price of our ordinary shares on the day of the grant. When the share options are exercised, LivaNova issues new shares. There are no post-vesting restrictions on the shares issued. We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of share option awards. We determine expected volatility based on the historic volatility of our share price over a period equal to the expected term of the option.

- *Restricted Share and Restricted Share Units.* We grant restricted share and restricted share units at no purchase cost to the grantee, which typically vest over four years or cliff-vest in one or three years. Unvested restricted share entitles the grantees to dividends, if any, and voting rights for their respective shares. Sale or transfer of the share and share units are restricted until they are vested. We issue new shares for our restricted share and restricted share unit awards. We have the right to elect to pay the cash value of vested restricted share units in lieu of the issuance of new shares. Under our share-based compensation plans we repurchase a portion of these shares from our employees to permit our employees to meet their minimum statutory tax withholding requirements on vesting of their restricted share.
- *Service-Based Restricted Share and Restricted Share Units.* The fair market value of service-based restricted share and restricted share units are determined using the market closing price on the grant date, and compensation is expensed ratably over the vesting period. Calculation of compensation for restricted share awards requires estimation of employee turnover and forfeiture rates.
- *Market and Performance-Based Restricted Share and Performance-Based Restricted Share Units.* We may grant restricted share and restricted share units subject to market or performance conditions that vest based on the satisfaction of the conditions of the award. The fair market values of market condition-based awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilized must be estimated, including the derived service period, which is estimated based on our judgement of likely future performance and our share price volatility. The fair value of performance-based awards is determined using the market closing price on the grant date. Derived service periods and the periods charged with compensation expense for performance-based awards are estimated based on our judgement of likely future performance and may be adjusted in future periods depending on actual performance.

*Income Taxes.* The tax expense for the period comprises current and deferred tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. The Company is subject to taxation on earnings in several countries under various tax regulations. Calculation of taxes on a global scale requires the use of estimates and assumptions developed based on the information available at the balance sheet date. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes are recognised by the liability method for temporary differences between the carrying amount of assets and liabilities in the consolidated balance sheet and their tax base. They are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Adjustments to deferred taxes resulting from changes in tax rates are recognised in profit or loss. However, when the deferred tax relates to items recognised in equity, the adjustment is also recognised in equity. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. At each period-end, the Company reviews the recoverable value of deferred tax assets of tax entities holding significant loss carryforwards. This value is based, by tax entity, on the strategy for recoverability of the tax loss carryforwards. Deferred taxes are charged or credited directly to equity when the tax relates to items that are recognised directly in equity, such as gains and losses on cash flow hedges and actuarial gains and losses on defined benefit plan obligations. Deferred tax assets and liabilities are set off when they are levied on the same taxable entity (legal entity or tax group) by the same taxation authority and the entity has a legally enforceable right of set off. Deferred taxes are recognised for all temporary differences associated with investments in subsidiaries and associates, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax balances are not discounted.

*Leases.* We account for leases that transfer substantially all risks and rewards incident to the ownership of property as an acquisition of an asset and the incurrence of an obligation, and we account for all other leases as operating leases. Certain of our leases provide for tenant improvement allowances that have been recorded as deferred rent and amortized, using the straight-line method, over the life of the lease as a reduction to rent expense. In addition, scheduled rent increases and rent holidays are recognised on a straight-line basis over the term of the lease.

*Equity.* Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of LivaNova as treasury share until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of LivaNova.

*Provisions and warranties.* Provisions for legal claims, service warranties and make good obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.



Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

The Company offers a warranty on various products. The Company estimates the costs that may be incurred under warranties and records a liability in the amount of such costs at the time the product is sold. The amount of the reserve recorded is equal to the net costs to repair or otherwise satisfy the claim. The warranty obligation is included in accrued liabilities on the consolidated balance sheet. Warranty expense is recorded to Cost of sales in the Consolidated Statements of Income (Loss).

*Contingencies.* The Company is subject to product liability claims, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in Selling, general and administrative expenses in the Consolidated Statements of Income (Loss). Contingent accruals are recorded when the Company determines that a loss is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgement regarding future events.

*Earnings Per Share.* Basic earnings (loss) per share (EPS) is calculated by dividing the profit (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Refer to "Note 25. Earnings per Share" for additional information.

*Segments.* Prior to the Mergers we had one operating and reportable segment. Upon completion of the Mergers, we reorganized our reporting structure and aligned our segments and the underlying divisions and businesses. We currently function in three operating segments; the historical Cyberonics operations are included in the Neuromodulation segment, and the historical Sorin businesses are included in the Cardiac Surgery and the Cardiac Rhythm Management segments.

The Company's chief operating decision maker ("CODM") is the Chief Executive Officer ("CEO") supported as necessary by the remaining members of the executive leadership team which includes the Chief Finance Officer, Presidents, and Senior Vice Presidents of the Company. The CODM assesses performance and allocates resources at the business unit level which includes Neuromodulation, Cardiac Rhythm Management, and Cardiac Surgery. Refer to "Note 26. Geographic and Segment Information" for additional information.

*Critical Estimates and Judgements.* The preparation of our consolidated financial statements in conformity with IFRS requires management to make estimates and judgements that affect the amounts reported in such financial statements and accompanying notes. These estimates and judgements are based on management's best knowledge of current events and actions we may undertake in the future. Actual results could differ materially from those estimates. Application of the following accounting policies requires certain judgements and estimates that have the potential for the most significant impact on our consolidated financial statements:

- *Impairment of non-financial assets.* An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budgets and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.
- *Commitments and Contingencies.* A number of LivaNova subsidiaries are involved in various government investigations and legal proceedings (product liability, commercial, employment, environmental claims, etc.) arising out of the normal conduct of their businesses. For more information, see "Note 24. *Commitments and Contingencies.*" We record accruals for contingencies when it is probable that a liability has been incurred and the amount can be reliably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. Expected legal defense costs are accrued when the amount can be reliably estimated. Provisions relating to estimated future expenditure for liabilities do not usually reflect any insurance or other claims or recoveries, since these are only recognized as assets when the amount is reasonably estimable and collection is virtually certain.
- *Retirement and Other Post-Employment Benefit Plans.* We sponsor pension and other post-employment benefit plans in various forms that cover a significant portion of our current and former associates. For post-employment plans with defined benefit obligations, we are required to make significant assumptions and estimates about future events in calculating the expense and the present value of the liability related to these plans. These include assumptions about the interest rates we apply to estimate future defined benefit obligations and net periodic pension expense as well as rates of future pension increases. In addition, our actuarial consultants provide our management with historical statistical information, such as withdrawal and mortality rates in connection with these estimates. Assumptions and estimates used by the Company may differ materially from the actual results we experience due to changing market and economic conditions, higher or lower withdrawal rates, and longer or shorter life spans of participants among other factors. For more information on obligations under retirement and other post-employment benefit plans and underlying actuarial assumptions, see "Note 22. *Employee Retirement Plans.*"
- *Research & Development.* Internal Research & Development costs are fully charged to the consolidated income statement in the period in which they are incurred. We consider that regulatory and other uncertainties inherent in the development of new products preclude the capitalization of internal development expenses as an intangible asset usually until marketing approval from the regulatory authority is obtained in a relevant market.

- *Taxes.* We prepare and file our tax returns based on an interpretation of tax laws and regulations, and record estimates based on these judgements and interpretations. Our tax returns are subject to examination by the competent taxing authorities, which may result in an assessment being made requiring payments of additional tax, interest or penalties. Inherent uncertainties exist in our estimates of our tax positions. We believe that our estimated amounts for current and deferred tax assets or liabilities, including any amounts related to any uncertain tax positions, are appropriate based on currently known facts and circumstances.
- *Impairment of available-for-sale financial (AFS).* The fair value of financial instruments classified as available-for-sale that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. During the transitional period 25 April 2015 to 31 December 2015 the Company made a significant judgement about the impairment of an investment in Cerbomed GmbH, see "Note 12. *Financial Assets.*" To determine if an available-for-sale financial asset is impaired, the Company evaluates the duration and extent to which the fair value of the asset is less than its cost, and the financial health of and short-term business outlook for the investee (including factors such as industry performance, changes in technology and operational and financing cash flows).
- *Share-based payments.* Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.
- *Exceptional items.* Exceptional items are expense or income items recorded in a period which have been determined by management as being material by their size or incidence and are presented separately within the results of the group. The determination of which items are disclosed as exceptional items will affect the presentation of profit measures and requires a degree of judgement. Details relating to exceptional items reported during the period are set out in "Note 30. *Exceptional items*".

### **Note 3. First-time Adoption of IFRS**

These financial statements, for the transitional period ended 31 December 2015, are the first the Company has prepared in accordance with IFRS. For periods up to the transitional period ended 31 December 2015, the Company prepared its financial statements in accordance with U.S. generally accepted accounting principles (Local GAAP).

Accordingly, the Company has prepared financial statements that comply with IFRS applicable as at 31 December 2015, together with the comparative period data for the year ended 24 April 2015, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening balance sheet was prepared as at 26 April 2014, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its Local GAAP financial statements, including the consolidated balance sheet as at 26 April 2014 and 24 April 2015.

*Exemptions applied.* IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Company has applied the following exemptions:

- IFRS 2 *Share-based Payment* has not been applied to equity instruments in share-based compensation transactions that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 26 April 2014.
- Property, plant and equipment were carried in the balance sheet prepared in accordance with Local GAAP on the basis of carrying value on 26 April 2014. The Company has elected to regard those values as deemed cost at the date of transition to IFRS since they were broadly comparable to fair value.
- The Company has applied the transitional provision in IFRIC 4 *Determining whether an Arrangement Contains a Lease* and has assessed all arrangements based upon the conditions in place as at the date of transition.
- IFRS 3 *Business combinations* has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interest in associates and joint ventures that occurred before 26 April 2014. Use of this exemption means that the local GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS balance sheet. The Company did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

*Estimates.* The estimates at 26 April 2014 and at 24 April 2015 are consistent with those made for the same dates in accordance with Local GAAP (after adjustments to reflect any differences in accounting policies).

Group reconciliation of equity as at 26 April 2014 (date of transition to IFRS)

(in thousands)	Notes	Local GAAP	Adjustments	IFRS as at 26 April 2014
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	A	\$ 39,535	\$ (2,007)	\$ 37,528
Intangible assets	A	11,655	2,007	13,662
Financial assets		15,944	—	15,944
Deferred tax assets	B,C	5,771	28,413	34,184
Other assets		856	—	856
<b>Total non-current assets</b>		<b>73,761</b>	<b>28,413</b>	<b>102,174</b>
<b>Current assets</b>				
Inventories		17,630	—	17,630
Trade receivables		50,674	—	50,674
Other receivables		3,690	—	3,690
Other financial assets		25,029	—	25,029
Deferred tax assets, net	B	17,208	(17,208)	—
Tax assets		2,900	—	2,900
Cash and cash equivalents		103,299	—	103,299
<b>Total current assets</b>		<b>220,430</b>	<b>(17,208)</b>	<b>203,222</b>
<b>Total assets</b>		<b>\$ 294,191</b>	<b>\$ 11,205</b>	<b>\$ 305,396</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Equity</b>				
Share capital		318	—	318
APIC/Share premium	D	426,867	13,336	440,203
Treasury shares		(188,519)	—	(188,519)
Accumulated other comprehensive income (loss)		455	—	455
Retained earnings	C,D,E	19,979	(5,391)	14,588
<b>Total equity</b>		<b>\$ 259,100</b>	<b>\$ 7,945</b>	<b>\$ 267,045</b>
<b>Non-current liabilities</b>				
Other liabilities		4,711	—	4,711
Provision for employee severance indemnities and other employee benefit provisions	E	482	3,260	3,742
<b>Total non-current liabilities</b>		<b>5,193</b>	<b>3,260</b>	<b>8,453</b>
<b>Current liabilities</b>				
Trade payables		7,570	—	7,570
Other payables		16,957	—	16,957
Provisions		4,769	—	4,769
Tax payable		602	—	602
<b>Total current liabilities</b>		<b>29,898</b>	<b>—</b>	<b>29,898</b>
<b>Total liabilities</b>		<b>35,091</b>	<b>3,260</b>	<b>38,351</b>
<b>Total liabilities and equity</b>		<b>\$ 294,191</b>	<b>\$ 11,205</b>	<b>\$ 305,396</b>

Group reconciliation of equity as at 24 April 2015

(in thousands)	Notes	Local GAAP	Adjustments	IFRS as at 24 April 2015
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	A	\$ 40,287	\$ (1,911)	\$ 38,376
Intangible assets	A	10,168	1,911	12,079
Financial assets		17,127	—	17,127
Deferred tax assets	B,C	6,078	14,584	20,662
Other assets		1,563	—	1,563
<b>Total non-current assets</b>		75,223	14,584	89,807
<b>Current assets</b>				
Inventories		23,963	—	23,963
Trade receivables		50,569	—	50,569
Other receivables		4,812	—	4,812
Other financial assets		27,020	—	27,020
Deferred tax assets, net	B	7,199	(7,199)	—
Tax assets		2,971	—	2,971
Cash and cash equivalents		124,187	—	124,187
<b>Total current assets</b>		240,721	(7,199)	233,522
<b>Total assets</b>		\$ 315,944	\$ 7,385	\$ 323,329
<b>LIABILITIES AND EQUITY</b>				
<b>Equity</b>				
Share capital		321	—	321
APIC/Share premium	D	445,362	11,072	456,434
Treasury shares		(243,535)	—	(243,535)
Accumulated other comprehensive income (loss)		(3,401)	—	(3,401)
Retained earnings	C,D,E	77,827	(6,236)	71,591
<b>Total equity</b>		\$ 276,574	\$ 4,836	\$ 281,410
<b>Non-current liabilities</b>				
Other liabilities		6,610	—	6,610
Provision for employee severance indemnities and other employee benefit provisions	E	1,311	2,549	3,860
<b>Total non-current liabilities</b>		7,921	2,549	10,470
<b>Current liabilities</b>				
Trade payables		7,251	—	7,251
Other payables		13,781	—	13,781
Provisions		8,334	—	8,334
Tax payable		2,083	—	2,083
<b>Total current liabilities</b>		31,449	—	31,449
<b>Total liabilities</b>		39,370	2,549	41,919
<b>Total liabilities and equity</b>		\$ 315,944	\$ 7,385	\$ 323,329

**Group reconciliation of total comprehensive income for the fiscal year ended 24 April 2015**

<b>(in thousands)</b>	<b>Notes</b>	<b>Local GAAP</b>	<b>Adjustments</b>	<b>26 April 2014 to 24 April 2015</b>
Revenue		\$ 291,558	\$ —	291,558
Cost of sales	<b>D</b>	27,311	29	27,340
Gross profit		\$ 264,247	\$ (29)	\$ 264,218
Operating expenses:				
Selling, general and administrative	<b>D,E</b>	123,619	(288)	123,331
Research and development	<b>D</b>	43,284	165	43,449
Merger related expenses		8,692	—	8,692
Total operating expenses		\$ 175,595	\$ (123)	\$ 175,472
Operating profit		88,652	94	88,746
Interest income		184	—	184
Interest expense		(21)	—	(21)
Foreign exchange		479	—	479
Profit before tax		\$ 89,294	\$ 94	\$ 89,388
Income tax expense	<b>C,E</b>	31,446	939	32,385
Profit attributable to owners of the parent		\$ 57,848	\$ (845)	\$ 57,003

**Other comprehensive income**

<b>(in thousands)</b>	<b>Notes</b>	<b>Local GAAP</b>	<b>Adjustments</b>	<b>26 April 2014 to 24 April 2015</b>
Profit attributable to the owners of the parent	<b>C, D, E</b>	57,848	(845)	57,003
<i>Items of other comprehensive income that will subsequently be reclassified to profit or loss</i>				
Foreign currency translation differences		(3,856)	—	(3,856)
<b>Total items of other comprehensive income that will subsequently be reclassified to profit or loss</b>		(3,856)	—	(3,856)
<b>Total other comprehensive (loss), net of taxes</b>		(3,856)	—	(3,856)
<b>Total comprehensive income for the period, net of taxes attributable to the owners of the parent</b>		53,992	(845)	53,147

**Notes to the reconciliation of equity as at 26 April 2014 and 24 April 2015 and total comprehensive income for the fiscal year ended 24 April 2015:**

**A:** Under Local GAAP, the Company classified the software development costs within “Property, plant and equipment”. Under IFRS the software costs meet the definition of an intangible asset. Accordingly, the Company’s capitalized software development costs have been reclassified from “Property, plant and equipment” to “Intangible assets” at the transition date to IFRS and as at 24 April 2015, respectively.

**B:** Under Local GAAP, the Company classified deferred taxes as current or noncurrent based on the nature of the related asset or liability giving rise to the temporary difference, except for tax losses and credit carryforwards, which are based on the expected timing of realization. Accordingly, the Company reclassified deferred income tax assets included in current “Deferred tax assets” to “Non-current Deferred tax assets” at the transition date to IFRS and as at 24 April 2015 to conform with the requirements of IFRS.



**C:** Under Local GAAP, deferred tax assets for share-based payment awards that will result in a deduction are calculated based on the cumulative costs recognised and trued up or down upon realization of the tax benefit. If the tax benefit exceeds the deferred tax asset, the excess (“windfall benefit”) is credited directly to equity. Any shortfall of the tax benefit below the deferred tax asset is charged to equity to the extent of prior windfall benefits, and to tax expense thereafter. Under IFRS, deferred tax assets are calculated based on the estimated tax deduction determined at each reporting date under applicable tax law (e.g., intrinsic value). If the tax deduction exceeds cumulative compensation cost, deferred tax based on the excess is credited to equity. If the tax deduction is less than or equal to cumulative compensation cost, deferred taxes are recorded in income. Therefore, the Company recorded the adjustments relating to the tax effect recognised on the share-based payment arrangements as a deferred tax asset with an offsetting entry to equity at the transition date to IFRS and as at 24 April 2015.

**D:** Under Local GAAP, the Company attributed compensation costs over the vesting period by utilizing the “straight-line” method to account for share-based payment awards subject to graded vesting based on a service condition. The use of the “straight-line” method resulted in less compensation cost being recognised in earlier years. Accordingly, the Company recorded an adjustment to “Additional paid-in capital/Share premium” with an offsetting entry to retained earnings at the transition date to IFRS and as at 24 April 2015.

**E:** Under Local GAAP, a liability for social security contributions on employee share-based payment awards is recognised on the date of the event triggering the measurement and payment of the tax to the taxing authority (generally the exercise date). Under IFRS, the Company follows the method to accrue the liability based on the consumption of services received from employees. The Company recorded an adjustment to current “Provision for employee severance indemnities” and non-current “Other employee benefit provisions” with an offsetting entry to retained earnings at the transition date to IFRS and as at 24 April 2015.

The transition from Local GAAP to IFRS has not had a material impact on the statement of cash flows.

#### **Note 4. Financial Risk Management**

##### *Management of financial risk*

Increasing market fluctuations may result in significant earnings and cash flow volatility risk for LivaNova. The Company’s operating business as well as its investment and financing activities are affected particularly by changes in foreign exchange rates, interest rates and concentration of procurement suppliers. In order to optimize the allocation of the financial resources across the LivaNova segments and entities, as well as to achieve its aims, LivaNova identifies, analyzes and manages the associated market risks. The Company seeks to manage and control these risks primarily through its regular operating and financing activities, and uses derivative financial instruments when deemed appropriate.

The Company’s CFO oversees the management of these risks. The CFO is supported by a senior financial management team that advises on financial risks and the appropriate financial risk governance framework for the Company. The senior financial management team provides assurance to the Company’s senior management that the Company’s financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company’s policy that no trading in derivatives for speculative purposes may be undertaken. Intercompany financing or investments of operating units are preferably carried out in their functional currency or on a hedged basis. The Board of Directors reviews and agrees policies for managing each of these risks.

##### *Liquidity risk*

Liquidity risk results from the Company’s inability to meet its financial liabilities. LivaNova follows a deliberated financing policy that is aimed towards a balanced financing portfolio, a diversified maturity profile and a comfortable liquidity cushion. LivaNova mitigates liquidity risk by the implementation of an effective working capital and centralized

cash management and arranged credit facilities with highly rated financial institutions. In addition, LivaNova constantly monitors funding options available in the capital markets, as well as trends in the availability and costs of such funding, with a view to maintaining financial flexibility and limiting repayment risks.

The following tables reflect the undiscounted cash outflows related to settlement and repayments, of the Company's financial liabilities at a balance sheet date. The disclosed expected undiscounted net cash outflows from derivative financial liabilities are determined based on each particular settlement date of an instrument and based on the earliest date on which LivaNova could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the conditions existing at respective balance sheet date.

Contractual undiscounted cash outflows was as follows (in thousands):

31 December 2015					
	DUE WITHIN 1 YEAR	1-2 YEARS	2-5 YEARS	OVER 5 YEARS	TOTAL
<b>Non-derivative financial instruments</b>					
Trade payables	\$ 106,258	\$ —	\$ —	\$ —	106,258
Public grants	—	3,918	—	—	3,918
Financial liabilities	21,243	20,853	60,908	10,030	113,034
Other liabilities	—	—	—	—	—
<b>Total</b>	<b>127,501</b>	<b>24,771</b>	<b>60,908</b>	<b>10,030</b>	<b>223,210</b>
<b>Financial derivative liabilities</b>					
- on exchange risk	1,107	—	—	—	1,107
- on rate risk	708	865	918	10	2,501
<b>Total</b>	<b>\$ 1,815</b>	<b>\$ 865</b>	<b>\$ 918</b>	<b>\$ 10</b>	<b>\$ 3,608</b>

24 April 2015					
	DUE WITHIN 1 YEAR	1-2 YEARS	2-5 YEARS	OVER 5 YEARS	TOTAL
<b>Non-derivative financial instruments</b>					
Trade payables	\$ 7,251	\$ —	\$ —	\$ —	7,251
<b>Total</b>	<b>\$ 7,251</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>7,251</b>

26 April 2014					
	DUE WITHIN 1 YEAR	1-2 YEARS	2-5 YEARS	OVER 5 YEARS	TOTAL
<b>Non-derivative financial instruments</b>					
Trade payables	\$ 7,570	\$ —	\$ —	\$ —	7,570
<b>Total</b>	<b>\$ 7,570</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>7,570</b>

### *Foreign Currency Exchange Rate Risk*

Foreign exchange risk is the risk that reported financial performance of the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. LivaNova operates in many countries and currencies and therefore currency fluctuations may impact LivaNova's financial results. In the ordinary course of business LivaNova is exposed to foreign currency exchange rate fluctuations, particularly between the U. S. dollar, Euro, Pound Sterling and Japanese Yen. LivaNova is exposed to currency risk in the following areas:

- Transaction exposures, related to anticipated sales and purchases and on-balance-sheet receivables/ payables resulting from such transactions
- Translation exposure of foreign-currency intercompany and external debt
- Translation exposure of net income in foreign entities
- Translation exposure of foreign-currency denominated equity invested in consolidated companies

It is LivaNova's policy to reduce the potential year on year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases. Intercompany financing or investments of operating units are preferably carried out in their functional currency or on a hedged basis. Additionally, foreign currency exchange rate exposure is partly balanced by purchasing of goods, commodities and services in the respective currencies, as well as production activities in the local markets. LivaNova's operating units are prohibited from borrowing or investing in foreign currencies on a speculative basis. The target is to keep up to 15 months of consolidated EBITDA, denominated in material currencies, hedged against USD, LivaNova's reporting currency. At 31 December 2015, cash flow hedge is carried out for FX net risk positions denominated in Japanese Yen and in Pound Sterling.

Based on our exposure to foreign currency exchange rate risk, a sensitivity analysis indicates that if the U.S. dollar had uniformly weakened or strengthened by 10% against the Pound Sterling and the Japanese Yen, in the transitional period ended at 31 December 2015, the effect on our unrealised income or expense for our derivatives outstanding at 31 December 2015 would have been approximately \$2.3 million. We did not engage in derivative contracts prior to the Mergers.

Any gains and losses on the fair value of derivative contracts would generally be offset by gains and losses on the underlying transactions. These offsetting gains and losses are not reflected in the above analysis.

With regard to financial instruments denominated in currencies other than the currency of account of the companies holding them, the currencies involving the greatest exposure are the U. S. dollar, Euro, Pound Sterling and Japanese Yen as indicated below (in thousands):

31 December 2015						
	EUR	USD	JPY	GBP	OTHER	TOTAL
<b>Assets</b>						
Cash and cash equivalents denominated in foreign currency	\$ 85	\$ 4,264	\$ 806	\$ 3,247	\$ 809	9,211
Trade receivables and other assets denominated in foreign currency	372	31,450	1,182	1,027	8,537	42,568
Financial assets denominated in foreign currency	—	—	—	—	—	—
Other assets denominated in foreign currency	—	—	—	—	—	—
<b>Total assets</b>	<b>457</b>	<b>35,714</b>	<b>1,988</b>	<b>4,274</b>	<b>9,346</b>	<b>51,779</b>
<b>Liabilities</b>						
Trade payables denominated in foreign currency	128	36,175	1,097	4,522	1,108	43,030
Financial liabilities denominated in foreign currency	—	213	—	—	28	241
Other liabilities denominated in foreign currency	—	—	—	—	—	—
<b>Total liabilities</b>	<b>128</b>	<b>36,388</b>	<b>1,097</b>	<b>4,522</b>	<b>1,136</b>	<b>43,271</b>
<b>Net exposure</b>	<b>329</b>	<b>(674)</b>	<b>891</b>	<b>(248)</b>	<b>8,210</b>	<b>8,508</b>
<b>Financial derivative liabilities</b>						
- not for hedging <sup>(1)</sup>	—	—	(147)	(567)	603	(111)
- for hedging	—	—	—	—	—	—
<b>Total</b>	<b>—</b>	<b>—</b>	<b>(147)</b>	<b>(567)</b>	<b>603</b>	<b>(111)</b>
<b>Total net exposure</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 147</b>	<b>\$ 567</b>	<b>(603)\$</b>	<b>111</b>

(1) for hedging transactions that do not meet the requirements for hedge accounting

24 April 2015						
	EUR	USD	JPY	GBP	OTHER	TOTAL
<b>Assets</b>						
Cash and cash equivalents denominated in foreign currency	\$ —	\$ 1,958	\$ —	\$ 634	\$ 1,054	3,646
Trade receivables and other assets denominated in foreign currency	5,370	3,603	—	1,914	1,279	12,166
<b>Total assets</b>	<b>5,370</b>	<b>5,561</b>	<b>—</b>	<b>2,548</b>	<b>2,333</b>	<b>15,812</b>
<b>Liabilities</b>						
Trade payables denominated in foreign currency	—	40	—	105	84	229
<b>Total liabilities</b>	<b>—</b>	<b>40</b>	<b>—</b>	<b>105</b>	<b>84</b>	<b>229</b>
<b>Total net exposure</b>	<b>\$ 5,370</b>	<b>\$ 5,521</b>	<b>\$ —</b>	<b>\$ 2,443</b>	<b>\$ 2,249</b>	<b>15,583</b>

26 April 2014						
	EUR	USD	JPY	GBP	OTHER	TOTAL
<b>Assets</b>						
Cash and cash equivalents denominated in foreign currency	\$ —	\$ 1,710	\$ —	\$ 774	1,248	3,732
Trade receivables and other assets denominated in foreign currency	3,335	6,496	—	1,480	1,379	12,690
<b>Total assets</b>	<b>3,335</b>	<b>8,206</b>	<b>—</b>	<b>2,254</b>	<b>2,627</b>	<b>16,422</b>
<b>Liabilities</b>						
Trade payables denominated in foreign currency	—	137	—	111	130	378
<b>Total liabilities</b>	<b>—</b>	<b>137</b>	<b>—</b>	<b>111</b>	<b>130</b>	<b>378</b>
<b>Total net exposure</b>	<b>\$ 3,335</b>	<b>\$ 8,069</b>	<b>\$ —</b>	<b>\$ 2,143</b>	<b>\$ 2,497</b>	<b>\$ 16,044</b>

### *Interest Rate Risk*

The Company's main interest rate risk arises from long-term debt with variable rates, which expose the Company to cash flow interest rate risk. LivaNova's policy is to hedge, case by case, medium-long term loans from a floating to a fixed rate, to avoid the impact on net earnings of any potential increase of interest rates. During the transitional period ended 31 December 2015, the Company's debt at variable rates was mainly denominated in Euro and in U.S. dollar.

As at 31 December 2015, as a consequence of the pre-payment of the \$20 million Term Loan with Unicredit New York, LivaNova Group has no outstanding financing denominated in USD.

We manage a portion of our interest rate risk with contracts that swap floating-rate interest payments for fixed rate interest payments.

As at 31 December 2015, the Company had outstanding derivative contracts to hedge against the risk of interest rate fluctuations in a notional amount of \$99.6 million, equal to about 57% of consolidated financial liabilities at 31 December 2015. There were no hedging activities prior to the Mergers.

At 31 December 2015, if interest rates on Euro-denominated debt had been 10 basis points higher or lower with all other variables held constant, the calculated post-tax profit for the period would have been approximately \$85 thousand lower or higher, mainly as a result of higher or lower interest expense on floating rate debt; other components of equity would have been \$219 thousand lower or \$223 thousand higher mainly as a result of a decrease or increase in the fair value of fixed rate interest rate swaps (derivatives designated for hedge accounting).

The following assumptions were used for the sensitivity analysis as at 31 December 2015:

- Interest-bearing assets: change of +0.25% - 0.05% in short-term rates at 31 December;
- Unhedged financial liabilities: change of +0.50% - 0.05% in the rate curve at 31 December relative to euro rates;
- Hedged financial liabilities: change of +0.50% - 0.05% in the rate curve at 31 December relative to euro and US dollar rates.

### *Credit Risk*

Our trade receivables represent potential concentrations of credit risk. This risk is limited due to the large number of customers and their dispersion across a number of geographic areas, as well as our efforts to control our exposure to credit risk by monitoring our receivables, the use of credit approvals and credit limits and entering into the factoring agreements. Refer to "Note 14. Trade Receivables and Allowance for Bad Debt" for more details. In addition, we have historically had

strong collections and minimal write-offs. While we believe that our reserves for credit losses are adequate, essentially all of our trade receivables are concentrated in the hospital and healthcare sectors worldwide, and accordingly, we are exposed to their respective business, economic and country-specific variables. Although we do not currently foresee a concentrated credit risk associated with these receivables, repayment is dependent on the financial stability of these industry sectors and the respective countries' national economies and healthcare systems.

The maximum theoretical credit risk exposure for LivaNova is an aggregate carrying amount of financial assets at each reporting period date (in thousands):

	31 December 2015	24 April 2015	26 April 2014
Financial assets	\$ 19,829	\$ 17,127	\$ 15,944
Other assets	1,381	—	—
Trade receivables	249,075	50,569	50,674
Other receivables	15,230	248	248
Other financial assets	8,533	27,020	25,029
Cash and cash equivalents	112,613	124,187	103,299
Guarantees	42,051	—	—
<b>Total</b>	<b>\$ 448,712</b>	<b>\$ 219,151</b>	<b>\$ 195,194</b>

The risk related to bank accounts, financial assets and assets for financial derivatives is limited since all bank and financial counterparties have a high rating.

The guarantees issued by LivaNova are primarily due to regulatory requirements (security issued to credit institutions to back guarantees issued by them for competitive bidding procedures and guarantees to the tax administration for the VAT tax consolidation scheme), and thus, the related risk is remote as also seen on a historical basis.

Since LivaNova operates in the medical technology sector, there is not a significant risk of customer insolvency, a significant portion of which is related to government agencies, but they are subject to the risk related to cash requirements due to the high level of trade receivables owing to average collection periods (D.S.O. - days of sales outstanding) and the ageing of these receivables.

Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' (or equivalent) are accepted.

For customers, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external information in accordance with limits set by the Company's Treasury Group. The compliance with and authorization of credit limits by customers is regularly monitored by line management. Additionally, the Company established a Bad Debt Policy, which provides the methodology to be used to calculate an addition to the provision for uncollectible receivables for past-due receivables for each LivaNova company and the ageing of each receivable.

Changes in provisions for uncollectible receivables are explained in "Note 14. *Trade Receivables and Allowance for Bad Debt*."

For the purposes of disclosing the credit risk to which LivaNova is exposed, below is a breakdown of trade receivables by due dates (ageing).

(in thousands)	31 December 2015	24 April 2015	26 April 2014
<b>Trade receivables</b>			
Performing	\$ 184,022	\$ 44,091	\$ 44,545
Less than 30 days past due	24,282	3,920	5,375
31-120 days past due	19,429	1,273	506
121-365 days past due	12,656	13	173
366-730 days past due	6,600	1,272	75
Over 730 days past due	2,086	—	—
<b>Total</b>	<b>\$ 249,075</b>	<b>\$ 50,569</b>	<b>\$ 50,674</b>

Trade receivables that are past due were \$65.1 million, \$6.5 million and \$6.1 million at 31 December 2015, 24 April 2015 and 26 April 2014, respectively. Of this amount 24.6%, 29.9% and 19.0%, at 31 December 2015, 24 April 2015 and 26 April 2014, respectively, are receivables from certain government hospitals that pay their suppliers in 1-2 years on average, and the remaining are receivables from private customers, clinics and distributors, most of which have agreed to repayment plans through the renegotiation of payment terms.

Trade receivables that are not past due and not written down were \$184.0 million, \$44.1 million and \$45.5 million at 31 December 2015, 24 April 2015 and 26 April 2014, respectively. Of this amount, 13.1%, 23.2% and 29.1%, at 31 December 2015, 24 April 2015 and 26 April 2014, respectively, were the receivables from government as indicated in the following table:

	31 December 2015			24 April 2015			26 April 2014		
	TOTAL	PERFORMING	PAST DUE	TOTAL	PERFORMING	PAST DUE	TOTAL	PERFORMING	PAST DUE
<b>BY SECTOR</b>									
Public	\$ 39,484	\$ 24,106	\$ 15,378	\$ 12,155	\$ 10,219	\$ 1,936	\$ 14,143	\$ 12,978	\$ 1,165
Private	209,591	159,916	49,675	38,414	33,872	4,542	36,531	31,567	4,964
Total	\$ 249,075	\$ 184,022	\$ 65,053	\$ 50,569	\$ 44,091	\$ 6,478	\$ 50,674	\$ 44,545	\$ 6,129

Concentrations of risk by region are provided below in order to further assess the risk related to the LivaNova's trade receivables:

	31 December 2015				24 April 2015				26 April 2014			
	D.S.O.	TOTAL	PERFORMING	PAST DUE	D.S.O.	TOTAL	PERFORMING	PAST DUE	D.S.O.	TOTAL	PERFORMING	PAST DUE
<b>BY REGION</b>												
Italy	118	\$ 25,536	\$ 15,875	\$ 9,661	99	\$ 780	\$ 462	\$ 318	105	\$ 679	\$ 431	\$ 248
Spain	165	16,996	8,952	8,044	134	1,153	568	585	153	1,200	561	639
France	62	22,645	20,081	2,564	64	805	568	237	52	870	725	145
Germany	17	3,927	3,336	591	27	731	616	115	37	624	476	148
Rest of Europe	70	23,039	15,992	7,047	39	5,282	5,017	265	31	4,495	4,020	475
North America	46	65,347	54,548	10,799	55	35,511	31,753	3,758	54	33,687	30,038	3,649
Japan	61	10,891	10,891	—	135	942	942	—	128	811	811	—
Rest of world	143	80,694	54,347	26,347	112	5,365	4,165	1,200	91	8,308	7,483	825
Total	73	\$ 249,075	\$ 184,022	\$ 65,053	61	\$ 50,569	\$ 44,091	\$ 6,478	57	\$ 50,674	\$ 44,545	\$ 6,129

Revenues are derived from a large number of customers with no customers being individually material.

The average collection period increased from 61 days at 24 April 2015 to 73 days at 31 December 2015.



The D.S.O. (days of sales outstanding), or average collection period, is calculated as the ratio of total receivables at the end of the period to revenues generated in the 12 preceding months.

$$\text{D.S.O.} = (\text{Trade receivables}/\text{Revenues}) * 365$$

For comparability the revenue amounts include VAT.

For the purposes of the disclosure of credit risk, there were no past-due balances of a significant amount related to other assets, other receivables and financial assets.

#### *Capital management*

LivaNova maintains a sufficient amount of capital to meet its development needs, fund the business units' operations and ensure the Company continues to be a going concern. The equilibrium of sources of funding, which is also aimed at minimising overall capital costs, is achieved by balancing risk capital contributed on a permanent basis by shareholders, and debt capital, which is in turn diversified and structured with several due dates and in many currencies. To this end, changes in debt levels in relation to both equity and operating profit, and the generation of cash by the business units are constantly kept under control.

### **Note 5. Fair Value Measurements**

We follow the guidance on fair value measurements and disclosures with respect to assets and liabilities that are measured at fair value on both a recurring and non-recurring basis. Under this guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability, based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels defined as follows:

- Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly
- Level 3 - Inputs are unobservable for the asset or liability

No assets or liabilities are classified as Level 1. Financial assets and liabilities that are classified as Level 2 include derivative instruments, primarily forward and option currency contracts and interest rate swaps contracts, which are valued using standard calculations and models that use readily observable market data as their basis.

Level 3 includes a contingent payment recognised as a result of acquisition of Cellplex Pty Ltd. and investments in non-listed companies classified as AFS.

#### *Assets and Liabilities That Are Measured at Fair Value on a Recurring Basis*

The following table provides information by level for assets and liabilities that are measured at fair value on a recurring basis for the transitional period 25 April 2015 to 31 December 2015 (in thousands):

	Fair Value as at 31 December 2015	Fair Value Measurements Using Inputs Considered as:		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale investments	\$ 15,847	\$ —	\$ —	\$ 15,487
Derivative Assets - for hedging (exchange rates)	839	—	839	—
<b>Total assets</b>	<b>\$ 16,686</b>	<b>\$ —</b>	<b>\$ 839</b>	<b>\$ 15,487</b>
<b>Liabilities:</b>				
Derivative Liabilities - for hedging (interest rates)	\$ 2,876	\$ —	\$ 2,876	\$ —
Derivative Liabilities - not for hedging (interest rates)	24	—	24	—
Derivative Liabilities - not for hedging (exchange rates)	1,547	—	1,547	—
Earnout for contingent payments <sup>(1)</sup>	3,457	—	—	3,457
<b>Total Liabilities</b>	<b>\$ 7,904</b>	<b>\$ —</b>	<b>\$ 4,447</b>	<b>\$ 3,457</b>

(1) This contingent payment arose as a result of the acquisition of Cellplex Pty Ltd. in September 2015 and was valued using the Black Scholes method at the date of the Mergers.

	Fair Value as at 24 April 2015	Fair Value Measurements Using Inputs Considered as:		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale investments	\$ 17,127	\$ —	\$ —	\$ 17,127
<b>Total assets</b>	<b>\$ 17,127</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 17,127</b>

	Fair Value as at 26 April 2014	Fair Value Measurements Using Inputs Considered as:		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale investments	\$ 15,944	\$ —	\$ —	\$ 15,944
<b>Total assets</b>	<b>\$ 15,944</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 15,944</b>

#### Level 2

To measure the fair value of its derivative transactions (transactions to hedge exchange risk and interest rate risk), we calculate the mark-to-market of each transaction using prices quoted in active markets (e.g. the spot exchange rate of a currency for forward exchange transactions) and observable market inputs processed for the measurement (e.g. the fair value of an interest rate swap using the interest rate curve), or the measurement of an exchange rate option (with the processing of listed prices and observable variables such as volatility).

For all level 2 valuations, we use the information provided by a third-party as a source for obtaining quoted observable prices and to process market variables. In particular, we use the following techniques to calculate the fair value of derivatives:

- For forward exchange rate transactions, fair value is calculated using the forward market exchange rate on the reporting date for each contract. The difference calculated between this amount and the contractual forward rate is discounted (present value) to the same reporting date;
- For interest rate swaps, the fair value is calculated taking into account the present value of interest flows calculated on the notional amount of each contract using the forward interest rate curve applicable on the reporting date.

The derivative valuation models incorporate the credit quality of counterparties, adjustments for counterparties' credit risk and the Company's own non-performance risk.

### *Level 3*

AFS financial assets consist of investments in equity shares and convertible preferred shares of privately held companies for which there are no quoted market prices. During the transitional period 25 April 2015 to 31 December 2015 it was determined that the fair value of the investment in Cerbomed GmbH was below its carrying value and that the carrying values of this investment was not expected to be recoverable within a reasonable period of time. As a result, an impairment charge of \$5.1 million was recognised during the transitional period ended 31 December 2015. No impairment was recorded in the fiscal year ended 24 April 2015. The fair value of the other investments in equity shares approximated their carrying value as at 31 December 2015, 24 April 2015 and 26 April 2014. These investments fall within Level 3 of the fair value hierarchy due to the use of significant unobservable inputs to determine fair value as the investments are privately held entities without quoted market prices. To determine the fair value of these investments management used all pertinent financial information available related to the entities including valuation reports prepared by third parties.

In September 2015 as a result of acquisition of Cellplex Pty Ltd., a contingent payment was recorded and valued using the Black-Scholes model at the acquisition date.

### *Transfers*

We review the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. Our policy is to recognise transfers into and out of levels within the fair value hierarchy at the end of the fiscal quarter in which the actual event or change in circumstances that caused the transfer occurs. There were no transfers between Level 1, Level 2 or Level 3 during the periods ended 31 December 2015, and 24 April 2015. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value.

### *Assets and Liabilities that are Measured at Fair Value on a Non-recurring Basis*

Non-financial assets such as investments in shares that are accounted for using the cost or equity method, goodwill, intangible assets and property, plant and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognised. The fair values of these non-financial assets are based on our own judgements about the assumptions that market participants would use in pricing the asset and on observable market data, when available. We classify these measurements as Level 3 within the fair value hierarchy.

We recorded goodwill of \$764.7 million on the date of the Mergers. Due to the proximity of the merger date to the year end, we have not identified any indicators of impairment.

During the transitional period 25 April 2015 to 31 December 2015, we fully impaired finite-lived intangible assets primarily related to R&D projects, such as our rechargeable battery technology, that no longer factored into our future product plans, for a loss of \$1.7 million. During the fiscal year ended 24 April 2015, we fully impaired certain neurological signal feedback and processing technology that no longer factored into our product plans and recognised an impairment loss of \$0.4 million. We estimated the fair value of the intangible assets utilizing a discounted future cash flow analysis, which we classified as a Level 3 within the fair value hierarchy. Refer to “Note 10. *Goodwill and Intangible Assets*” for further details.

During the fiscal year ended 24 April 2015, we recognised an impairment loss of \$0.8 million for certain obsolete manufacturing equipment and software primarily related to the Centro project redesign. We estimated the fair value of the property, plant and equipment utilizing a discounted future cash flow analysis, which we classified as a Level 3 within the fair value hierarchy.

#### *Financial Instruments Not Measured at Fair Value*

The carrying values of our cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these items.

The balance of our investments in short-term securities as at 31 December 2015 consisted of commercial paper carried at amortized cost which approximates its fair value. The balances as at 24 April 2015 and 26 April 2014 consisted of a certificate of deposit and commercial paper that are considered held-to-maturity debt securities and carried at amortized cost, which approximate fair value. Refer to “Note 12. *Financial Assets*” for further details.

The carrying value of our long and short-term debt as at 31 December 2015 was \$174.3 million which we believe approximates fair value. We did not have any debt outstanding as at 24 April 2015 and 26 April 2014.

### **Note 6. Financial Instruments**

The Company uses several instruments to fund its operating activities including short and long-term debt from credit institutions and other lenders, short-term bank loans and advances against trade receivables sold under factoring agreements. The Company’s other financial instruments consist of trade payables and receivables resulting from operating activities, investments in other companies, assets and liabilities for financial derivatives (primarily interest rate swaps and forward foreign currency contracts) and other receivables and payables other than those related to staff, tax authorities and welfare agencies.

#### *Classification of financial instruments*

With regard to classification of financial instruments on the basis of the types as specified in IAS 39, the following should be noted:

- Assets and liabilities for financial derivatives related to contracts entered into to mitigate exchange risk on imports and exports are classified under “Hedging derivatives” when they meet the requirements for being recognised as hedge accounting instruments, and under “Financial assets/liabilities at fair value through profit or loss” when these requirements are not met.

- Assets and liabilities for financial derivatives related to contracts entered into to mitigate interest rate risk are classified under “Hedging derivatives” when they meet the requirements for being recognised as hedge accounting instruments, and under “Financial assets/liabilities at fair value through profit or loss” when these requirements are not met.
- Trade receivables also include those sold to third parties under factoring agreements that do not meet the conditions of IAS 39 for their derecognition from the financial statements. To reflect these sales, payables are recorded for advances received that fall into the category of “Financial liabilities at amortised cost”.

#### Classification of financial instruments at 31 December 2015

	CLASSIFICATION						CARRYING AMOUNT			
	FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	RECEIVABLES AND LOANS	FINANCIAL ASSETS HELD TO MATURITY	AVAILABLE-FOR-SALE FINANCIAL ASSETS	FINANCIAL LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVES	TOTAL	CURRENT PORTION	NON-CURRENT PORTION	FAIR VALUE
<b>Assets</b>										
Financial assets	\$ —	\$ 2,205	\$ 1,777	\$ 15,847	\$ —	\$ —	\$ 19,829	\$ —	\$ 19,829	\$ 19,829
Other assets	—	1,463	—	—	—	—	1,463	—	1,463	1,463
Trade receivables	—	249,075	—	—	—	—	249,075	249,075	—	249,075
Other receivables	—	24,183	—	—	—	—	24,183	24,183	—	24,183
Other financial assets	—	9,271	—	—	—	—	9,271	9,271	—	9,271
Cash and cash equivalents	—	112,613	—	—	—	—	112,613	112,613	—	112,613
<b>Total financial assets</b>	<b>\$ —</b>	<b>\$ 398,810</b>	<b>\$ 1,777</b>	<b>\$ 15,847</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 416,434</b>	<b>\$ 395,142</b>	<b>\$ 21,292</b>	<b>\$ 416,434</b>
<b>Liabilities</b>										
Financial liabilities	\$ —	\$ —	\$ —	\$ —	\$ 113,034	\$ —	\$ 113,034	\$ 21,243	\$ 91,791	\$ 114,116
Other liabilities	—	—	—	—	7,047	—	7,047	—	7,047	7,047
Trade payables	—	—	—	—	106,258	—	106,258	106,258	—	106,258
Other payables	—	—	—	—	45,865	—	45,865	45,865	—	45,865
Financial derivative liabilities	1,571	—	—	—	—	2,037	3,608	1,815	1,793	3,608
Other financial liabilities	—	—	—	—	62,487	—	62,487	62,487	—	62,487
<b>Total financial liabilities</b>	<b>\$ 1,571</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 334,691</b>	<b>\$ 2,037</b>	<b>\$ 338,299</b>	<b>\$ 237,668</b>	<b>\$ 100,631</b>	<b>\$ 339,381</b>

**Classification of financial instruments at 24 April 2015**

CLASSIFICATION							CARRYING AMOUNT			
	FINANCIAL ASSETS/LIAB ILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	RECEIVABLES AND LOANS	FINANCIAL ASSETS HELD TO MATURITY	AVAILABLE- FOR-SALE FINANCIAL ASSETS	FINANCIAL LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVES	TOTAL	CURRENT PORTION	NON- CURRENT PORTION	FAIR VALUE
<b>Assets</b>										
Financial assets	\$ —	\$ —	\$ —	\$ 17,127	\$ —	\$ —	\$ 17,127	\$ —	\$ 17,127	\$ 17,127
Other assets	—	1,563	—	—	—	—	1,563	—	1,563	1,563
Trade receivables	—	50,569	—	—	—	—	50,569	50,569	—	50,569
Other receivables	—	4,510	—	—	—	—	4,510	4,510	—	4,510
Other financial assets	—	27,020	—	—	—	—	27,020	27,020	—	27,020
Cash and cash equivalents	—	124,187	—	—	—	—	124,187	124,187	—	124,187
<b>Total financial assets</b>	<b>\$ —</b>	<b>\$ 207,849</b>	<b>\$ —</b>	<b>\$ 17,127</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 224,976</b>	<b>\$ 206,286</b>	<b>\$ 18,690</b>	<b>\$ 224,976</b>
<b>Liabilities</b>										
Trade payables	\$ —	\$ —	\$ —	\$ —	\$ 7,251	\$ —	\$ 7,251	\$ 7,251	\$ —	\$ 7,251
Other payables	—	—	—	—	13,331	—	13,331	13,331	—	13,331
<b>Total financial liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 20,582</b>	<b>\$ —</b>	<b>\$ 20,582</b>	<b>\$ 20,582</b>	<b>\$ —</b>	<b>\$ 20,582</b>

### Classification of financial instruments at 26 April 2014

CLASSIFICATION							CARRYING AMOUNT			
	FINANCIAL ASSETS/LIAB ILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	RECEIVABLES AND LOANS	FINANCIAL ASSETS HELD TO MATURITY	AVAILABLE- FOR-SALE FINANCIAL ASSETS	FINANCIAL LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVE S	TOTAL	CURRENT PORTION	NON- CURRENT PORTION	FAIR VALUE
<b>Assets</b>										
Financial assets	\$ —	\$ —	\$ —	15,944	\$ —	\$ —	15,944	\$ —	15,944	15,944
Other assets	—	856	—	—	—	—	856	—	856	856
Trade receivables	—	50,674	—	—	—	—	50,674	50,674	—	50,674
Other receivables	—	3,629	—	—	—	—	3,629	3,629	—	3,629
Other financial assets	—	25,029	—	—	—	—	25,029	25,029	—	25,029
Cash and cash equivalents	—	103,299	—	—	—	—	103,299	103,299	—	103,299
<b>Total financial assets</b>	<b>\$ —</b>	<b>\$ 183,487</b>	<b>\$ —</b>	<b>15,944</b>	<b>\$ —</b>	<b>\$ —</b>	<b>199,431</b>	<b>\$ 182,631</b>	<b>\$ 16,800</b>	<b>\$ 199,431</b>
<b>Liabilities</b>										
Trade payables	\$ —	\$ —	\$ —	—	7,570	\$ —	7,570	7,570	—	7,570
Other payables	—	—	—	—	11,460	—	11,460	11,460	—	11,460
<b>Total financial liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>—</b>	<b>19,030</b>	<b>\$ —</b>	<b>19,030</b>	<b>\$ 19,030</b>	<b>\$ —</b>	<b>\$ 19,030</b>

### Note 7. Business Combinations

On 19 October 2015, and pursuant to the terms of the Merger Agreement, Sorin merged with and into LivaNova, with LivaNova continuing as the surviving company, immediately followed by the merger of Merger Sub with and into Cyberonics, with Cyberonics continuing as the surviving company and as a wholly owned subsidiary of LivaNova. Following the completion of the Mergers, LivaNova became the holding company of the combined businesses of Cyberonics and Sorin, and LivaNova's ordinary shares were listed under the ticker symbol "LIVN", on NASDAQ and admitted for listing on the standard segment of the U.K. Financial Authority's Official List and to trading on the LSE. As a result of the Mergers on 19 October 2015, LivaNova issued approximately 48.8 million ordinary shares.

On 19 October 2015, each ordinary share of Sorin was converted into the right to receive 0.0472 ordinary shares of LivaNova, ("Sorin Exchange Ratio"), and each share of common shares of Cyberonics was converted into the right to receive one ordinary share of LivaNova. The fair value of the shares issued as total consideration of the Mergers is based on Cyberonics' closing share price of \$69.95 per share on 16 October 2015, the last business day prior to the close of the Mergers. Based on the number of outstanding shares of Sorin and Cyberonics as of 19 October 2015, former Sorin and Cyberonics shareholders held approximately 46 percent and 54 percent, respectively, of LivaNova's ordinary shares after giving effect to the Mergers.



Based on the relative voting rights of Cyberonics and Sorin shareholders immediately following completion of the Mergers and the premium paid by Cyberonics for Sorin ordinary shares, and after taking into consideration all relevant facts, Cyberonics was considered to be the acquirer for accounting purposes. LivaNova accounted for the acquisition of Sorin as a business combination using the acquisition method of accounting. Under the acquisition method of accounting, the tangible and identifiable intangible assets acquired and liabilities assumed are recorded based on their fair values at the acquisition date with the excess over the fair value of consideration recognised as goodwill.

The purchase price allocation presented below is based on a preliminary acquisition valuation and includes the use of estimates based on information that was available to management at the time these audited consolidated financial statements were prepared. Management is in the process of finalizing appraisals and estimates that may result in a change in the valuation of assets acquired, liabilities assumed, goodwill recognised and the related impact on deferred taxes and cumulative translation adjustments. These changes may have a material impact on the results of operations and financial position. As management finalizes the valuation of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period. Fair value estimates are based on a complex series of judgements about future events and uncertainties and rely heavily on estimates and assumptions. The judgements used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed can materially impact the results of operations.

The following table summarises the fair value of consideration transferred and preliminary fair values of Sorin's assets acquired and liabilities assumed:

<b>(in thousands)</b>	
<b>Consideration transferred:</b>	
Fair value of common shares issued to Sorin shareholders <sup>(1)</sup>	\$ 1,577,603
Fair value of common shares issued to Sorin share award holders <sup>(2)</sup>	9,231
Fair value of LivaNova share appreciation rights issued to Sorin share appreciation rights holders <sup>(3)</sup>	2,249
Total fair value of consideration transferred	\$ 1,589,083
<b>Estimated fair value of assets acquired and liabilities assumed:</b>	
Cash and cash equivalents	\$ 12,495
Accounts receivable	224,466
Inventories	233,832
Other current assets	60,674
Property, plant and equipment	192,503
Intangible assets	703,865
Equity investments	67,059
Other assets	7,483
Deferred tax assets	135,517
Total assets acquired	\$ 1,637,894
Short-term debt	\$ 110,601
Other current liabilities	237,855
Long-term debt	128,458
Deferred tax liabilities	278,940
Other long-term liabilities	57,674
Total liabilities assumed	\$ 814,304
Goodwill	\$ 764,717

(1) To record the fair value of LivaNova ordinary shares issued to Sorin shareholders (in thousands except for ratio):

Total Sorin shares outstanding as of 16 October 2015	477,824
Sorin Exchange Ratio	0.0472
Shares of LivaNova issued	22,553
Value per share of Cyberonics as of 16 October 2015	\$ 69.95
Fair value of ordinary shares transferred to Sorin shareholders	\$ 1,577,603

(2) Each Sorin share award (other than a Sorin share appreciation right) granted prior to the Sorin merger was accelerated, vested and was converted into the right to receive LivaNova ordinary shares based on the Sorin Exchange Ratio. The total fair value of the replacement awards is \$25.2 million, including \$9.2 million attributable to pre-combination services and allocated to consideration transferred to acquire Sorin. Of the remaining \$16.0 million, \$8.3 million was recognised immediately in the post-combination period and \$7.7 million will be recognised over the post-combination service period to 28 February 2017 due to the service period requirements of the awards. Refer to “Note 21. *Share-Based Incentive Plans*” for further discussion of treatment of equity awards.

The consideration transferred in the Mergers was measured using the fair-value-based measure of the share awards as of the closing date. For purposes of calculating the consideration transferred, the fair-value-based measure of the Sorin share awards was determined to be the opening market price of LivaNova’s ordinary shares of \$69.39 on 19 October 2015.

- (3) As of 16 October 2015 there were 3,815,824 Sorin share appreciation rights. Each Sorin share appreciation right granted prior to the Sorin merger effective was accelerated, vested and was converted into the right to receive 0.0472 LivaNova share appreciation right based on the Sorin Exchange Ratio. The total fair value of the replacement share appreciation rights is \$3.8 million, including \$2.2 million attributable to pre-combination services and allocated to consideration transferred to acquire Sorin. The remaining \$1.6 million was recognised immediately in the post-combination period. Refer to “Note 21. *Share-Based Incentive Plans*” for further discussion of treatment of equity awards.

Based upon a preliminary acquisition valuation, LivaNova acquired \$464.0 million of customer-related intangible assets, \$211.1 million of developed technology intangible assets, \$13.6 million related to the Sorin trade name and \$15.1 million related to software, with weighted average estimated useful lives of 17, 14, 4 and 3 years, respectively. Other long-term liabilities include \$2.7 million of unfavorable leases with weighted average remaining lives of 5 years.

Goodwill has been allocated to Cardiac Surgery, Cardiac Rhythm Management and Neuromodulation operating segments. Goodwill is calculated as the excess of the consideration transferred over the net assets recognised and represents growth opportunities and expected cost synergies of the combined company. The Mergers are expected to provide both short-term and long-term revenue enhancements and cost savings and synergy opportunities, increase the diversity of LivaNova’s business mix, and accelerate the entry into three emerging market opportunities in the areas of heart failure, sleep apnea and less invasive mitral valves. The Mergers are also expected to allow LivaNova to utilize and integrate certain Sorin technologies into its existing and future product lines for epilepsy. LivaNova expects all of its operating segments to benefit, directly or indirectly, from the synergies arising from the business combination. As a result, as at 31 December 2015, the Company has provisionally assigned the goodwill arising from the Sorin acquisition to all three operating segments. This assignment was made by taking into consideration market participant rates of return for each acquired operating segment (Cardiac Surgery and Cardiac Rhythm Management) in order to assess the respective fair values. The remaining goodwill, allocated to Neuromodulation, which is the accounting acquirer’s existing business unit, is supported by the synergies deriving from the Mergers. Goodwill recognised as a result of the acquisition is not deductible for tax purposes.

The fair value of accounts receivable and other current assets is \$285.1 million and includes trade receivables with a fair value of \$224.5 million. The gross amount of trade receivables is \$243.9 million. However, none of the trade receivables have been impaired and it is expected that the contractual amounts can be collected.

Contingent liabilities assumed includes \$9.2 million related to uncertain tax positions. Contingent liabilities also include \$3.4 million for contingent payments at fair value related to two acquisitions completed by Sorin prior to the closing of the Mergers. The contingent payments for one acquisition are based on achievement of sales targets by the acquiree through 30 June 2018 and the contingent payments for the second acquisition are based on sales of cardiopulmonary disposable products and heart lung machines through 2019 of the acquiree.

LivaNova's consolidated financial statements for the transitional period 25 April 2015 to 31 December 2015 include Sorin's results of operations from the acquisition date through 31 December 2015. Revenue and operating loss attributable to Sorin during this period were \$200.1 million and \$5.9 million, respectively. In relation to the Mergers, we incurred \$42.1 million of transaction costs and \$13.7 million of integration costs during the transitional period 25 April to 31 December 2015. The transaction costs primarily relate to advisory, legal and accounting fees and are included in the merger-related expenses line item in the consolidated statement of income (loss). The integration costs are included as a separate line item on the consolidated statement of income (loss).

**Pro forma results of operations (unaudited)**

The following unaudited pro forma information presents the results of the Company as if the Mergers were consummated on 26 April 2014, and had been included in our consolidated statements of income (loss) for the transitional period 25 April 2015 to 31 December 2015 and the fiscal year ended 24 April 2015:

(in thousands, except per share data)	Transitional Period 25 April 2015 to 31 December 2015 (unaudited)		Fiscal Year Ended 24 April 2015 (unaudited)	
Revenue	\$	837,241	\$	1,236,477
Net Income		(30,515)		11,947
Basic and diluted net income per share	\$	(0.93)	\$	0.45

The unaudited pro forma combined results of operations for the transitional period 25 April 2015 to 31 December 2015 and the fiscal year ended 24 April 2015 have been prepared by adjusting the historical results of Cyberonics to include the historical results of Sorin. The unaudited pro forma information for the fiscal year ended 24 April 2015 is based on the accounts of Cyberonics presented on the fiscal year ending 24 April 2015 and of Sorin presented on the twelve months ended 30 June 2015. There were no material intervening events that occurred involving either company between 24 April 2015 and 30 June 2015. The unaudited pro forma information for the transitional period from 25 April 2015 to 31 December 2015 is based on the accounts of LivaNova from 25 April 2015 through 31 December 2015 (which consists of legacy Cyberonics operations through 18 October 2015 and combined Cyberonics and Sorin operations thereafter) and the accounts of Sorin from 25 April 2015 through the 18 October 2015.

The unaudited pro forma information reflects adjustments that are expected to have a continuing impact on our results operations and are directly attributable to the Mergers. The unaudited pro forma results include, but are not limited to, the incremental depreciation expense associated with the step-up fair value adjustments to property, plant and equipment of \$1.6 million for the transitional period 25 April 2015 to 31 December 2015, \$3.2 million for the fiscal year ended 24 April 2015 and the incremental intangible asset amortization to be incurred based on the preliminary values of each identifiable intangible asset of \$13.8 million for the transitional period 25 April 2015 to 31 December 2015 and \$26.2 million for the fiscal year ended 24 April 2015.

As a result of the Mergers, LivaNova recorded a \$56.8 million step-up of inventory and recognised an incremental cost of sales expense of \$20.8 million from 19 October 2015 to 31 December 2015 associated with amortization of the step-up in inventory. The unaudited pro forma results include an adjustment to eliminate the \$20.8 million in expense from the transitional period 25 April 2015 to 31 December 2015 and reflect amortization expense of \$56.8 million in the results of the fiscal year ended 24 April 2015 because the expected inventory usage period is less than 12 months.

The statutory tax rate was applied to unaudited pro forma adjustments, as appropriate, to each adjustment based on the jurisdiction in which the adjustment was expected to occur.

The pro forma net loss for the transitional period 25 April 2015 to 31 December 2015 includes the following non-recurring items directly attributable to the merger: \$48.8 million of merger-related transaction expenses and \$19.3 million of non-cash share-based compensation charges. The pro forma net loss for the fiscal year ended 24 April 2015 includes non-recurring merger-related transaction expenses directly attributable to the Mergers of \$35.9 million.

This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on 26 April 2014, and it is not indicative of any future results.

#### **Note 8. 2015 Restructuring Plans**

We initiated several restructuring plans after the consummation of the Mergers in October 2015. LivaNova incurred restructuring expenses triggered by the Mergers and on plans following efforts to eliminate duplicate corporate expenses and also on plans intended to leverage economies of scale and streamline distributions, logistics and office functions in order to reduce overall costs. The restructuring provision is based on the information available at the closing of the period and is subject to periodic review.

The restructuring plan's liabilities for the transitional period 25 April 2015 to 31 December 2015 are as follows (in thousands):

	<b>Employee severance and other termination costs</b>	<b>Supply chain contract termination costs</b>	<b>Total</b>
Beginning liability balance	\$ —	\$ —	\$ —
Charges	4,720	—	4,720
Cash payments	—	—	—
Currency translation gains (losses)	—	—	—
Ending liability balance	<u>\$ 4,720</u>	<u>\$ —</u>	<u>\$ 4,720</u>

## Note 9. Property, Plant and Equipment

	Land	Building and building improvements	Equipment, other, furniture, fixtures	Capital investment in process	Total
<b>At 26 April 2014</b>					
Gross amount	\$ 1,644	\$ 26,839	\$ 27,237	\$ 6,926	\$ 62,646
Accumulated depreciation and impairment	—	(5,180)	(19,938)	—	(25,118)
<b>Net amount</b>	1,644	21,659	7,299	6,926	37,528
<b>At 24 April 2015</b>					
Gross amount	1,644	28,048	28,788	6,695	65,175
Accumulated depreciation and impairment	—	(6,084)	(20,715)	—	(26,799)
<b>Net amount</b>	1,644	21,964	8,073	6,695	38,376
<b>At 31 December 2015</b>					
Gross amount	15,662	82,014	123,799	42,210	263,685
Accumulated depreciation and impairment	—	(7,346)	(27,348)	—	(34,694)
<b>Net amount</b>	<u>\$ 15,662</u>	<u>\$ 74,668</u>	<u>\$ 96,451</u>	<u>\$ 42,210</u>	<u>\$ 228,991</u>

Changes during the year in the net amount of each category of property, plant and equipment are indicated below:

	Land	Building and building improvements	Equipment, other, furniture, fixtures	Capital investment in process	Total
<b>Net amount at 26 April 2014</b>	\$ 1,644	\$ 21,659	\$ 7,299	\$ 6,926	\$ 37,528
Purchases	—	1,315	4,509	115	5,939
Increases for internal work	—	—	—	—	—
Disposals	—	—	(640)	—	(640)
Impairment	—	—	—	(346)	(346)
Depreciation	—	(923)	(3,012)	—	(3,935)
Reclassifications	—	—	—	—	—
Other changes	—	(87)	(83)	—	(170)
<b>Net amount at 24 April 2015</b>	1,644	21,964	8,073	6,695	38,376
Purchases	—	437	3,970	11,650	16,057
IFRS 3 business combinations	14,391	54,284	93,511	30,317	192,503
Disposals	—	(44)	(584)	(226)	(854)
Impairment	—	—	—	—	—
Depreciation	—	(1,356)	(7,472)	—	(8,828)
Currency translation gains/losses	(373)	(2,030)	(4,691)	(1,169)	(8,263)
Reclassifications	—	1,413	3,644	(5,057)	—
Other changes	—	—	—	—	—
<b>Net amount at 31 December 2015</b>	<u>\$ 15,662</u>	<u>\$ 74,668</u>	<u>\$ 96,451</u>	<u>\$ 42,210</u>	<u>\$ 228,991</u>

A building in Cantù, Italy with a net book value of \$1.2 million as at 31 December 2015 was provided as collateral to secure a long-term loan taken out by Sorin Group Italia S.r.l. Refer to “Note 24. *Commitments and Contingencies*” for further information. As part of the acquisition, we acquired Sorin’s PP&E with a carrying value of \$192.5 million equal to their fair value.

## Note 10. Goodwill and Intangible Assets

	Goodwill	Developed technology	Customer relationships	Trademarks and trade names	Other intangible assets	Software	Total
<b>At 26 April 2014</b>							
Gross amount	\$ —	\$ 13,964	\$ —	\$ —	\$ 1,148	\$ 9,843	\$ 24,955
Accumulated amortisation and impairment	—	(3,229)	—	—	(228)	(7,836)	(11,293)
<b>Net amount</b>	—	10,735	—	—	920	2,007	13,662
<b>At 24 April 2015</b>							
Gross amount	—	13,204	—	—	1,023	10,537	24,764
Accumulated amortisation and impairment	—	(3,713)	—	—	(347)	(8,625)	(12,685)
<b>Net amount</b>	—	9,491	—	—	676	1,912	12,079
<b>At 31 December 2015</b>							
Gross amount	746,860	213,873	444,472	13,030	11	25,821	697,207
Accumulated amortisation and impairment	—	(6,493)	(5,291)	(660)	—	(10,225)	(22,669)
<b>Net amount</b>	<u>\$ 746,860</u>	<u>\$ 207,380</u>	<u>\$ 439,181</u>	<u>\$ 12,370</u>	<u>\$ 11</u>	<u>\$ 15,596</u>	<u>\$ 674,538</u>

During the transitional period 25 April 2015 to 31 December 2015 we purchased a patent license for \$1.0 million related to the integration of conditionally safe MR technologies with our leads. This patent license has an amortization period of 15 years. In connection with the Mergers and based upon the preliminary acquisition valuation, we acquired certain finite-lived intangible assets which included \$464.0 million of customer relationships, \$211.1 million of developed technology, \$13.6 million of trade names and \$15.1 million of software. In addition, in connection with the Mergers, we recorded \$764.7 million of goodwill.

The changes in the net carrying value of each class of intangible assets during the year are indicated below:



	Goodwill	Developed technology	Customer relationships	Trademarks and trade names	Other intangible assets	Software	Total
<b>Net amount at 26 April 2014</b>	\$ —	\$ 10,735	\$ —	\$ —	\$ 920	2,007	\$ 13,662
Purchases	—	—	—	—	—	694	694
Increases for internal work	—	—	—	—	—	—	—
Disposals	—	—	—	—	—	—	—
Amortisation	—	(876)	—	—	(163)	(789)	(1,828)
Impairment	—	(368)	—	—	(81)	—	(449)
Reclassifications	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—
<b>Net amount at 24 April 2015</b>	—	9,491	—	—	676	1,912	12,079
Purchases	—	1,000	—	—	—	229	1,229
Increases for internal work	—	—	—	—	—	—	—
IFRS 3 business combinations	764,717	211,102	463,996	13,619	12	15,136	703,865
Disposals	—	(155)	—	—	—	—	(155)
Amortisation	—	(3,660)	(5,317)	(661)	(75)	(1,600)	(11,313)
Impairment	—	(1,088)	—	—	(601)	—	(1,689)
Currency translation gains/losses	(17,857)	(9,310)	(19,498)	(588)	(1)	(81)	(29,478)
Reclassifications	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—
<b>Net amount at 31 December 2015</b>	<b>\$ 746,860</b>	<b>\$ 207,380</b>	<b>\$ 439,181</b>	<b>\$ 12,370</b>	<b>\$ 11</b>	<b>\$ 15,596</b>	<b>\$ 674,538</b>

During the transitional period 25 April 2015 to 31 December 2015, we fully impaired finite-lived intangible assets primarily related to R&D projects, such as our rechargeable battery technology, that no longer factored into our future product plans, for a loss of \$1.7 million. The impairment losses were charged to R&D expense in the consolidated statement of income (loss).

Amortisation costs charged to the consolidated statement of income (loss) totaled \$11.3 million and \$1.8 million for the transitional period 25 April 2015 to 31 December 2015 and for the fiscal year ended 24 April 2015, respectively.

The amortisation periods for our finite-lived intangible assets as at 31 December 2015 was as follows:

	Minimum Life in years	Maximum life in years
Developed technology	5	18
Customer relationships	16	18
Trademarks and trade names	4	4
Other intangible assets	5	5
Software	1	10

## Note 11. Investments in Associates, Joint Ventures and Subsidiaries

*Equity investments in associates and joint ventures measured at equity.* In connection with the Mergers, refer to “Note 7. Business Combinations”, we acquired equity investments which are accounted for under the equity method.

Prior to the Mergers, Cyberonics did not have any investments accounted for under the equity method. The table below lists the investments in associates and joint ventures and the balance as at 31 December 2015 (in thousands except percentage ownership):

	<b>Nature of relationship</b>	<b>% Ownership</b>	<b>31 December 2015</b>
La Bouscarre S.C.I.	Associate	50.0	\$ 16
LMTB - Laser und Medizin Technologie Gmbh	Associate	22.5	3
MD START S.A.	Associate	20.9	—
MD START I K.G.	Associate	23.4	—
Enopace Biomedical Ltd.	Associate	31.8	—
Cardiosolutions Inc.	Associate	35.3	—
Caisson Interventional LLC <sup>(1)</sup>	Associate	43.7	13,712
Highlife S.A.S. <sup>(1)</sup>	Associate	38.0	8,363
MicroPort Sorin CRM (Shanghai) Co. Ltd.	Joint venture	49.0	8,959
Respicardia Inc. <sup>(2)</sup>	Associate	19.7	30,586
<b>Total</b>			<b>\$ 61,639</b>

- (1) We have outstanding loans to Caisson Interventional LLC and to Highlife S.A.S for \$3.6 million included in non-current financial assets on the consolidated balance sheet.
- (2) Although the Company holds less than 20% of the ownership interest and voting control of Respicardia Inc., the Company has the ability to exercise significant influence through both its shareholding and its nominated director's active participation on the Respicardia Inc. Board of Directors.

Summarized financial information for all individually not material associates and joint ventures not adjusted for the percentage of ownership held by the Company, is presented below:

<b>(in thousands)</b>	<b>Revenue</b>	<b>Net Profit (Loss)</b>	<b>Total Assets</b>	<b>Equity</b>
MD START S.A.	\$ 3	\$ (237)	\$ 9	\$ 6
MD START I K.G.	\$ —	\$ (364)	\$ 3,767	\$ 3,744
Enopace Biomedical Ltd.	\$ —	\$ (4,600)	\$ 315	\$ (7,422)
Cardiosolutions Inc.	\$ —	\$ (2,124)	\$ 1,080	\$ (1,494)
Caisson Interventional LLC	\$ —	\$ (7,883)	\$ 3,308	\$ 434
Highlife S.A.S.	\$ —	\$ (4,283)	\$ 906	\$ (1,314)
MicroPort Sorin CRM (Shanghai) Co. Ltd.	\$ 2,121	\$ (7,375)	\$ 10,326	\$ 9,311
Respicardia Inc.	\$ 514	\$ (10,516)	\$ 14,681	\$ 3,049

The summarised financial information of the associates and joint ventures include adjustments made by the Company when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies. Therefore, the Company has presented the above disclosures on this basis.

Refer to "Note 27. *Related Parties*" for details of transactions and balances between the Company and its associates and joint ventures. The associates and joint ventures had no contingent liabilities or capital commitments as at 31 December 2015. The Company has no contingent liabilities relating to its interests in the associates and joint ventures.

*Principal subsidiaries.* The Company had the following subsidiaries as at 31 December 2015:

	REG. OFFICE	CURRENCY	% CONSOLIDATED GROUP OWNERSHIP
LivaNova Plc (Italian Branch)	Italy	EUR	100
Alcard Indústria Mecânica Ltda	Brazil	BRL	100
Caisson Interventional LLC	USA	USD	100
California Medical Laboratories (CalMed) Inc.	USA	USD	100
Cardiosolutions Inc.	USA	USD	100
Cellplex PTY LTD	Australia	AUD	100
Cyberonics Europe BV / BA	Belgium	EUR	100
Cyberonics France SARL	France	EUR	100
Cyberonics Holdings LLC	USA	USD	100
Cyberonics Inc.	USA	USD	100
Cyberonics Latam SRL	Costa Rica	CRC	100
Cyberonics Netherlands CV	Netherlands	EUR	100
Cyberonics Spain SL	Spain	EUR	100
Enopace Biomedical Ltd	Israel	USD	100
Highlife SAS	France	EUR	100
Imthera Medical, Inc	USA	USD	100
La Bouscare S.C.I.	France	EUR	100
LivaNova Canada Corp	Canada	CAD	100
Livn Irishco 2 UC	Ireland	EUR	100
Livn Irishco Unlimited Company	Ireland	EUR	100
Livn Luxco Sarl	Luxembourg	EUR	100
Livn Luxco 2 Sarl	Luxembourg	EUR	100
Livn UK Holdco Limited	United Kingdom	EUR	100
Livn UK Limited 2 Co	United Kingdom	EUR	100
Livn UK Limited 3 Co	United Kingdom	EUR	100
Livn US Holdco, Inc.	USA	USD	100
Livn US Lp	USA	USD	100
Livn US 1, LLC	USA	USD	100
Livn US 3 LLC	USA	USD	100
LMTB - Laser - und Medizin - Technologie GmbH	Germany	EUR	100
MD Start I KG	Germany	EUR	100
MD Start SA	Suisse	CHF	100
MicroPort Sorin CRM (Shanghai) Co. Ltd	China	CNY	100
Reced Indústria Mecânica Ltda	Brazil	BRL	100
Respicardia, Inc	USA	USD	100
Sobedia Energia	Italy	EUR	100
Sorin CP Holding S.r.l.	Italy	EUR	100
Sorin CRM Holding SAS	France	EUR	100
Sorin CRM SAS	France	EUR	100

Sorin CRM USA	USA	USD	100
SorinCardio - Comercialização e Distribuição de Equipamentos Medicos, Lda	Portugal	EUR	100
Sorin Group Asia Pte Ltd	Asia	USD	100
Sorin Group Australia PTY Limited	Australia	AUD	100
Sorin Group Austria GmbH	Austria	EUR	100
Sorin Group Belgium SA	Belgium	EUR	100
Sorin Group Colombia Sas	Colombia	COP	100
Sorin Group Czech Republic	Czech Republic	EUR	100
Sorin Group Deutschland GmbH	Germany	EUR	100
Sorin Group DR, S.r.l.	Dominican Republic	USD	100
Sorin Group Espana S.L.	Spain	EUR	100
Sorin Group Finland OY	Finland	EUR	100
Sorin Group France SAS	France	EUR	100
Sorin Group India Private Limited	India	INR	100
Sorin Group International SA	Suisse	EUR	100
Sorin Group Italia S.r.l.	Italy	EUR	100
Sorin Group Japan K.K	Japan	JPY	100
Sorin Group Nederland	Netherlands	EUR	100
Sorin Group Norway AS	Norway	NOK	100
Sorin Group Polska Sp. Z.o.o.	Poland	PLN	100
Sorin Group Rus LLC	Russia	RUB	100
Sorin Group Scandinavia AB	Scandinavia	EUR	100
Sorin Group UK Limited	United Kingdom	EUR	100
Sorin Group USA Inc.	USA	USD	100
Sorin Medical Devices (Suzhou) Co. Ltd	China	CNY	100
Sorin Medical (Shanghai) Co. Ltd	China	CNY	100
Sorin Site Management S.r.l.	Italy	EUR	100

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the group.

## Note 12. Financial Assets

*Non-current financial assets.*

(in thousands)	31 December 2015	24 April 2015	26 April 2014
Investments in preferred shares of private companies	\$ 15,847	\$ 17,127	\$ 15,944
Financial receivables due from associated companies	2,041	—	—
Corporate owned life insurance policies	1,777	—	—
Other	164	—	—
<b>Total non-current financial assets</b>	<b>\$ 19,829</b>	<b>\$ 17,127</b>	<b>\$ 15,944</b>

Our non-current financial assets in the consolidated balance sheets include investments in equity instruments in privately held companies classified as available-for-sale.

(in thousands)	31 December 2015	24 April 2015	26 April 2014
ImThera Medical, Inc. - convertible preferred shares and warrants <sup>(1)</sup>	\$ 12,000	\$ 12,000	\$ 12,000
Cerbomed GmbH - convertible preferred shares <sup>(2)</sup>	—	5,127	3,944
Rainbow Medical Ltd. <sup>(3)</sup>	3,847	—	—
	<u>\$ 15,847</u>	<u>\$ 17,127</u>	<u>\$ 15,944</u>

- (1) ImThera Medical, Inc. is a U.S. company developing a neurostimulation device system for the treatment of obstructive sleep apnea.
- (2) Cerbomed GmbH is a European company developing a transcutaneous vagus nerve stimulation device for the treatment of epilepsy. During the transitional period 25 April 2015 to 31 December 2015, the Company recorded an impairment of \$5.1 million against the investment in Cerbomed. Refer to “Note 5. Fair Value Measurements” for more details.
- (3) Rainbow Medical Ltd. is an Israeli company that seeds and grows companies developing medical devices in a diverse range of medical fields.

*Current financial assets.*

(in thousands)	31 December 2015	24 April 2015	26 April 2014
Certificates of deposits <sup>(1)</sup>	\$ —	\$ 20,023	\$ 20,031
Commercial paper	6,997	6,997	4,998
Financial receivables vs associated companies	1,632	—	—
Other	642	—	—
<b>Total current financial assets</b>	<u>\$ 9,271</u>	<u>\$ 27,020</u>	<u>\$ 25,029</u>

- (1) During the transitional period 25 April 2015 to 31 December 2015, our six-month CD matured, was re-invested in a three-month CD and was classified with cash equivalents in the consolidated balance sheets.

Certificates of deposits and commercial paper are held-to-maturity investments with maturity of three and four months.

### Note 13. Inventories

Inventories consisted of the following (in thousands):

	31 December 2015	24 April 2015	26 April 2014
Raw materials	\$ 52,482	\$ 11,118	\$ 7,290
Work-in-process	44,369	5,653	4,438
Finished goods	115,597	7,192	5,902
	<u>\$ 212,448</u>	<u>\$ 23,963</u>	<u>\$ 17,630</u>

Inventories are reported net of the provision for obsolescence which totaled \$3.6 million, \$2.3 million and \$1.1 million as at 31 December 2015, 24 April 2015 and 26 April 2014, respectively. As part of the acquisition, we acquired Sorin's inventory with a carrying value of \$233.8 million. Sorin's inventory was recorded at fair value, which was measured considering any provision for obsolescence previously recognised by Sorin.

The write-down of inventories to net of the provision for obsolescence was \$0.8 million for the fiscal year ended 24 April 2015, respectively. There were no write-down of inventories to net of the provision for obsolescence for the transitional period 25 April 2015 to 31 December 2015. There were no reversal of the provision for obsolescence during the transitional period 25 April 2015 to 31 December 2015 and the fiscal year ended 24 April 2015.

#### **Note 14. Trade Receivables and Allowance for Bad Debt**

Trade receivables, net, consisted of the following (in thousands):

	<b>31 December 2015</b>	<b>24 April 2015</b>	<b>26 April 2014</b>
Trade receivables from third parties	\$ 250,728	\$ 51,233	\$ 51,359
Allowance for bad debt	(1,653)	(664)	(685)
	<u>\$ 249,075</u>	<u>\$ 50,569</u>	<u>\$ 50,674</u>

Our customers consist of hospitals, other healthcare institutions, distributors, organized purchase groups and government and private entities. Actual collection periods for trade receivables vary significantly as a function of the nature of the customer (e.g. government or private) and its geographic location. We acquired carrying value of \$224.5 million of trade receivables from Sorin in the Mergers. As part of the acquisition accounting, trade receivables were recorded at fair value, which was measured considering any allowance for bad debt previously recognised by Sorin.

Trade receivables are reported net of the allowance for bad debt provision, the changes in which are provided below (in thousands):

	<b>31 December 2015</b>	<b>24 April 2015</b>
Beginning of period	\$ (664)	\$ (685)
Additions to provision	(1,337)	(101)
Utilisation	—	—
Release of provisions	347	105
Reclassifications	—	—
Currency translation gains/losses	1	17
End of period	<u>\$ (1,653)</u>	<u>\$ (664)</u>

Actual collection periods for trade receivables vary significantly due to the nature of a customer (e.g. government or private) and its geographic location. LivaNova utilizes non-recourse and with-recourse factoring arrangements as a part of its funding policy. Prior to the date of the Mergers, LivaNova had no factoring arrangements.

#### *Factoring agreements*

At 31 December 2015 LivaNova had the factoring agreements with the following third parties that qualify for derecognition:

- Ifitalia (BNP Paribas Group) for the non-recourse sale of receivables from Italian customers
- Mediofactoring for the non-recourse sale of receivables from French customers
- Unicredit Factoring for the non-recourse sale of receivables from Italian customers
- BNP Paribas Fortis Factor for the non-recourse sale of receivables from Belgian customers
- Banca Farmafactoring for the non-recourse sale of receivables from Italian government customers.

At 31 December 2015 the total outstanding amount of trade receivables sold with non-recourse to factoring companies was \$23.3 million. The total amount of loss recognized on derecognition of trade receivables was less than \$0.1 million at 31 December 2015.

At 31 December 2015 LivaNova had the factoring agreements with the following third parties that do not qualify for derecognition:

- Ifitalia (BNP Paribas Group) for the with-recourse sale of receivables from Italian customers
- Unicredit Factoring for the with-recourse sale of receivables from Italian customers.

At 31 December 2015 trade receivables included an amount of \$1.2 million for trade receivables sold, on a with recourse basis, through factoring agreements. Payables were recorded for advances in the same amount as a balancing item to these sales.

Below is a summary of trade receivables sold:

(in thousands)	31 December 2015
<b>Trade receivables sold with recourse:</b>	
Recorded in financial statements:	
Sold to Ifitalia/BNP Paribas	\$ 20
Sold to UniCredit Factoring	1,198
<b>Trade receivables sold with non-recourse:</b>	
Sold to Ifitalia/BNP Paribas	6,310
Sold to UniCredit Factoring	10,671
Sold to Mediofactoring	1,817
Sold to Banca Farmafactoring	4,478
	<b>\$ 24,494</b>

Below is a summary of other receivables:

(in thousands)	31 December 2015	24 April 2015	26 April 2014
Prepaid assets	\$ 19,036	\$ 3,503	\$ 3,365
Other receivables	2,832	1,309	325
Guarantee deposits	2,437	—	—
Total	<b>\$ 24,305</b>	<b>\$ 4,812</b>	<b>\$ 3,690</b>



## Note 15. Derivative Financial Instruments

We enter into derivative instruments, principally foreign exchange forward and interest rate swaps contracts for the purpose of hedging the risk of fluctuations in foreign exchange and interest rates. For additional details refer to our accounting policy “*Derivatives*” included within “*Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies*” accompanying the consolidated financial statements.

### *Freestanding derivative forward contracts*

Freestanding derivative forward contracts are used to offset the exposure to the change in value of our foreign currency denominated financial intercompany transactions (current accounts and loans), certain long-term loans and certain revenue transactions. The gross notional amount of these contracts not designated as hedging instruments, outstanding at 31 December 2015 was \$254.4 million. We did not engage in freestanding derivative forward contracts prior to the Mergers.

The amount and location of the gains (losses) in the consolidated statements of income (loss) related to derivative instruments, not designated as hedging instruments, for the transitional period 25 April 2015 to 31 December 2015 are as follows:

(in thousands)

Derivatives Not Designated as Hedging Instruments	Location	Transitional Period 25 April 2015 to 31 December 2015
Foreign currency exchange rate contracts	Foreign exchange	\$ (12,813)

Foreign currency exchange differences include the losses, realised and unrealised, related to the forward contracts, not qualifying for hedge accounting, put in place since the date of the Mergers, for the hedging of the following:

- intercompany financial accounts and loans not denominated in U.S. dollars, recording a loss for \$5.1 million;
- short and long-term loans denominated in Euro, recording a loss for the amount of \$7.9 million, of which \$4.8 million relates to a foreign exchange derivative arrangement on the EIB long-term loan. Such derivative arrangements have been discontinued in January 2016;
- revenues denominated in British pounds and Japanese yen for the period from date of the Mergers to 31 December 2015, recording a gain for \$0.2 million.

The Foreign currency exchange losses on the above mentioned forward contracts are mainly due to the revaluation of the U.S. dollar against the euro and other currencies.

### *Forward foreign exchange contracts*

Due to the global nature of our operations, we are exposed to foreign currency exchange rate fluctuations. We generally utilize foreign exchange forward contracts that are designed to hedge the variability of material cash flows associated with forecasted revenue and costs denominated in a currency different from the functional currency of the transaction that will take place in the future. In most cases, these derivative instruments are designated as cash flow hedges and are carried at fair value. The effective portion of the gain or loss on these derivative contracts is reported as a component of accumulated other comprehensive income (loss). The effective portion of the gain or loss on the derivative instrument is reclassified into earnings and is included in the line item "Foreign exchange" in the consolidated statements of income (loss), depending on the underlying transaction that is being hedged, in the same period or periods during which the hedged transaction affects earnings. There was no hedge ineffectiveness at 31 December 2015. No components of the hedge contracts were excluded in the measurement of hedge ineffectiveness and no hedges were derecognised or discontinued during the transitional period 25 April 2015 to 31 December 2015. The fair value of all cash flow foreign exchange hedging forward contracts, related to revenue denominated in British pounds and Japanese yen of year 2016 is reported in accrued liabilities line item in the consolidated balance sheets.

The gross notional amount of foreign currency exchange contracts designated as cash flow hedges outstanding at 31 December 2015 was \$66.9 million, related to forward contracts of respectively British pounds 8.5 million and Japanese yen 6.4 billion, maturing at various dates through December 2016. The contracts have average maturities from 6 to 12 months and are regularly renewed to provide a continuing coverage throughout the year. There was no hedge ineffectiveness at 31 December 2015. We did not engage in hedging activities prior to the Mergers.

#### *Interest rate swaps*

In July 2014, Sorin entered into a European Investment Bank ("EIB") long-term loan agreement with floating-rate interest payments. To minimize the impact of changes in interest rates on its interest payments under the EIB loan, on 30 June 2014 and 7 July 2014 Sorin entered into interest rate swap agreements to swap floating-rate interest payments for fixed-rate interest payments on a notional amount of Euro 80.0 million, for the amount of Euro 60.0 million effective on 30 June 2014 and for the amount of Euro 20.0 million effective on 7 July 2014. The outstanding notional amount at 31 December 2015 is Euro 73.3 million (equivalent to \$79.6 million). The interest rate swap agreements mature in June 2021 and have periodic interest settlements. The interest rate swap agreements were designated as a cash flow hedge of the variability of interest payments under the EIB long-term loan agreement due to changes in the floating interest rates by converting from Euribor 3 month floating-rate to a fixed-rate loan.

In April 2013 Sorin entered into a Unicredit AG New York branch ("Unicredit NY") long-term agreement with floating-rate interest payments, refer to "Note 17. *Financial Liabilities*" for further discussion. To minimize the impact of changes in interest rates on its interest payments under the Unicredit NY loan, on July 2013 Sorin entered into an interest rate swap agreement to swap floating-rate interest payments for fixed-rate interest payments on a notional amount of \$20.0 million, effective in 12 July 2013. Initially the interest rate swap agreement matured in April 2016 and had periodic interest settlements. We repaid the Unicredit NY loan in December 2015. At 31 December 2015 due to the prepayment of the underlying hedged loan, this interest rate swap is not treated as a hedging instrument. This interest swap will mature on 12 April 2016 and its fair value, inclusive of accrued interest, at 31 December 2015 of \$24,000 is accounted in the consolidated statement of income (loss).

The swaps fixed rates were structured to mirror the payment terms of the loan. The effective portion of the gain or loss on these derivatives is reported as a component of accumulated other comprehensive income. On interest rate swap contracts we had an effective portion equivalent at \$83,000 in after-tax net unrealised gains, and an ineffective portion for the amount of \$25,000 reported in the line item interest expense in consolidated statement of income (loss).

As of 31 December 2015, we had \$0.8 million in after-tax net unrealised gains associated with the cash flow hedging instruments recorded in accumulated other comprehensive income. The Company expects that \$0.8 million of after-tax net unrealised gains as at 31 December 2015 will be reclassified into the line item interest expense, net in the consolidated statements of income (loss) over the next 12 months.

If, at any time, the swap is determined to be ineffective, in whole or in part, due to changes in the interest rate swap or underlying the debt agreement, the fair value of the portion of the swap determined to be ineffective will be recognised as a gain or loss in the consolidated statement of income (loss) for the applicable period. If the hedging instrument matures or is canceled, the amounts previously recorded in the statement of accumulated other comprehensive income are posted to the statement income (loss) statement.

We did not engage in interest rate swap contracts prior to the Mergers.

*Presentation in Financial Statements*

The amount of gains (losses) and location of the gains (losses) in the consolidated statements of income (loss) and accumulated other comprehensive income ("OCI") related to foreign currency exchange rate contract and interest rate swap derivative instruments designated as cash flow hedges for the transitional period 25 April 2015 to 31 December 2015 are as follows:

(in thousands)	Gross Gains Recognised in OCI on Effective Portion of Derivative		Effective Portion of Gains (Losses) on Derivative Reclassified from:	
	Amount		Location	Amount
<b>Derivatives in Cash Flow Hedging Relationships</b>				
Foreign currency exchange rate contracts	\$	1,150	Foreign exchange	\$ 1,150
Interest rate swap contracts		124	Interest expense	124
<b>Total</b>	<b>\$</b>	<b>1,274</b>		<b>\$ 1,274</b>

The following tables summarize the location and fair value amounts of derivative instruments reported in the consolidated balance sheets as at 31 December 2015. The fair value amounts are presented on a gross basis and are segregated between derivatives that are designated and qualify as hedging instruments and those that are not, and are further segregated by type of contract within those two categories.

(in thousands)	Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts	Current financial assets	\$ —	Current financial derivative liabilities	\$ 1,083
Interest rate contracts	Non-current financial assets	—	Non-current financial derivative liabilities	1,793
Foreign currency exchange rate contracts	Current financial assets	—	Current financial derivative liabilities	(839)
Total derivatives designated as hedging instruments		—		2,037
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Current financial assets	—	Current financial derivative liabilities	24
Foreign currency exchange rate contracts	Current financial assets	—	Current financial derivative liabilities	1,547
Total derivatives not designated as hedging instruments		—		1,571
<b>Total derivatives</b>		<b>\$ —</b>		<b>\$ 3,608</b>

## Note 16. Shareholders' Equity

*Common share of Cyberonics and ordinary shares of LivaNova.* Prior to the Mergers, shares of Cyberonics common shares were registered pursuant to Section 12(b) of the Exchange Act and listed on NASDAQ under the ticker symbol “CYBX,” and Sorin Ordinary Shares were listed on the Mercato Telematico Azionario organized and managed by Borsa Italiana S.p.A. (the “Italian Stock Exchange”). Shares of Cyberonics common shares and the Sorin ordinary shares were suspended from trading on NASDAQ and the Italian Stock Exchange, respectively, prior to the open of trading on 19 October 2015. NASDAQ filed a Form 25 on Cyberonics’ behalf to provide notice to the SEC regarding the withdrawal of shares of Cyberonics common shares from listing and to terminate the registration of such shares under Section 12(b) of the Exchange Act.

Following the completion of the Mergers, LivaNova became the holding company of the combined businesses of Cyberonics and Sorin, and LivaNova’s ordinary shares were listed on NASDAQ and listed on the Official List of the U.K.’s Financial Conduct Authority and admitted to trading on the Main Market of the London Stock Exchange under the ticker symbol “LIVN.”

LivaNova is incorporated in England and Wales as a public company limited by shares. The principal legislation under which LivaNova operates is the Companies Act 2006, and regulations made thereunder. LivaNova ordinary shares were registered under the Securities Act, pursuant to the Registration Statement on Form S-4 (File No. 333-203510), as amended, filed with the SEC by LivaNova and declared effective on 19 August 2015.

The Company’s authorised share capital is as following:

<b>(in number of shares)</b>	<b>31 December 2015</b>	<b>24 April 2015</b>	<b>26 April 2014</b>
<i>Authorised share capital, ordinary shares of £1 each, unlimited shares authorized</i>			
Issued - fully paid	48,868,305		
Outstanding	48,868,305		
<i>Common shares \$0.01 each, cancelled 19 October 2015</i>			
Issued - fully paid		32,054,236	31,819,678
Outstanding		25,996,102	26,745,713

*Preferred shares.* LivaNova is not authorised to issue preferred shares and no Cyberonics' preferred shares were outstanding at the consummation of the Mergers on 19 October 2015.

*Share repurchase plans prior to the Mergers.* Common shares were repurchased on the open market pursuant to the Cyberonics' Board of Directors-approved repurchase plans during the year ended 24 April 2015 and prior. In January 2013, December 2013 and November 2014, the Cyberonics Board of Directors authorized repurchase programs of its common shares of up to one million shares under each program. However, on 27 February 2015, the Cyberonics treasury share purchase plan under Rule 10b5-1 under the Exchange Act terminated, and Cyberonics stopped repurchasing its shares of common share. During the fiscal year ended 24 April 2015, pursuant to the approved plans, Cyberonics repurchased 875,121 shares of its common share at an average price of \$55.94.

*Group reconstruction reserve.* Group reconstruction reserve represents the excess of value attributed to the shares issued during the Mergers over the nominal value of those shares and relates to LivaNova ordinary shares and replacement share appreciation rights issued in the Mergers in exchange for Cyberonics and Sorin equity shares. See "Note 7. *Business Combinations*" for discussion of the Mergers.

*Comprehensive income.*

The table below presents the change in each component of accumulated other comprehensive income (loss), net of tax and the reclassifications out of accumulated other comprehensive income into net earnings.

Taxes were not provided for foreign currency translation adjustments for the transitional period ended 31 December 2015 as translation adjustment related to earnings that are intended to be reinvested in the countries where earned.

For Cyberonics historical fiscal years ended 24 April 2015, no reclassifications were transferred out of other comprehensive income and all changes in comprehensive income were related to foreign currency translation adjustments.

	Change in unrealised gain (loss) on derivatives	Foreign currency translation adjustments	Revaluation of net liability (asset) for defined benefits	Total
<b>Beginning Balance - 26 April 2014</b>	\$ —	\$ 455	\$ —	\$ 455
Other comprehensive income (loss) before reclassifications, before tax	—	(3,856)	—	(3,856)
<b>Beginning Balance - 25 April 2015</b>	—	(3,401)	—	(3,401)
Other comprehensive income (loss) before reclassifications, before tax	1,274	(51,716)	(180)	(50,622)
Tax benefit (expense)	(386)	—	50	(336)
Other comprehensive income (loss) before reclassifications, net of tax	888	(51,716)	(130)	(50,958)
Reclassification of (gain)/loss from accumulated other comprehensive income, before tax	—	—	—	—
Tax effect	—	—	—	—
Reclassification of (gain)/loss from accumulated other comprehensive income, after tax	—	—	—	—
Net current-period other comprehensive income (loss), net of tax	888	(51,716)	(130)	(50,958)
<b>Ending Balance - 31 December 2015</b>	<u>\$ 888</u>	<u>\$ (55,117)</u>	<u>\$ (130)</u>	<u>\$ (54,359)</u>

## Note 17. Financial Liabilities

In connection with the Mergers, LivaNova acquired all of the outstanding debt of Sorin. As of the Mergers date, Sorin had \$203.0 million aggregate principal amount due to various financial and non-financial institutions (collectively, the “Sorin Loans”). We recorded an aggregate foreign exchange adjustment of \$5.7 million to decrease the carrying value of the total long-term Sorin Loans since the date of the Mergers. Additionally, we made principal payments of \$32.0 million post-merger to reduce long-term debt to \$113.0 million.

The outstanding principal amount of long-term debt at 31 December 2015 and as of the date of the Mergers, 19 October 2015, consisted of the following (in thousands, except interest rates):

	<b>Principal Amount at 31 December 2015</b>	<b>Principal Amount at 19 October 2015</b>	<b>Maturity</b>	<b>Effective Interest Rate</b>
European Investment Bank	\$ 99,426	\$ 113,490	June 2021	1.15%
Unicredit AG New York	—	20,000	October 2017	1.89%
Banca del Mezzogiorno	8,851	10,283	December 2019	0.50% - 3.35%
Bpifrance (ex-Oséo)	2,621	2,914	October 2019	2.58%
Banca Regionale Europea	—	1,686	January 2020	1.35%
Novalia SA (Vallonie)	1,192	1,316	March 2020 - June 2033	0.00% - 3.42%
Mediocredito Italiano	944	987	September 2021-2026	1.05% - 1.55%
Total long-term facilities	113,034	150,676		
Less current portion of long-term debt	21,243	22,218		
Total long-term debt	<u>\$ 91,791</u>	<u>\$ 128,458</u>		

We recorded an aggregate foreign exchange adjustment of \$2.2 million to decrease the carrying value of the short-term facilities since the date of the Mergers. Subsequent to the Mergers, our net short-term facility debt has exceeded our repayments by \$11.1 million.

The outstanding principal amount of short-term debt as of 31 December 2015, and as of the date of the Mergers, 19 October 2015, consisted of the following (in thousands, except interest rates):

	<b>Principal Amount at 31 December 2015</b>	<b>Principal Amount at October 19, 2015</b>	<b>Effective Interest Rate</b>
Intesa San Paolo Bank	\$ 20,630	—	0.25%
BNL BNP Paribas	18,459	20,428	0.27%
Unicredit Banca	15,201	17,024	0.45%
BNP Paribas (Brazil)	2,225	4,400	15.95%
French Government	2,030	2,121	
Other short-term facilities	2,725	8,342	
Total short-term facilities	<u>\$ 61,270</u>	<u>\$ 52,315</u>	
Current portion of long-term debt	21,243	22,218	
Total current debt	<u>\$ 82,513</u>	<u>\$ 74,533</u>	
Total debt	<u>\$ 174,304</u>	<u>\$ 202,991</u>	

There was no outstanding debt in the historic Cyberonics consolidated balance sheet as of 24 April 2015 or 25 April 2014.



The European Investment Bank (“EIB”) loan was provided to Sorin to support research and development projects in Italy and France related to the development of new products or improvements in Sorin’s products in Cardiac Surgery, Cardiac Rhythm Management and new therapeutic solutions aimed at treating heart failure and mitral valve regurgitation. The loan was issued in July 2014, has a seven-year term with interest paid in quarterly installments. The loan is guaranteed by Sorin Group Italia S.r.l. and Sorin CRM SAS, subsidiaries of LivaNova. In December 2015, we paid our scheduled semi-annual \$9.0 million principal payment.

The EIB loan is subject to the various terms and conditions:

- certain financial ratios calculated based on the Sorin consolidated financial statements;
- subordination clauses, based on which the loan cannot be subordinated to other loans, with the exception of loans given preference deriving from legal obligations;
- negative pledge clauses that place limits on the issue of collateral;
- other customary clauses for loans of this type, including limits on LivaNova’s asset disposals.

In April 2013, Sorin entered into a long-term loan agreement for \$50.0 million with UniCredit (Unicredit Banca and Unicredit AG New York branch ) consisting of a term loan totaling \$20.0 million and a revolving facility of \$30 million.

In December 2014 the credit facility was renegotiated with the cancellation of the revolving facility, the decrease of the interest margin of the term loan and the extension of its maturity by 18 months from April 2016 to October 2017. In December 2015, we pre-paid this \$20.0 million loan at par, without penalty.

In 2005 Sorin entered in two long-term loans that were to mature in 2020, with Banca Regionale Europea. These loans were pre-paid at the outstanding principal amount of \$1.6 million in November 2015 by LivaNova’s subsidiaries, Sorin Group Italia S.r.l. and Sorin Site Management S.r.l.

In January 2015, Sorin Group Italia S.r.l. was provided with loans specified to support research and development projects as a part of the Large Strategic Project program of the Italian Ministry of Education, Universities and Research (“MIUR”). One loan is subsidized by Cassa DepositiePrestiti at a fixed rate of 0.50% and a second loan, an ordinary bank loan, is provided by GE Capital Interbanca at a floating rate of 6-month Euribor plus a spread of 3.3%. At 31 December 2015, \$8.9 million was outstanding on both of these loans. Both loans have an amortized repayment plan with final maturity on 31 December 2019. In December 2015, we paid our scheduled semi-annual payment of \$1.1 million.

In 2012, Sorin entered into a long-term loan agreement for a total of €3.0 million with Bpifrance (formerly Oséo), a French government company that provides financial support for innovation and development projects. The loan is repayable in installments with final maturity on 31 October 2019. At 31 December 2015, \$2.6 million was outstanding on this loan. In October 2015, we paid our scheduled \$0.2 million quarterly payment.

In 2014, through an acquisition of the cannulae business, Sorin assumed mortgages due to Mediocredito Italiano totaling €1.0 million. At 31 December 2015, \$0.9 million was outstanding. The loans are secured by a mortgage on a building located at Cantù manufacturing site in Italy.

Prior to the Mergers, Sorin Group Belgium received loans from Novalia SA, a finance company in the Wallonia Region in Belgium, to support several R&D projects. At 31 December 2015, \$1.2 million was outstanding.

In December 2015, we utilized our uncommitted revolving credit facilities for certain short-term loans and entered into a \$20.6 million short-term loan with Intesa San Paolo Bank, a \$18.5 million short-term loan with BNL/BNP Paribas after repaying \$19.5 million, a \$15.2 million loan with UniCredit Banca after repaying \$16.3 million, and a \$2.2 million loan with BNP Paribas (Brazil) after repaying \$4.3 million. During this period, we also reduced other short-term facilities by \$5.3 million. These facilities are used for general corporate purposes.

#### Note 18. Other Non-Current Liabilities

(in thousands)	31 December 2015	24 April 2015	26 April 2014
Unfavorable operating leases	\$ 2,513	\$ —	\$ —
Other	4,534	—	—
Total	\$ 7,047	\$ —	\$ —

The unfavorable operating leases were acquired in the Mergers at 19 October 2015.

#### Note 19. Provisions

The provisions in the table below are expected to result in payments within the next year. In addition, the Restructuring reserve is expected to accrue activity over the next three years.

##### *Current provisions*

(in thousands)	31 December 2015	24 April 2015	26 April 2014
Advances received on customer receivables	\$ 1,218	\$ —	\$ —
Contractual warranty reserve	2,119	—	—
Restructuring reserve	4,720	—	—
Merger related expense	1,506	4,101	—
Clinical study costs	2,004	974	1,227
Other	1,313	3,259	3,542
Total	\$ 12,880	\$ 8,334	\$ 4,769

##### *Non-Current provisions*

(in thousands)	31 December 2015	24 April 2015	26 April 2014
Liability for uncertain tax provisions	\$ 13,048	\$ 5,782	\$ 4,257
Other	3,937	828	454
Total	\$ 16,985	\$ 6,610	\$ 4,711

Recorded with other non-current provisions is a contingent liability totaling \$3.4 million incurred during the Mergers. Refer for details to "Note 7. Business Combinations."

*Warranties.* We offer a warranty on various products. We estimate the costs that may be incurred under the warranties and record a liability in the amount of such costs at the time the product is sold. The amount of the reserve recorded is equal to the cost to satisfy the claim. We include the costs associated with claims, if any, in cost of sales in the consolidated statements of income (loss). We acquired \$2.1 million in warranty obligation from Sorin as part of the Mergers.

*Restructuring reserve.* Refer to Note 8. *2015 Restructuring Plans* for more details.

The changes in the carrying value of current provisions during the year are indicated below (in thousands):

	<b>Restructuring reserve</b>	<b>Warranties reserve</b>	<b>Other reserves</b>	<b>Total</b>
<b>26 April 2014</b>	\$ —	\$ —	\$ 4,769	\$ 4,769
Additions to provision	—	—	6,378	6,378
Utilisation	—	—	(2,813)	(2,813)
Release of provisions	—	—	—	—
Reclassifications	—	—	—	—
<b>24 April 2015</b>	—	—	8,334	8,334
IFRS 3 Business Combination	4,320	2,069	5,646	12,035
Additions to provision	4,609	141	3,448	8,198
Utilisation	(3,608)	(57)	(11,194)	(14,859)
Release of provisions	(400)	—	—	(400)
Currency translation gains/losses	(201)	(34)	(193)	(428)
<b>31 December 2015</b>	<u>\$ 4,720</u>	<u>\$ 2,119</u>	<u>\$ 6,041</u>	<u>\$ 12,880</u>

The changes in the carrying value of non-current provisions during the year are indicated below (in thousands):

	<b>Uncertain tax positions reserve</b>	<b>Other reserves</b>	<b>Total</b>
<b>26 April 2014</b>	\$ 4,257	\$ 454	\$ 4,711
Additions to provision	1,525	374	1,899
Utilisation	—	—	—
Release of provisions	—	—	—
Reclassifications	—	—	—
<b>24 April 2015</b>	5,782	828	6,610
IFRS 3 Business Combination	9,158	3,839	12,997
Additions to provision	—	152	152
Utilisation	(1,523)	(828)	(2,351)
Currency translation gains/losses	(369)	(54)	(423)
<b>31 December 2015</b>	<u>13,048</u>	<u>3,937</u>	<u>16,985</u>

**Note 20. Other Payables**

(in thousands)	31 December 2015	24 April 2015	26 April 2014
Accrued expenses- employee-related charges	\$ 44,580	\$ 13,781	\$ 16,957
Other accrued expenses	30,602	—	—
Other current liabilities	10,941	—	—
Other amounts due to health and social security institution	9,649	—	—
Amounts due to employees	5,585	—	—
Current advances from customers	3,330	\$ —	\$ —
Deferred income	992	—	—
Total	<u>\$ 105,679</u>	<u>\$ 13,781</u>	<u>\$ 16,957</u>

**Note 21. Share-Based Incentive Plans***Share-Based Incentive Plans**Sorin awards exchanged for LivaNova awards*

Prior to the Mergers, the Sorin Board of Directors adopted the Long-Term Incentive 2012-2014 (the “2012-2014 Plan”), 2013-2015 (the “2013-2015 Plan”) and 2014-2016 (the “2014-2016 Plan”) share grant plans in April 2012, April 2013 and April 2014, respectively. The share grant plans authorised the issuance of stock appreciation rights (2014-2016 Plan only), performance share units and restricted share units. The awards under these share grant plans were converted into LivaNova awards pursuant to the terms of the Transaction Agreement as described below and were accounted for as equity settled. Refer to “Note 1. *Nature of Operations*” for additional details related to the Mergers.

Pursuant to the Transaction Agreement, 3,815,824 share appreciation rights outstanding (2014-2016 Plan) and 3,365,931 restricted share units (2013-2015 and 2014-2016 Plans) and performance share units (2012-2014 Plan) that were unvested immediately prior to the Mergers were accelerated and vested upon the close of the Mergers and were converted into 180,076 LivaNova share appreciation rights and 158,716 LivaNova ordinary shares, respectively, in a manner designed to preserve the intrinsic value of such awards. The accelerated vesting and share conversion constituted a modification under the authoritative guidance for accounting for share-based compensation. The modification resulted in \$8.8 million of incremental costs on the date of acquisition.

In addition, pursuant to the Transaction Agreement, 2,617,490 unvested performance share units granted under the 2014-2016 Plan and 2013-2015 Plan which were held by Sorin employees upon close of the Mergers were converted into 123,456 LivaNova ordinary shares in a manner designed to preserve the intrinsic value of such awards. For awards not yet earned based on performance achieved as of the date of the Mergers, a service requirement was added to the remaining awards and the performance conditions were removed, resulting in a modification to the award (see below for further details). A portion of the service awards vested on the date of the Mergers and of the remaining awards, 50% were paid on 26 February 2016 and 50% will be paid on 26 February 2017, in each case subject to continued employment. The awards will continue to be governed in accordance with the terms and conditions as were applicable immediately prior to the completion of the Mergers, with the exception of the modified terms pursuant to the Transaction Agreement. The modifications made to the performance share units granted under the 2014-2016 Plan and 2013-2015 Plan constituted modifications under the authoritative guidance for accounting for share compensation. The modification resulted in \$8.6 million incremental costs of which \$0.9 million was recognised on the acquisition date and the remaining \$7.7 million will be recognised over the remaining service period of the award. We recognised \$1.4 million share-based compensation expense related to these modifications from the date of the acquisition through the period ended 31 December 2015.

Further, pursuant to the Transaction Agreement, 1,721,530 deferred bonus shares held by Sorin employees that were outstanding immediately prior to the Mergers were accelerated and became vested upon the close of the Mergers, and were converted to 81,251 LivaNova ordinary shares in a manner designed to preserve the intrinsic value of such awards. The accelerated vesting and share conversion constituted a modification under the authoritative guidance for accounting for share-based compensation. This guidance requires the Company to revalue the award upon the transaction close and allocate the revised fair value between consideration paid and post-combination expense based on the ratio of service performed through the transaction date over the total service period of the award. The revised fair value allocated to post-combination services resulted in \$0.3 million of incremental costs which was recognised on the acquisition date.

#### *Cyberonics awards exchanged for LivaNova awards*

Prior to the Mergers, Cyberonics issued share options and restricted share awards under its Amended and Restated New Employee Equity Inducement Plan and 2009 Stock Plan. All of the awards under these plans were accounted for as equity settled and were accelerated and vested as a result of the Mergers. Cyberonics share options (except as described below) and restricted shares were converted into 813,794 LivaNova share options and 209,043 LivaNova ordinary shares, respectively, in a manner designed to preserve the intrinsic value of such awards. The share options will continue to become exercisable in accordance with the terms and conditions as were applicable immediately prior to the completion of the Mergers. Additionally, 146,105 Cyberonics share options held by executive officers that were outstanding immediately prior to the Mergers were settled in cash in the amount of \$5.0 million.

### *LivaNova awards*

On 16 October 2015, the sole shareholder of LivaNova approved the adoption of the Company's 2015 Incentive Award Plan (the "2015 Plan"), which was previously approved by the Board of Directors of the Company on 14 September 2015 subject to such shareholder approval. The Plan was adopted in order to facilitate the grant of cash and equity incentives to non-employee directors, employees (including our named executive officers) and consultants of the Company and certain of our affiliates and to enable the Company and certain of our affiliates to obtain and retain services of these individuals. The Plan became effective as of 19 October 2015. Incentive awards may be granted under the 2015 Plan in the form of share options, share appreciation rights, restricted share, restricted share units, other share and cash-based awards and dividend equivalents. As of 31 December 2015, there were approximately 8,047,364 shares available for future grants under the 2015 Plan.

### *Share-Based Compensation*

Amounts of share-based compensation recognised in the consolidated statement of income (loss), including the modification expense related to the Mergers, by expense category are as follows (in thousands):

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Cost of sales	\$ 278	\$ 588
Selling, general and administrative	13,588	8,780
Research and development	511	3,189
Merger-related expense	13,010	—
Total share-based compensation expense	<u>\$ 27,387</u>	<u>\$ 12,557</u>

Amounts of share-based compensation expense recognised in the consolidated statement of income (loss), including the modification expense related to the Mergers, by type of arrangement are as follows, (in thousands):

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Service-based share option awards	\$ 6,988	\$ 4,600
Service-based share appreciation rights	2,747	—
Service-based restricted and restricted share unit awards	5,672	6,453
Performance-based restricted share and restricted share unit awards	11,724	1,504
Other Awards	256	—
Total share-based compensation expense	<u>\$ 27,387</u>	<u>\$ 12,557</u>

The expense for the transitional period 25 April 2015 to 31 December 2015 and for the fiscal year ended 24 April 2015 related to awards that were accounted for as equity settled.

### Share Options and Share Appreciation Rights

We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of share option awards and share appreciation rights. The following table lists the assumptions we utilized as inputs to the Black-Scholes model:

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Weighted average share price	\$ 69.39	\$ 57.29
Exercise price	51.34-69.39	53.90-57.39
Dividend Yield <sup>(1)</sup>	—	—
Risk-free interest rate - based on grant date <sup>(2)</sup>	1.2% - 1.4%	1.60 - 1.98%
Expected option term - in years per group of employees/consultants <sup>(3)</sup>	4 - 5	4.88 - 6.56
Expected volatility at grant date <sup>(4)</sup>	34%	31.67% - 41.09%

(1) We do not plan to pay dividends.

(2) We use yield rates on U.S. Treasury securities for a period that approximated the expected term of the award to estimate the risk-free interest rate.

(3) We estimated the expected term of the awards granted using historic data of actual time elapsed between the date of grant and the exercise or forfeiture of options or SARs for employees. For consultants, the expected term is the remaining time until expiration of the option or SAR.

(4) Refer to “Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies-Share-based Compensation” for further information regarding expected volatility.

The following tables detail the activity for service-based share option awards and share appreciation rights, including awards assumed or issued as a result of the Mergers:

	<b>For the Transitional Period 25 April 2015 to 31 December 2015</b>		<b>Fiscal Year Ended 24 April 2015</b>	
<b>Options and SARs</b>	<b>Number of Optioned Shares</b>	<b>Wtd. Avg. Exercise Price</b>	<b>Number of Optioned Shares</b>	<b>Wtd. Avg. Exercise Price</b>
Outstanding - at beginning of period	1,125,738	41.33	1,012,387	\$ 35.25
Granted	677,560	69.39	273,445	57.29
Assumed in Merger	180,076	51.34	—	—
Exercised	(199,655)	34.11	(127,379)	26.89
Forfeited	(45,553)	61.27	(32,355)	42.44
Cashed-out in Merger	(146,105)	31.67	—	—
Expired	(2,500)	28.21	(360)	51.90
Outstanding - end of year	1,589,561	55.56	1,125,738	41.33
Fully vested and exercisable - end of year	935,586	45.90	509,136	30.15
Fully vested and expected to vest - end of year <sup>(1)</sup>	1,571,191	55.40	1,095,446	40.98



(1) Factors in expected future forfeitures.

The weighted average remaining contractual life for the share options and SARs outstanding at 31 December 2015 and 24 April 2015 is 4.70 years and 6.97 years, respectively.

The aggregate intrinsic value of the options and SARs outstanding at 31 December 2015 and 24 April 2015 is \$12.7 million and \$24.3 million, respectively. The aggregate intrinsic value of options and SARs is based on the difference between the fair market value of the underlying share at the end of the period using the market closing share price, and exercise price for in-the-money awards.

The range of exercise prices for options and SARs outstanding at 31 December 2015 and 24 April 2015 are categorized in exercise price ranges as follows:

<b>Outstanding Options</b>	<b>31 December 2015</b>	<b>24 April 2015</b>
\$10-20	94,021	131,652
\$21-30	90,368	244,092
\$31-40	20,481	35,623
\$41-50	91,887	183,798
\$51-60	633,329	525,073
\$61-70	659,475	5,500
<b>Total</b>	<b>1,589,561</b>	<b>1,125,738</b>

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Weighted average grant date fair value of share option awards and SARs during the fiscal year <sup>(1)</sup>	\$ 21.05	\$ 18.64
Weighted average share price of share option exercises during the period	34.97	26.89
Aggregate intrinsic value of share option and SAR exercises during the fiscal year (in thousands)	\$ 5,464	\$ 3,973

(1) Including weighted average Mergers date fair value of SARs assumed in the Mergers.

*Restricted Share and Restricted Share Units Awards*

The following tables detail the activity for service-based restricted share and restricted share unit awards, including activity from restricted share units assumed or issued as a result of the Mergers:

	<b>For the Transitional Period 25 April 2015 to 31 December 2015</b>		<b>Fiscal Year Ended 24 April 2015</b>	
	<b>Number of Shares</b>	<b>Wtd. Avg. Grant Date Fair Value</b>	<b>Number of Shares</b>	<b>Wtd. Avg. Grant Date Fair Value</b>
Non-vested shares at beginning of period	279,818	\$ 50.70	348,725	\$ 40.65
Granted	99,870	57.55	102,652	56.85
Conversion of shares	213,038	69.39	-	-
Vested	(378,322)	54.92	(158,257)	33.27
Forfeited	(10,831)	54.65	(13,302)	42.25
Non-vested shares at end of year	203,573	\$ 63.57	279,818	\$ 50.70

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>		<b>Fiscal Year Ended 24 April 2015</b>	
Weighted average grant date fair value of service-based share grants issued during the fiscal year	\$	57.55	\$	56.85
Aggregate fair value of service-based share grants that vested during the year (in thousands)	\$	24,384	\$	9,194

The following tables detail the activity for performance-based and market-based restricted share and restricted share unit awards:

	<b>For the Transitional Period 25 April 2015 to 31 December 2015</b>		<b>Fiscal Year Ended 24 April 2015</b>	
	<b>Number of Shares</b>	<b>Wtd. Avg. Grant Date Fair Value</b>	<b>Number of Shares</b>	<b>Wtd. Avg. Grant Date Fair Value</b>
Non-vested shares at beginning of period	155,288	\$ 31.76	333,641	\$ 25.54
Granted	—	—	15,837	57.39
Conversion of shares	150,285	69.39	—	—
Vested	(245,466)	55.93	(194,190)	22.65
Forfeited	(60,107)	33.82	—	—
Non-vested shares at end of year	—	\$ —	155,288	\$ 31.76

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>		<b>Fiscal Year Ended 24 April 2015</b>	
Weighted average grant date fair value of performance-based share grants issued during the fiscal year	\$	—	\$	57.39
Aggregate fair value of performance-based share grants that vested during the year (in thousands)	\$	9,648	\$	10,519

## **Note 22. Employee Retirement Plans**

We sponsor various retirement plans, including defined benefit pension plans (pension benefits), an employee retirement savings plan and a deferred compensation plan, covering U.S. employees and many employees outside the U.S. The expense related to these plans was \$3.5 million for the transitional period 25 April 2015 to 31 December 2015.

As at 31 December 2015 the net underfunded status of our benefit plans was \$31.0 million.

### *Defined Benefit Plan.*

Prior to the Mergers, we did not sponsor any defined benefit pension plans.

As a result of the Mergers, we assumed several defined benefit pension plans which include plans in the U.S., Italy, Germany, Japan and France. In the U.S., we maintain a frozen cash balance retirement plan that is a contributory, defined benefit plan designed to provide the benefit in terms of a stated account balance dependent on the employer's promised interest-crediting rate. In Italy and France we maintain a severance pay defined benefit plan that obligates the employer to pay severance pay in case of resignation, dismissal or retirement. In other jurisdictions we sponsor non-contributory, defined benefit plans designated to provide a guaranteed minimum retirement benefits to eligible employees.

### Risks Related to Defined-benefit Plans

The defined benefit plans expose the Company to various demographic and economic risks such as longevity risk, investment risks, currency and interest rate risk and in some cases inflation risk. The latter plans a role in the assumed wage increase and in some smaller plans where indexation is mandatory. Pension fund Trustees are responsible for and have full discretion over the investment strategy of the plan assets. In general Trustees manage pension fund risks by diversifying the investments of plan assets and by (partially) matching interest rate risk of liabilities.

The Company has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its defined benefit plans. The plans are governed by Trustees who have a legal obligation to evenly balance the interests of all stakeholders and operate under the local regulatory framework.

The change in benefit obligations and funded status of our U.S. and non-U.S. pension benefits as of and for the transitional period 25 April 2015 to 31 December 2015 are as follows:

<b>(in thousands)</b>	<b>U.S. Pension Benefits</b>	<b>Non-U.S. Pension Benefits</b>	<b>Total Pension Benefits</b>
<b>Accumulated benefit obligation at end of year:</b>			
<b>Change in projected benefit obligation:</b>			
Projected benefit obligation at beginning of year	\$ —	\$ —	\$ —
Service cost	—	155	155
Interest cost	86	117	203
Benefits obligations assumed in the Mergers	10,378	29,082	39,460
Employee contributions	—	—	—
Plan curtailments and settlements	(59)	—	(59)
Actuarial (gain) loss	(40)	193	153
Benefits paid	(147)	(232)	(379)
Foreign currency exchange rate changes and other	—	—	—
Projected benefit obligation at end of year	<u>\$ 10,218</u>	<u>\$ 29,315</u>	<u>\$ 39,533</u>
<b>Change in plan assets:</b>			
Fair value of plan assets at beginning of year	\$ —	\$ —	\$ —
Actual return on plan assets	(33)	6	(27)
Plan assets acquired in the Mergers	6,097	2,676	8,773
Employer contributions	—	83	83
Employee contributions	—	—	—
Plan settlements	(59)	—	(59)
Benefits paid	(147)	(5)	(152)
Foreign currency exchange rate changes	—	—	—
Fair value of plan assets at end of year	<u>\$ 5,858</u>	<u>\$ 2,760</u>	<u>\$ 8,618</u>
<b>Funded status at end of year:</b>			
Fair value of plan assets	\$ 5,858	\$ 2,760	\$ 8,618
Benefit obligations	10,218	29,315	39,533
Underfunded status of the plans	<u>\$ 4,360</u>	<u>\$ 26,555</u>	<u>\$ 30,915</u>
Recognised liability	<u>\$ 4,360</u>	<u>\$ 26,555</u>	<u>\$ 30,915</u>
<b>Amounts recognised on the consolidated balance sheets consist of:</b>			
Non-current assets	\$ —	\$ —	\$ —
Current liabilities	—	—	—
Non-current liabilities	4,360	26,555	30,915
Recognised liability	<u>\$ 4,360</u>	<u>\$ 26,555</u>	<u>\$ 30,915</u>

Major actuarial assumptions used in determining the benefit obligations and net periodic benefit (income) cost for our significant benefit plans are presented in the following table as weighted averages as at 31 December 2015.

	U.S. Pension Benefits	Non-U.S. Pension Benefits
<b>Actuarial assumptions used to determine benefit obligation</b>		
Discount rate	3.79%	0.48% - 2.00%
Rate of compensation increase	N/A	2.50% - 3.89%
<b>Actuarial assumptions used to determine net periodic benefit cost</b>		
Discount rate	3.64%	—
Expected return on plan assets	5.00%	0.48% - 2.00%
Rate of compensation increase	N/A	0.48% - 2.00%

To determine the discount rate for our U.S. benefit plan, we used the Citigroup Above-median yield curve. For the discount rate used to determine the other non-U.S. benefit plans we consider local market expectations of long-term returns. The resulting discount rates are consistent with the duration of plan liabilities.

The expected long-term rate of return on plan assets assumptions are determined using a building block approach, considering historical averages and real returns of each asset class. In certain countries, where historical returns are not meaningful, consideration is given to local market expectations of long-term returns.

#### Retirement Benefit Plan Investment Strategy

In the U.S., we have an account that holds the defined benefit frozen balance pension plan assets. The Qualified Plan Committee (the “Plan Committee”) sets investment guidelines for U.S. pension plans with the assistance of an external consultant. The plan assets in the U.S. are invested in accordance with sound investment practices that emphasize long-term fundamentals. The investment objectives for the plan assets in the U.S. are to achieve a positive rate of return that would be expected to close the current funding deficit and so enable us to terminate the frozen pension plan at a reasonable cost. These guidelines are established based on market conditions, risk tolerance, funding requirements and expected benefit payments. The Plan Committee also oversees the investment allocation process, selects the investment managers, and monitors asset performance. The investment portfolio contains a diversified portfolio of fixed income and equity index funds. Securities are also diversified in terms of domestic and international securities, short- and long-term securities, growth and value styles, large cap and small cap stocks.

Outside the U.S., pension plan assets are typically managed by decentralized fiduciary committees. There is a significant variation in policy asset allocation from country to country. Local regulations, local funding rules, and local financial and tax considerations are part of the funding and investment allocation process in each country. Pension plan assets outside of the U.S. were \$2.8 million as of 31 December 2015 and were not material.

Our pension plan target allocations as of 31 December 2015, by asset category, are as follows:

	<b>U.S. Pension Benefits</b>
Equity Securities	30%
Debt Securities	69%
Other	1%
	100%

#### Retirement Benefit Fair Values

The following is a description of the valuation methodologies used for retirement benefit plan assets measured at fair value:

*Equity Mutual Funds:* Valued based on the year-end net asset values of the investment vehicles. The net asset values of the investment vehicles are based on the fair values of the underlying investments of the partnerships valued at the closing price reported in the active markets in which the individual security is traded. Equity mutual funds have a daily reported net asset value and we classify these investments as Level 2.

*Fixed Income Mutual Funds:* Valued based on the year-end net asset values of the investment vehicles. The net asset values of the investment vehicles are based on the fair values of the underlying investments of the partnerships valued based on inputs other than quoted prices that are observable.

*Money Markets:* Valued based on quoted prices in active markets for identical assets.

#### **U.S. Pension Benefits**

The following tables provide information by level for the retirement benefit plan assets that are measured at fair value, as defined by IFRS. Refer to “Note 2. *Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies*” for discussion of the fair value measurement terms of Levels 1, 2, and 3.

(in thousands)	Fair Value as at	Fair Value Measurement Using Inputs Considered as		
	31 December 2015	Level 1	Level 2	Level 3
Equity mutual funds	\$ 1,727	\$ —	\$ 1,727	\$ —
Fixed income mutual funds	4,058	—	4,058	—
Money market funds	73	73	—	—
	<u>\$ 5,858</u>	<u>\$ 73</u>	<u>\$ 5,785</u>	<u>\$ —</u>

#### Retirement Benefit Funding Plan

We have the policy to make the minimum required contribution to fund the U.S. pension plan as determined by MAP - 21 and the Highway and Transportation Funding Act of 2014 (“HAFTA”).

During the transitional period 25 April 2015 to 31 December 2015, we did not make a material contribution to the U.S. pension plan or to the non-U.S. pension plan. The weighted average duration of the defined benefit plans is 8.6 years and about 10 years for U.S. plans and Non-U.S. plans respectively. We anticipate that we will make contributions to the U.S. pension plan of approximately \$0.6 million during fiscal year 2016. Contributions to the non-U.S. pension plans in fiscal year 2016 are not expected to be material.

Benefit payments, including amounts to be paid from our assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

(in thousands)	U.S. Plans		Non-U.S. Plans	
2016	\$	481	\$	1,244
2017	\$	741	\$	816
2018	\$	908	\$	1,018
2019	\$	635	\$	804
2020	\$	1,050	\$	902
Thereafter	\$	6,404	\$	24,535

#### Sensitivity analysis

The sensitivity analysis below indicates the main impact of an increase or decrease in the discount rate used to measures 2015 defined benefits obligations.

	Increase +0.50%	Decrease -0.50%
Discount rate	(5.25)%	5.73%
Interest rate	(6.95)%	6.95%
	Increase +10%	Decrease -10%
Employee turnover rate	(0.18)%	(0.08)%

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected until credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the consolidated balance sheets.

*The Employee Retirement Savings Plan.* We sponsor the Cyberonics, Inc. Employee Retirement Savings Plan (the “Savings Plan”), which qualifies under Section 401(k) of the IRC. We match 50% of employees’ contributions up to 6% of eligible compensation, subject to a five-year vesting period that starts on the date of employment. We incurred expenses for these contributions of approximately \$1.5 million and \$1.8 million for the transitional period 25 April 2015 to 31 December 2015 and fiscal year ended 24 April 2015, respectively.

*The Deferred Compensation Plan.* We sponsor the Cyberonics, Inc. Non-Qualified Deferred Compensation Plan (the “Deferred Compensation Plan”) to a group consisting of certain members of middle and senior management. The Deferred Compensation Plan provides an opportunity for the group to defer up to 50% of their annual base salary and commissions and 100% of their bonus or performance-based compensation until the earlier of (i) termination of employment or (ii) an elected distribution date. In addition, effective 1 January 2014, we agreed to match 50% of the contributions of non-officer members of the group up to 6% of eligible compensation, subject to a five-year vesting period that starts on the date of employment. Employee deductions result in a liability; refer to “Note 11. Other Long-Term Liabilities.” We incurred expenses for this plan, based on the company match, of approximately \$62,000, \$76,000 and \$22,000 for the transitional period 25 April 2015 to 31 December 2015 and the fiscal year ended 24 April 2015, respectively.



*Severance Indemnity.* In Italy, upon termination of employment for any reason, employers are required to pay a termination indemnity (*Trattamento di fine Rapporto* or “TFR”) to all employees as required by Italian legislation. The TFR serves as a backup in the event of redundancy or as an additional pension benefit after retirement. The TFR is considered a defined contribution plan with respect to amounts vesting after January 1, 2007 for employees who have opted for a supplementary pensions system or who have chosen to maintain the TFR at the company, for companies with more than 50 employees. A similar termination indemnity is required in France. In France the Indemnités de Fin de Carrière consists in a termination indemnity which must be paid by the employer to an employee in case of retirement, based on a number of monthly gross salary depending by seniority, type of contract and employee level. We have incurred expenses related to the Italian TFR and France severance indemnity of approximately \$1.5 million and \$0.1 million, respectively, for the transitional period 25 April 2015 to 31 December 2015.

### **Note 23. Income Taxes**

Income tax expense (benefit) consists of the following (in thousands):

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Current tax	\$ 28,481	\$ 21,744
Deferred tax	(35,021)	10,641
	<u>\$ (6,540)</u>	<u>\$ 32,385</u>

The following is a reconciliation of the statutory income tax rate to our effective income tax rate expressed as a percentage of income before income taxes:

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Statutory tax rate at U.S. Rate	—%	35.0%
Statutory tax rate at U.K. Rate	20.0	—
Change in tax Rate <sup>(1)</sup>	(8.2)	—
Change in unrecognized deferred tax assets	(5.4)	—
Reduced tax benefit due to non-deductible transaction costs <sup>(2)</sup>	(13.2)	—
State and local tax provision, net of federal benefit <sup>(3)</sup>	—	2.7
Foreign tax rate differential	27.1	1.5
Notional interest deduction	7.6	—
U.S. Subpart F	(4.8)	—
Research and development tax credits	3.8	(2.1)
Equity compensation	(14.0)	1.0
Reserve for uncertain tax positions	—	(1.5)
Domestic manufacturing deduction	1.9	(2.9)
Other, net	1.1	2.5
Effective tax rate	<u>15.9%</u>	<u>36.2%</u>

- (1) The Italian budget law for 2016 was published in the Official Gazette on 30 December 2015. For Fiscal Year 2017 onward, the law provides a reduction of the applicable corporate income tax rate from 27.5% to 24% resulting in an adjustment to deferred taxes and a corresponding increase to tax expense of approximately \$3.4 million.
- (2) Included in this adjustment is the reversal of the deferred tax asset established during the fiscal year ended 24 April 2015 and the quarter ended 24 July 2015, based on the assumption that these otherwise non-deductible transaction costs would be deductible if the business combination was not consummated. Because the transaction was ultimately consummated, the deferred tax asset was reversed as a non-deductible transaction cost in the amount of \$2.3 million.
- (3) State and local tax provision is included in other lines for the transitional period ended 31 December 2015.

The change in net deferred taxes recognized in the balance sheet can be analyzed as follows (in thousands):

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
At the beginning of the period	\$ 20,662	\$ 34,184
Deferred taxes recognized in equity	9,685	(2,881)
Deferred tax income (expense) for the period, net	35,021	(10,641)
Effect of business combination <sup>(a)</sup>	(134,981)	—
At the end of the period	\$ (69,613)	\$ 20,662

(a) The increase in assets and liabilities recognized in an acquisition can be attributed for the most part to the Mergers (see "Note 7. Business Combinations" for more details).

Deferred income tax assets and liabilities on a gross basis are summarized as follows (in thousands):

	<b>31 December 2015</b>	<b>24 April 2015</b>	<b>26 April 2014</b>
<b>Deferred tax assets:</b>			
Net operating loss carryforwards	\$ 81,058	\$ 1,906	\$ 3,534
Tax credit carryforwards	17,143	1,720	11,128
Deferred compensation	6,583	7,812	7,886
Accruals and reserves	21,635	8,837	12,029
Depreciation and amortisation	16,796	—	—
Inventory	19,001	384	94
Other	5,626	919	1,146
Deferred tax assets	167,842	21,578	35,817
<b>Deferred tax liabilities:</b>			
Basis differences in subsidiaries	(13,555)	—	—
Property and equipment and intangible assets	(223,715)	(916)	(1,633)
Other	(185)	—	—
Deferred tax liabilities:	(237,455)	(916)	(1,633)
<b>Total deferred tax assets (liabilities), net</b>	<b>\$ (69,613)</b>	<b>\$ 20,662</b>	<b>\$ 34,184</b>
<b>Reported in the consolidated balance sheet:</b>			
Deferred tax assets, net	\$ 165,729	\$ 20,662	\$ 34,184
Deferred tax liability, net	(235,342)	—	—
Net deferred tax asset (liability)	\$ (69,613)	\$ 20,662	\$ 34,184

During the transitional period 25 April 2015 to 31 December 2015 we have recorded \$14.0 million of foreign tax credits in the United States. We have \$0.6 million in Canadian research and development credits, \$2.1 million of U.S. State tax credits and \$1.2 million of other U.S. credits. Lastly, we have 3.9 million Euros of French refundable research and development credits recognised as a deferred tax benefits in our balance sheet. We have net operating losses (“NOL”) and carryforwards of the following amounts:

<b>Region</b>	<b>Gross Amount</b>	<b>Gross Amount with No Expiration</b>	<b>With Expiration</b>	<b>Starting Expiration Year</b>
Europe	\$ 200,751	\$ 186,122	\$ 14,630	2016
U.S. Federal	164,226	—	164,226	2020
U.S. State	141,083	—	141,083	2016
Far East	6,899	4,795	2,104	2017

As a result of the business combination, the historic net operating losses of Sorin U.S. are limited by IRC section 382. Before considering the adjustments for net unrealised and realised built in-gains, the annual limitation is approximately \$12.5 million, which is sufficient to absorb the U.S. net operating losses prior to their expiration.

A significant portion of the net deferred tax liability included above relates to the tax effect of the step-up in value of the assets acquired in the combination with Sorin. Refer to “Note 7. *Business Combinations*” for additional information.

Deferred tax assets have not been recognized with respect of the following items in gross amounts (in thousands):

	<b>31 December 2015</b>	<b>24 April 2015</b>	<b>26 April 2014</b>
Tax loss carryforwards	\$ 150,949	\$ 5,653	\$ 7,077
Other	8,598	3,444	1,169
	<u>\$ 159,547</u>	<u>\$ 9,097</u>	<u>\$ 8,246</u>

Included in the table above are primarily tax loss carryforwards for which a tax benefit was not recorded due to the inability to utilize such losses. In addition, the items included in the other category relate to certain tax credits and capital losses that a tax benefit was not recorded.

As of the transaction close date, there were several investments in subsidiaries where the book basis was greater than the tax basis, whereby a deferred tax liability was recognised as part of the purchase accounting. The deferred tax liability recognised as part of the purchase accounting related to these subsidiaries was approximately \$17 million. No further provision has been made for income taxes on undistributed earnings of foreign subsidiaries as of 31 December 2015 because it is our intention to indefinitely reinvest undistributed earnings of our foreign subsidiaries. In the event of the distribution of those earnings in the form of dividends, a sale of the subsidiaries, or certain other transactions, we may be liable for income taxes. There should be no material tax liability on future distributions as most jurisdictions with undistributed earnings have various participation exemptions / no withholding tax. As at 31 December 2015, it was not practicable to determine the amount of the income tax liability related to those investments.

Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of our tax positions in order to determine the appropriateness of our reserves for uncertain tax positions. However, there can be no assurance that we will accurately predict the outcome of these audits and the actual outcome of an audit could have a material impact on our consolidated results of income, financial position or cash flows. If all of our unrecognised tax benefits as 31 December 2015 were recognised, \$20.2 million would impact our effective tax rate. The liability for uncertain tax positions reserve in the balance sheet is \$13.0 million, however the remaining amount up to the \$20.2 million is included as an offset to the deferred tax asset account. We are unable to estimate the amount of change in the majority of our unrecognised tax benefits over the next 12 months; however, approximately \$0.9 million will be resolved over the next 12 months due to the expected completion of an audit. Refer to “Note 16. *Commitments and Contingencies*” for additional information regarding the status of current tax litigation.

During fiscal year ended 24 April 2015, based upon our review and rework of certain prior-year R&D tax credits, we believe that the credits are more likely than not to be sustained upon examination and as a result we released the reserve against these R&D tax credits.

We record accrued interest and penalties related to unrecognised tax benefits in interest expense and operating expense, respectively.

The major jurisdictions where we are subject to income tax examinations are as follows:

<b>Jurisdiction</b>	<b>Earliest year open</b>
U.S. - federal and state	1992
Italy	2010
Germany	2010
England and Wales	2012
Canada	2011
France	2010

## **Note 24. Commitments and Contingencies**

### *Litigation and Regulatory Proceedings*

*FDA Warning Letter.* On 31 December 2015, LivaNova received a Warning Letter dated 29 December 2015 from the FDA alleging certain violations of FDA regulations applicable to medical device manufacturers at the Company’s Munich, Germany and Arvada, Colorado facilities.

The FDA inspected the Company’s Munich facility from 24 August 2015 to 27 August 2015 and its Arvada facility from 24 August 2015 to 1 September 2015. On 27 August 2015, the FDA issued a Form 483 identifying two observed non-conformities with certain regulatory requirements at the Munich facility. The Company did not receive a Form 483 in connection with the FDA’s inspection of the Arvada facility. Following the receipt of the Form 483, the Company provided written responses to the FDA describing corrective and preventive actions that were underway or to be taken to address the FDA’s observations at the Munich facility. The Warning Letter responded in part to LivaNova’s responses and identified other alleged violations not previously included in the Form 483.

The Warning Letter further stated that the Company's 3T Heater Cooler devices and other devices manufactured by the Company's Munich facility are subject to refusal of admission into the United States until resolution of the issues set forth by the FDA in the Warning Letter. The FDA has informed the Company that the import alert is limited to the 3T Heater Cooler devices, but that the agency reserves the right to expand the scope of the import alert if future circumstances warrant such action. The Warning Letter did not request that existing users cease using the 3T Heater Cooler device, and manufacturing and shipment of all of the Company's products other than the 3T Heater Cooler remain unaffected by the import limitation. To help clarify these issues for current customers, the Company issued an informational Customer Letter in January 2016, and that same month agreed with the FDA on a process for shipping 3T Heater Cooler devices to existing U.S. users pursuant to a certificate of medical necessity program.

Lastly, the Warning Letter states that premarket approval applications for Class III devices to which certain Quality System regulation deviations identified in the Warning Letter are reasonably related will not be approved until the violations have been corrected. However, the Warning Letter only specifically names the Munich and Arvada facilities in this restriction, which do not manufacture or design devices subject to premarket approval.

The Company is continuing to work diligently to remediate the FDA's inspectional observations for the Munich facility as well as the additional issues identified in the Warning Letter. The Company takes these matters seriously and intends to respond timely and fully to the FDA's requests.

The Warning Letter had no impact on the Company's financial statements during 2015. The Company currently believes that less than 1% of 2016 consolidated sales could be impacted by this Warning Letter and that the FDA's concerns can be resolved without a material impact on the Company's financial results.

*Baker, Miller et al v. LivaNova PLC.* On 12 February 2016, LivaNova was alerted that a class action complaint had been filed in the U.S. District Court for the Middle District of Pennsylvania with respect to the Company's 3T Heater Cooler devices, naming as evidence, in part, the Warning Letter issued by the FDA in December 2015. The named plaintiffs to the complaint are two individuals who underwent open heart surgeries at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center in 2015, and the complaint alleges that: (i) patients were exposed to a harmful form of bacteria, known as nontuberculous mycobacterium ("NTM"), from LivaNova's 3T Heater Cooler devices; and (ii) LivaNova knew or should have known that design or manufacturing defects in 3T Heater Cooler devices can lead to NTM bacterial colonization, regardless of the cleaning and disinfection procedures used (and recommended by the Company). Named plaintiffs seek to certify a class of plaintiffs consisting of all Pennsylvania residents who underwent open heart surgery at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center between 2011 and 2015 and who are currently asymptomatic for NTM infection (approximately 3,600 patients).

The putative class action, which has not been certified, seeks: (i) declaratory relief finding the 3T Heater Cooler devices are defective and unsafe for intended uses; (ii) medical monitoring; (iii) general damages; and (iv) attorneys' fees. On 21 March 2016 the plaintiffs filed a First Amended Complaint adding Sorin Group Deutschland GmbH and Sorin Group USA, Inc. as defendants.

At LivaNova, patient safety is of the utmost importance, and significant resources are dedicated to the delivery of safe, high-quality products. The Company intends to vigorously defend against these claims. Given the early stage of this matter, we cannot, however, give any assurances that additional legal proceedings making the same or similar allegations will not be filed against LivaNova PLC or one of its subsidiaries, nor that the resolution of the complaint and any related litigation in connection therewith will not have a material adverse effect on the Company's business, results of operations, financial condition and/or liquidity.

*SNIA Litigation.* Sorin S.p.A. was created as a result of a spin-off (the "Sorin spin-off") from SNIA S.p.A. ("SNIA"). The Sorin spin-off, which spun off SNIA's medical technology division, became effective on 2 January 2004. Pursuant to the Italian Civil Code, in a spin-off transaction, the parent and the spun-off company can be held jointly liable for certain indebtedness or liabilities of the pre-spin-off company in two scenarios:

- The parent and the spun-off company can be held jointly liable, up to the actual value of the shareholders' equity conveyed or received, for "debt" (*debiti*) of the pre-spin-off company that existed at the time of the spin-off. This joint liability is secondary in nature and, consequently, arises only when such indebtedness is not satisfied by the company owing such indebtedness. We estimate that at the time of the spin-off, the value of the residual shareholders' equity received was approximately €573 million.
- The parent and the spun-off company can be held jointly liable, up to the actual value of the shareholders' equity conveyed or received, for "liabilities" (*elementi del passivo*) whose allocation between the parties to the spin-off cannot be determined based on the spin-off plan.

For purposes of the Italian Civil Code, Sorin believes and has argued that the term "debt" (*debiti*) is generally understood to refer to indebtedness as reflected on a debtor's balance sheet for accounting purposes in accordance with the European Union directive pursuant to which these provisions of the Italian Civil Code were enacted, which translates "*debiti*" as "obligations." The European Union directive uses "obligations" to refer to indebtedness owed to creditors and the term "liabilities" to refer to general liabilities. In connection with the Sorin spin-off, the assets and liabilities of SNIA's medical technology division were allocated to Sorin, and the remaining assets and liabilities of SNIA, including those related to the Caffaro chemical operations (as described below), were allocated to SNIA.

Between 1906 and 2010, SNIA's subsidiaries Caffaro Chimica S.r.l. and Caffaro S.r.l. and their predecessors (the "SNIA Subsidiaries"), conducted certain chemical operations (the Caffaro Chemical Operations"), at sites in Torviscosa, Brescia and Colleferro, Italy (the "Caffaro Chemical Sites"). These activities allegedly resulted in substantial and widely dispersed contamination of soil, water and ground water caused by a variety of hazardous substances released at the Caffaro Chemical Sites. In 2009 and 2010, SNIA and the SNIA Subsidiaries filed for insolvency. In connection with SNIA's Italian insolvency proceedings, the Italian Ministry of the Environment and the Protection of Land and Sea (the "Italian Ministry of the Environment"), sought compensation from SNIA in an aggregate amount of €3.4 billion for remediation costs relating to the environmental damage at the Caffaro Chemical Sites allegedly caused by the Caffaro Chemical Operations. The amount, which was based on certain clean-up activities and precautionary measures set forth in three technical reports prepared by ISPRA, the technical agency of the Ministry of Environment. Similar activities and precautionary measures have also been requested to the SNIA Subsidiaries by the Ministry of Environment and other competent authorities in the context of the administrative proceeding for the remediation of the Caffaro Chemical Sites. However, these administrative acts have been invalidated in part by courts in Friuli Venezia Giulia (for the site of Torviscosa) and Brescia, which deemed them based on fact-finding. The administrative proceeding regarding the Torviscosa site is also currently subject to a criminal investigation by the Public Prosecutor of Udine. In addition, partial final remediation plans have been approved and implemented for the Colleferro site. These plans provide remediation activities significantly different, and entailing much lower expenses, from those included in the ISPRA's technical reports which ground the request for compensation of the abovementioned amount. Notwithstanding the above, that amount, remains in dispute, and no final remediation plan has been approved for the other site.

In September 2011, the Bankruptcy Court of Udine, and in July 2014, the Bankruptcy Court of Milan each held that the Italian Ministry of the Environment and other Italian government agencies were not creditors of SNIA and the SNIA Subsidiaries in connection with the agencies' claims against them in the context of their Italian insolvency proceedings. LivaNova (as the successor to Sorin in the litigation) believes these findings are influential but not binding in other Italian courts, including civil courts. The Italian Ministry of the Environment and the other Italian government agencies have appealed both decisions, but in January 2016, the Court of Udine rejected the appeal (with a decision which has been challenged before the Italian Supreme Court), while the appeal before the Court of Milan is currently pending. LivaNova (as the successor to Sorin in the litigation) believes these findings are influential but not binding in other Italian courts, including civil courts.

In January 2012, SNIA filed a civil action against Sorin in the Civil Court of Milan on the basis of the Italian Civil Code's provisions for potential joint liability of a parent and a spun-off company in the context of a spin-off, as described above, seeking to determine Sorin's joint liability with SNIA for damages allegedly related to the Caffaro chemical operations (as described below). SNIA's civil action against Sorin also named the Italian Ministry of the Environment and other Italian government agencies, as defendants, in order to have them bound to a potential ruling. The Italian Ministry of the Environment, together with the Italian Ministry of Economy and Finance and certain additional Italian government agencies that also sought compensation from SNIA for the alleged environmental damages, subsequently counterclaimed against Sorin, seeking to have Sorin found jointly liable to them with SNIA, on the same basis. SNIA and these government agencies asked the court to find inapplicable to the Sorin spin-off the Italian Civil Code's caps on potential joint liability of parties to a spin-off, which limit such joint liability to the actual value of the shareholders' equity received, on the basis that the Sorin spin-off was planned prior to the date such caps were enacted under the Italian Civil Code, and despite



the fact that the Sorin spin-off became effective after such date. Sorin sought to contest SNIA's claims against Sorin, in their entirety, due to:

- the Italian bankruptcy courts' previous findings that the Italian Ministry of the Environment and other Italian government agencies were not creditors of SNIA and the SNIA subsidiaries in connection with the agencies' claims against them;
- Sorin's belief that the alleged liabilities related to the Caffaro chemical operations did not constitute indebtedness of SNIA at the time of the Sorin spin-off, and thus that Sorin should not be held liable under the Italian Civil Code's provisions relating to joint liability for indebtedness in the context of spin-offs, as described above; and
- the allocation to SNIA of the assets and liabilities related to the Caffaro chemical operations in connection with the Sorin spin-off, and Sorin's belief that Sorin should therefore not be liable under the Italian Civil Code's provisions relating to joint liability in the context of spin-offs for liabilities of indeterminate allocation, as described above.

A hearing to submit final claims (*precisazione delle conclusioni*) in connection with SNIA's civil action was held in September 2015 and parties have since filed final defense briefs. A favourable decision pertaining to the case was delivered in judgement No. 4101/2016 of 1 April 2016 (the "Decision"). In its Decision the Court of Milan dismissed the legal actions of SNIA s.p.a. in Amministrazione Straordinaria (SNIA) and of the Italian Public Administration (the Public Administration) against Sorin (now LivaNova PLC), further requiring the Public Administration to pay Sorin Euro 300,000, as legal fees (of which Euro 50,000 jointly with SNIA). Neither of the losing parties has yet filed an appeal in this case.

LivaNova (as successor to Sorin in the litigation) continues to believe that the risk of material loss relating to the SNIA litigation is not probable as a result of the reasons and recent court decisions described above. We also believe that the amount of potential losses relating to the SNIA litigation is in any event not estimable given that the underlying damages and related remediation costs (and which party would be responsible for what portion or time period related to which) remain in dispute and that no final decision on a remediation plan has been approved. As a result, LivaNova has not made any accrual in connection with the SNIA litigation.

Pursuant to European Union, United Kingdom and Italian cross-border merger regulations applicable to the Mergers, legacy Sorin's liabilities, including any potential liabilities arising from the claims against Sorin relating to the SNIA litigation, are assumed by LivaNova as successor to Sorin. Although LivaNova believes the claims against Sorin in connection with the SNIA litigation are without merit and continues to contest them vigorously, there can be no assurance as to the outcome. A finding, during any appeal or novel proceedings, that Sorin or LivaNova is liable for the environmental damage at the Caffaro chemical sites could have a material adverse effect on the financial position, results of operations and/or cash flows of LivaNova.

*Environmental Remediation Order.* On 28 July 2015, Sorin and other direct and indirect shareholders of SNIA received an administrative order from the Italian Ministry of the Environment (the “Environmental Remediation Order”), directing them to promptly commence environmental remediation efforts at the Caffaro chemical sites (as described above). LivaNova believes that the Environmental Remediation Order is without merit. LivaNova (as successor to Sorin) believes that it should not be liable for damages relating to the Caffaro chemical operations pursuant to the Italian statute on which the Environmental Remediation Order relies because the statute does not apply to activities occurring prior to 2006, the date on which the statute was enacted, and Sorin was spun off from SNIA in 2004. Additionally, LivaNova believes that Sorin should not be subject to the Environmental Remediation Order because Italian environmental regulations only permit such an order to be imposed on an “operator” of a remediation site, and Sorin had never been identified in any legal proceeding as an operator at any of the Caffaro chemical sites, has not conducted activities of any kind at any of the Caffaro chemical sites and had not caused any environmental damage at any of the Caffaro chemical sites.

Accordingly, LivaNova (as successor to Sorin) alongside other parties, challenged the Environmental Remediation Order before the Administrative Court of Lazio in Rome (TAR). A hearing was held on February 3, 2016.

On March 21, 2016 the TAR issued several judgements, annulling the Environmental remediation Order, one for each of the addressees of the Environmental Remediation Order, including LivaNova. Those judgements were based on the fact that (i) the Order lacks any detailed analysis of the causal link between the alleged damage and the activities of the Company, which is a pre-condition to imposition of the measures proposed in the Order, (ii) the situation of the Caffaro site does not require urgent safety measures, because no new pollution events have occurred and no additional information/evidence of a situation of contamination exists and (iii) the Order was not enacted using the correct legal basis, and in any event the Ministry failed to verify the legal elements that could have led to a conclusion of legal responsibility of the addressees of the Order.

The TAR decision described above may be appealed by the Ministry before the Council of State (within 60 days from the notification of the TAR’s judgement, or six months if the judgement has not been notified.)

*Andrew Hagerty v. Cyberonics, Inc.* On 5 December 2013, the United States District Court for the District of Massachusetts unsealed a qui tam action filed by former employee Andrew Hagerty against Cyberonics under the False Claims Act (the “False Claims Act”) and the false claims statutes of 28 different states and the District of Columbia (*United States of America et al ex rel. Andrew Hagerty v. Cyberonics, Inc.* Civil Action No. 1:13-cv-10214-FDS). The False Claims Act prohibits the submission of a false claim or the making of a false record or statement to secure reimbursement from, or limit reimbursement to, a government-sponsored program. A “qui tam” action is a lawsuit brought by a private individual, known as a relator, purporting to act on behalf of the government. The action is filed under seal, and the government, after reviewing and investigating the allegations, may elect to participate, or intervene, in the lawsuit. Typically, following the government’s election, the qui tam action is unsealed.

Previously, in August 2012, Mr. Hagerty filed a related lawsuit in the same court and then voluntarily dismissed that lawsuit immediately prior to filing this qui tam action. In addition to his claims for wrongful and retaliatory discharge stated in the first lawsuit, the qui tam lawsuit alleges that Cyberonics violated the False Claims Act and various state false claims statutes while marketing its VNS Therapy System, and seeks an unspecified amount consisting of treble damages, civil penalties, and attorneys’ fees and expenses.

In October 2013, the United States Department of Justice declined to intervene in the qui tam action, but reserved the right to do so in the future. In December 2013, the district court unsealed the action. In April 2014, Cyberonics filed a motion to dismiss the qui tam complaint, alleging a number of deficiencies in the lawsuit. In May 2014, the relator filed a First Amended Complaint. Cyberonics filed another motion to dismiss in June 2014, and the parties completed their briefing on the motion in July 2014. On 6 April 2015, the district court dismissed all claims filed by Andrew Hagerty under the False Claims Act, but did not dismiss the claims for wrongful and retaliatory discharge. On 28 July 2015, Cyberonics filed its answer to the surviving claims in Mr. Hagerty's first Amended Complaint and asserted its demand for arbitration pursuant to Mr. Hagerty's employment documents.

In August 2015, Mr. Hagerty filed a Motion Seeking Leave to file a Second Amended Complaint responding to certain deficiencies noted by the court when dismissing claims in his First Amended Complaint alleging that Cyberonics submitted, or caused the submission of false claims under the False Claims Act. On 4 September 2015, Cyberonics filed our Brief in Opposition to Hagerty's Motion for Leave to file a Second Amended Complaint. Mr. Hagerty filed a Reply Brief in support of his Motion for Leave to file a Second Amended Complaint on 11 September 2015. On 16 September 2015, the Court heard oral arguments on (a) Mr. Hagerty's motion seeking to amend his complaint, and (b) Cyberonics' pending motion demanding arbitration on the claims relating to wrongful and retaliatory discharge. On 17 November 2015, the court (1) denied Mr. Hagerty's Motion for Leave to File a Second Amended Complaint (accordingly, the previously dismissed claims remain dismissed); (2) granted Cyberonics' Motion to Compel Arbitration of the two remaining claims (for retaliatory discharge under the False Claims Act and for wrongful termination/retaliation under Massachusetts law); and (3) stayed the pending case (in order to consolidate all issues for appeal pending resolution of the arbitration). On or about 22 February 2016, Mr. Hagerty dismissed, without prejudice, his individual claims that were ordered to arbitration. Subsequently, on or about 21 March 2016, Mr. Hagerty filed an appeal of the previously dismissed FCA claims with the U.S. First Circuit Court of Appeals. The appeal is pending.

We believe that our commercial practices were and are in compliance with applicable legal standards, and we will continue to defend this case vigorously. We make no assurance as to the resources that will be needed to respond to these matters or the final outcome, and we cannot estimate a range of potential loss or damages.

*Tax Litigation.* In a tax audit report notified on October 30, 2009, the Regional Internal Revenue Office of Lombardy (the "Internal Revenue Office") informed Sorin Group Italia S.r.l. that, among several issues, it was disallowing in part (for a total of €102.6 million) a tax-deductible write down of the investment in the U.S. company, Cobe Cardiovascular Inc., which Sorin Group Italia S.r.l. recognised in 2002 and deducted in five equal installments, beginning in 2002. In December 2009, the Internal Revenue Office issued notices of assessment for 2002, 2003 and 2004. The assessments for 2002 and 2003 were automatically voided for lack of merit. In December 2010 and October 2011, the Internal Revenue Office issued notices of assessment for 2005 and 2006 respectively. The Company challenged all three notices of assessment (for 2004, 2005 and 2006) before the relevant Provincial Tax Courts.

The preliminary challenges filed for 2004, 2005 and 2006 were heard and all denied at the first jurisdictional level, and subsequently, the Company filed an appeal against the decisions in the belief that all the decisions are incorrect in their reasoning and radically flawed. The appeal submitted against the first-level decision for 2005 was rejected. The second-level decision (relating to the 2005 notice of assessment) was appealed to the Italian Supreme Court (Corte di Cassazione), where LivaNova will argue that the assessment should be deemed null and void and illegitimate because of a false application of regulations. This litigation is still pending before the Italian Supreme Court.

In November 2012, the Internal Revenue Office served a notice of assessment for 2007 and, in July 2013, served a notice of assessment for 2008, wherein the Internal Revenue Office claimed an increase in taxable income due to a reduction (similar to the previous notices of assessment for 2004, 2005 and 2006) of the losses reported by Sorin Group Italia S.r.l. for the 2002, 2003 and 2004 tax periods and utilized in 2007 and 2008. Both notices of assessment were challenged within the statutory deadline. The Provincial Tax Court of Milan suspended the decision until the litigation regarding years 2004, 2005 and 2006 are defined.

The total amount of losses in dispute is €62.6 million. At the time of Cyberonics-Sorin merger, LivaNova carefully reassessed its exposure, on this complex tax litigation, taking into account the recent general adverse trend to taxpayers on litigations with Italian tax authorities. Although the Company's defensive arguments are strong, the negative Court trend experienced so far by Sorin (four consecutive negative judgements received to date) as well as the fact of the ultimate outcome being dependent on the last possible Court level, i.e. the Italian Supreme Court, which is entitled to resolve only on procedural and legal aspects of the case but not on its substance, led LivaNova to recognise a risk provision of \$18.3 million.

*Other Litigation.* Additionally, we are the subject of various pending or threatened legal actions and proceedings that arise in the ordinary course of our business. These matters are subject to many uncertainties and outcomes that are not predictable and that may not be known for extended periods of time. Since the outcome of these matters cannot be predicted with certainty, the costs associated with them could have a material adverse effect on our consolidated net income, financial position or cash flows.

#### *Lease Agreements*

We have operating leases for facilities and equipment. Rent expense from all operating leases amounted to approximately \$5.2 million and \$0.8 million for the transitional period 25 April 2015 to 31 December 2015 and fiscal year ended 24 April 2015, respectively.

Future minimum lease payments for operating leases as of 31 December 2015 are as follows (in thousands):

No later than 1 year	\$	17,798
Later than 1 year and no later than 5 years		53,568
Later than 5 years		29,300
Present value of minimum lease payments	\$	<u>100,666</u>

*Other commitments and contingencies.* Certain potential commitments of LivaNova related to the funding of equity method investments are such that LivaNova invests in minority shares of companies with assets still in development that often require milestone and/or royalty payments to a third party, contingent upon the occurrence of certain future events. Milestone payments may be required, and are contingent upon the successful achievement of an important point in the development life cycle of a product or upon certain pre-designated levels of achievement in clinical trials. A number of these arrangements give LivaNova the discretion to unilaterally make the decision to stop development of a product or cease progress of a clinical trial, which would allow LivaNova to avoid making the contingent payments. Although LivaNova is unlikely to cease development if a device successfully achieves clinical testing objectives, these are not considered contractual obligations because of the contingent nature of these payments and LivaNova's ability to avoid them if LivaNova decided to pursue a different path of development.

In the normal course of business, LivaNova periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of LivaNova's products or the negligence of LivaNova's personnel or claims alleging that its products infringe third-party patents or other intellectual property. LivaNova's maximum exposure under these indemnification provisions cannot be estimated, and LivaNova has not accrued any liabilities within LivaNova's consolidated financial statements, with the exceptions of those which will probably require the use of financial resources in an amount that can be estimated reliably.

## **Note 25. Earnings Per Share**

Basic earnings per share (EPS) is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the net profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table sets forth the computation of basic and diluted net earnings per share of common shares, (in thousands except per share data):

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
<b>Numerator:</b>		
Profit (loss) attributable to owners of the parent	\$ (29,116)	\$ 57,003
<b>Denominator:</b>		
Basic weighted average shares outstanding	32,741,357	26,391,064
Add effects of share options <sup>(1) (2)</sup>	—	234,657
Diluted weighted average shares outstanding	32,741,357	26,625,721
Basic earnings per share	\$ (0.89)	\$ 2.16
Diluted earnings per share	\$ (0.89)	\$ 2.14

- (1) Excluded from the computation of diluted EPS for the transitional period 25 April 2015 to 31 December 2015 were outstanding options to purchase 220,536 ordinary shares because to include them would be anti-dilutive due to the net loss during the period.

- (2) Excluded from the computation of diluted EPS for the year ended 24 April 2015 were outstanding options to purchase 56,547 common shares, because to include them would have been anti-dilutive due to the option exercise price exceeding the average market price of our common share during the period.

## Note 26. Geographic and Segment Information

We identify operating segments based on the way we manage, evaluate and internally report our business activities for purposes of allocating resources and assessing performance.

Upon completion of the Mergers, we reorganized our reporting structure and aligned our segments and the underlying divisions and businesses. The historical Cyberonics operations are included in the Neuromodulation segment and the historical Sorin businesses are included in the Cardiac Surgery and the Cardiac Rhythm Management segments. This change had no impact on our consolidated results for prior periods presented.

The Cardiac Surgery segment generates its revenue from the development, production and sale of cardiovascular surgery products. Cardiac Surgery products include oxygenators, heart-lung machines, autotransfusion, mechanical heart valves and tissue heart valves. The Cardiac Rhythm Management segment generates its revenue from the development, manufacturing and marketing of products for the diagnosis, treatment, and management of heart rhythm disorders and heart failure. Cardiac Rhythm Management products include high-voltage defibrillators CRT-D and low-voltage pacemakers. The Neuromodulation segment generates its revenue from the design, development and marketing of neuromodulation therapy for the treatment of drug-resistant epilepsy and treatment resistant depression. Neuromodulation product include the VNS Therapy System, which consists of an implantable pulse generator, a lead that connects the generator to the vagus nerve, surgical equipment to assist with the implant procedure, equipment to enable the treating physician to set the pulse generator stimulation parameters for the patient, instruction manuals and magnets to suspend or induce stimulation manually.

Corporate expenses include shared services for finance, legal, human resources and information technology, together with corporate business development (“New Ventures”). New Ventures is focused on new growth platforms and identification of other opportunities for expansion.

Revenue and income (loss) before merger, integration and restructuring expenses by reportable segment are as follows (in thousands):

<b>Revenue</b>	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Cardiac Surgery	\$ 147,635	\$ —
Cardiac Rhythm Management	52,470	—
Neuromodulation	214,761	291,558
Corporate	841	—
<b>Total Revenue</b>	<b>\$ 415,707</b>	<b>\$ 291,558</b>

<b>Income (loss) before merger, integration, restructuring expenses and impairment of AFS assets:</b>	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Cardiac Surgery	\$ 7,441	\$ —
Cardiac Rhythm Management	(13,293)	—
Neuromodulation	87,845	97,438
Corporate	(38,592)	—
<b>Total reportable segments' income (loss) before merger, integration, restructuring expenses and impairment of AFS assets:</b>	<b>43,401</b>	<b>97,438</b>
Merger-related expenses	(42,098)	(8,692)
Integration expenses	(13,689)	—
Restructuring expenses	(11,323)	—
<b>Operating Profit (Loss)</b>	<b>\$ (23,709)</b>	<b>\$ 88,746</b>

The following tables presents our assets by reportable segment (in thousands):

<b>Total Assets</b>	<b>31 December 2015</b>	<b>24 April 2015</b>	<b>26 April 2014</b>
Cardiac Surgery	\$ 1,459,978	\$ —	\$ —
Cardiac Rhythm Management	422,859	—	—
Neuromodulation	540,041	323,329	305,396
Corporate	112,301	—	—
<b>Total</b>	<b>\$ 2,535,179</b>	<b>\$ 323,329</b>	<b>\$ 305,396</b>

The following tables present the depreciation and amortization expense and capital expenditures by reportable segment (in thousands):

<b>Depreciation and amortization expense</b>	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Cardiac Surgery	\$ 11,247	\$ —
Cardiac Rhythm Management	4,292	—
Neuromodulation	4,103	6,807
Corporate	858	—
<b>Total</b>	<b>\$ 20,500</b>	<b>\$ 6,807</b>

<b>Capital expenditures</b>	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Cardiac Surgery	\$ 10,402	\$ —
Cardiac Rhythm Management	4,954	—
Neuromodulation	1,418	6,687
Corporate	512	—
<b>Total</b>	<b>\$ 17,286</b>	<b>\$ 6,687</b>



Revenue of our reportable segments include end-customer revenues from the sale of products they each develop and manufacture or distribute. The segment income represents operating income before merger, integration and restructuring expenses. This measurement is included in the reporting package for the CODM, and used by the CODM in evaluating performance and allocating resources.

The segment's assets included in management evaluations are those used by the segment in the performance of its ordinary activities, or those assets that may be reasonably allocated to the segment as a function of its ordinary activities. These include the following financial statement items: property, plant and equipment; intangible assets; goodwill; investments in associates measured at net equity; investments in other companies; and inventories.

### Geographic Information

We operate under three geographic regions: United States, Europe, and Rest of World. Accordingly, the geographic information for the prior years has been restated to present these regions.

Net sales to external customers by geography are determined based on the country the products are shipped from and are as follows (in thousands):

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
United States	\$ 232,261	\$ 235,712
Europe <sup>(1) (2)</sup>	105,322	41,484
Rest of World	78,124	14,362
Total	<u>\$ 415,707</u>	<u>\$ 291,558</u>

- (1) Net sales to external customers includes \$14.3 million in the United Kingdom for the transitional period ended 31 December 2015. Prior to the Mergers, we were domiciled in the United States.
- (2) Includes those countries in Europe where LivaNova has a direct sales presence. Countries where sales are made through distributors are included in Rest of World.

No single customer represented over 10 percent of our consolidated revenue in the transitional period 25 April 2015 to 31 December 2015 and the fiscal year ended 24 April 2015.

Property, plant, and equipment, net by geography are as follows (in thousands):

	<b>31 December 2015</b>	<b>24 April 2015</b>	<b>26 April 2014</b>
United States	\$ 54,935	\$ 26,577	\$ 27,397
Europe <sup>(1)</sup>	136,357	519	857
Rest of World	37,699	11,280	9,274
Total	<u>\$ 228,991</u>	<u>\$ 38,376</u>	<u>\$ 37,528</u>

- (1) Property, plant, and equipment, net includes \$2.4 million in the United Kingdom for the period ended 31 December 2015. Prior to the Mergers, we were domiciled in the United States.

## Note 27. Related Parties

Interests in subsidiaries are set out in “Note 11. *Investments in associates, joint ventures and subsidiaries*”. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

In the normal course of business the Company issues loans, purchases and sells goods and services from or to various related parties in which the Company typically holds a 50% or less equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

Prior to the Mergers the Company did not carry any transactions with related parties. The following receivable balances arose from sale and financing transactions with associates (in thousands):

<b>Balance Sheet</b>	<b>31 December 2015</b>
<b>Financial assets - non-current:</b>	
Caisson Interventional LLC	\$ 2,041
	<u>\$ 2,041</u>
<b>Trade receivables - current:</b>	
Microport Sorin	\$ 1,204
Cardiosolution Inc	10
	<u>\$ 1,214</u>
<b>Other financial assets - current:</b>	
Highlife SAS	\$ 1,632
	<u>\$ 1,632</u>

The following sales and financing transactions were entered into with associates during the transitional period (in thousands):

<b>Income Statement</b>	<b>Transitional Period 25 April 2015 to 31 December 2015</b>
<b>Revenue:</b>	
Microport Sorin	\$ 565
<b>Financial income:</b>	
Highlife SAS	\$ 3

Total compensation in respect of key management, who are defined as the Board of Directors and certain members of senior management, is considered to be a related party transaction.

The total compensation in respect of key management was as follows (in thousands):

	<b>Transitional Period 25 April 2015 to 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
Salaries and short term benefits	\$ 4,076	\$ 3,455
Post-employment benefits	112	40
Termination benefits	3,589	—
Share-based compensation	5,952	4,567
	<b>\$ 13,729</b>	<b>\$ 8,062</b>

There were no other material related party transactions in the period.

#### **Note 28. Consolidated Statements of Income (Loss) - Expenses by Nature**

<b>(in thousands)</b>	<b>Transitional Period 24 April 2015 31 December 2015</b>	<b>Fiscal Year Ended 24 April 2015</b>
<b>Revenue</b>	<b>\$ 415,707</b>	<b>\$ 291,558</b>
Other revenues and income	1,945	—
Change in inventories of work-in-process, semi-finished and finished goods	(39,450)	6,333
Increase in fixed assets for internal work	1,623	—
Cost of raw materials and other materials	(53,808)	(24,175)
Cost of services used	(56,821)	(51,608)
Personnel expense	(166,662)	(114,495)
Other operating costs	(92,729)	(11,609)
Amortisation, depreciation and write-downs	(22,864)	(7,258)
Additions to provisions	(5,588)	—
Interest expense	(1,509)	(21)
Interest income	392	184
Impairment of AFS assets	(5,062)	—
Foreign exchange	(7,522)	479
Share of profit (loss) from equity method investments	(3,308)	—
<b>Profit (loss) before tax</b>	<b>(35,656)</b>	<b>89,388</b>
Income tax expense (benefit)	(6,540)	32,385
<b>Profit (loss) attributable to owners of the parent</b>	<b>\$ (29,116)</b>	<b>\$ 57,003</b>

#### **Note 29. Employee and Key Management Compensation Costs**

*Employee costs*

(in thousands)	Transitional Period 25 April 2015 to 31 December 2015	Fiscal Year Ended 24 April 2015
Wages and salaries	\$ 126,841	\$ 68,926
Share-based payments <sup>(1)</sup>	19,264	11,762
Other employee costs	20,557	33,807
	<u>\$ 166,662</u>	<u>\$ 114,495</u>

<sup>(1)</sup> Represents share-based payments included in personnel expense. Refer to Note 21. *Share-Based Incentive Plans* for total share-based compensation expense.

Details of Directors' remuneration are included in pages 61 to 84 of the Directors' remuneration report, which forms part of these financial statements.

#### *Employee numbers*

The average monthly employee numbers on a full-time equivalent basis, excluding employees of associated and joint venture undertakings and including executive directors were 4,660, 661 and 652 for the period 19 October 2015 to 31 December 2015 (transitional period subsequent to the Mergers), for the period 25 April 2015 to 18 October 2015 (transitional period prior to the Mergers) and the fiscal year ended 24 April 2015, respectively.

### **Note 30. Exceptional Items**

The following exceptional items are included within operating profit (loss) (in thousands):

	Transitional Period 25 April 2015 to 31 December 2015	Fiscal Year Ended 24 April 2015
Merger related expenses	\$ 42,098	\$ 8,692
Integration expenses	13,689	—
Restructuring expenses	11,323	—
Impairment of AFS assets	5,062	—
<b>Total exceptional items</b>	<u>\$ 72,172</u>	<u>\$ 8,692</u>

*Merger Expenses.* Merger expenses consisted of expenses directly related to the Mergers, such as professional fees for legal services, accounting services, due diligence, a fairness opinion and the preparation of registration and regulatory filings in the United States and Europe, as well as investment banking fees. Refer to "Note 7. *Business Combinations*" for more details.

*Integration Expenses.* Integration expenses consisted primarily of consultation with regard to our systems integration, organization structure integration, finance, synergy and tax planning, the transition to U.S. GAAP for Sorin activity, our London Stock Exchange listing and certain re-branding efforts.

*Restructuring Expenses.* After the consummation of the Mergers between Cyberonics with Sorin in October 2015, we initiated several restructuring plans to combine our business operations. We identify costs incurred and liabilities assumed for the restructuring plans. The restructuring plans are intended to leverage economies of scale, eliminate duplicate corporate expenses, streamline distributions and logistics and office functions in order to reduce overall costs.

*Impairment of AFS assets.* During the transitional period 25 April 2015 to 31 December 2015 an impairment of \$5.1 million in equity investment in Cerbomed GmbH was recorded. Refer for details to "Note 5. Fair Value Measurements."

### Note 31. Auditors' Remuneration

(in thousands)	Transitional Period 25 April 2015 to 31 December 2015	Fiscal Year Ended 24 April 2015
<b>LivaNova auditors</b>		
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	\$ 2,172	\$ 1,034
<b>Fees payable to the Company's auditor and its associates for other services:</b>		
The audit of the Company's subsidiaries	1,613	—
<b>Total audit fees payable to the Company's auditor</b>	<b>\$ 3,785</b>	<b>\$ 1,034</b>
Taxation compliance services	\$ —	\$ 220
Taxation advisory services	66	—
Other non-audit services	410	215
<b>Total fees payable to the Company's auditor</b>	<b>\$ 4,261</b>	<b>\$ 1,469</b>

### Note 32. New Accounting Pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

*IFRS 9 Financial Instruments.* In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

*IFRS 15 Revenue from Contracts with Customers.* IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring

goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

*IFRS 16 Leases.* In January 2016, the IASB issued final accounting guidance on leases which provides a new model for lease accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortization of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, *IFRS 15 Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

The Company does not expect to adopt IFRS 9 or IFRS 15 before 1 January 2018 and has not yet determined its date of adoption for IFRS 16. The Company has not yet completed its evaluation of the effect of adoption of these standards. The EU has not yet adopted IFRS 9, IFRS 15 or IFRS 16 and consequently these standards are not yet available for early adoption to the Company.

There are no other standards and interpretations in issue but not yet adopted that the management anticipate will have a material effect on the reported income or net assets of the Company.

### **Note 33. Events after the Reporting Period**

#### *Restructuring Plan*

On March 10, 2016, the Company announced a reorganization plan for its Cardiac Rhythm Management Business Unit intended to strengthen its operational effectiveness and efficiency in response to changes in the global marketplace. The Company estimates that, net of new positions created, the reorganization plan will result in a reduction of around 140 in the workforce, primarily based at the Company's facility in Clamart, France. The plan also contemplates the closure of the Company's research and development facility in Meylan, France, and the consolidation of the Business Unit's research and development capabilities into the Clamart facility. In addition, the research and development team of the Company's New Ventures organization will be combined with those of the Cardiac Rhythm Management Business Unit. Although terms are not likely to be finalized until the second quarter of 2016, the Company believes that the reduction in force should be accomplished primarily through voluntary separation packages. The Company estimates that these actions will result in total pre-tax charges of approximately \$16 million to \$21 million in 2016, relating to non-recurring cash employee-related costs, including costs for severance and other employee-related assistance and other exit costs associated with the plan.

### *Capital Reduction*

Subsequent to the year end, the majority of the merger relief reserve as at 31 December 2015 was capitalised by way of a bonus share issue, which gave rise to an increase in the company's share premium account. Having previously obtained shareholder approval on 16 October 2015, and following the approval of the High Court of Justice, Chancery Division on 6 April 2016, the share premium of the Company in the amount of \$2,587 million was cancelled. The purpose of the cancellation of the share premium account was to create distributable reserves in the books of account of the Company to be used for any corporate purpose of the Company for which realised profits are required.



## Table of Contents

<b><u>COMPANY STATEMENT OF INCOME (LOSS)</u></b>	<b><u>191</u></b>
<b><u>COMPANY STATEMENT OF COMPREHENSIVE INCOME (LOSS)</u></b>	<b><u>192</u></b>
<b><u>COMPANY BALANCE SHEET</u></b>	<b><u>193</u></b>
<b><u>COMPANY STATEMENT OF CHANGES IN EQUITY</u></b>	<b><u>195</u></b>
<b><u>COMPANY STATEMENT OF CASH FLOWS</u></b>	<b><u>196</u></b>
<b><u>Note 1. Nature of Operations</u></b>	<b><u>197</u></b>
<b><u>Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies</u></b>	<b><u>198</u></b>
<b><u>Note 3. Financial Risk Management</u></b>	<b><u>208</u></b>
<b><u>Note 4. Fair Value Measurements</u></b>	<b><u>212</u></b>
<b><u>Note 5. Financial Instruments</u></b>	<b><u>214</u></b>
<b><u>Note 6. Plant Property and Equipment</u></b>	<b><u>215</u></b>
<b><u>Note 7. Intangibles Assets</u></b>	<b><u>216</u></b>
<b><u>Note 8. Investments in Subsidiaries</u></b>	<b><u>217</u></b>
<b><u>Note 9. Other Financial Assets</u></b>	<b><u>220</u></b>
<b><u>Note 10. Trade Receivables and Allowance for Bad Debt</u></b>	<b><u>220</u></b>
<b><u>Note 11. Derivative Financial Instruments</u></b>	<b><u>221</u></b>
<b><u>Note 12. Equity</u></b>	<b><u>223</u></b>
<b><u>Note 13. Financial Liabilities</u></b>	<b><u>224</u></b>
<b><u>Note 14. Other Payables</u></b>	<b><u>226</u></b>
<b><u>Note 15. Share-based Incentives Plans</u></b>	<b><u>226</u></b>
<b><u>Note 16. Employee Retirement Plans</u></b>	<b><u>231</u></b>
<b><u>Note 17. Income Taxes</u></b>	<b><u>233</u></b>
<b><u>Note 18. Commitments and Contingencies</u></b>	<b><u>234</u></b>
<b><u>Note 19. Related Parties</u></b>	<b><u>241</u></b>
<b><u>Note 20. Statement of Income (Loss) - Expenses by Nature</u></b>	<b><u>243</u></b>
<b><u>Note 21. Employee Compensation Costs</u></b>	<b><u>243</u></b>
<b><u>Note 22. Exceptional Items</u></b>	<b><u>244</u></b>
<b><u>Note 23. Auditors' Remuneration</u></b>	<b><u>244</u></b>
<b><u>Note 24. New Accounting Pronouncements</u></b>	<b><u>244</u></b>
<b><u>Note 25. Events After Reporting Period</u></b>	<b><u>245</u></b>

**LIVANOVA PLC**  
**COMPANY STATEMENT OF INCOME (LOSS)**  
(In thousands)

	<b>Notes</b>	<b>From Inception to 31 December 2015</b>
Revenue	20	\$ 1,764
Net operating expenses		(8,932)
Operating loss before exceptional items		(7,168)
Exceptional items	22	(4,106)
Operating loss		(11,274)
Interest income		199
Interest expense		(1,807)
Foreign exchange		(6,867)
Loss before tax		(19,749)
Income tax expense (benefit)		4,629
Loss for the period		\$ (24,378)

See accompanying notes to the Company financial statements

**LIVANOVA PLC**  
**COMPANY STATEMENT OF**  
**COMPREHENSIVE INCOME (LOSS)**  
(In thousands)

	Notes	From Inception to 31 December 2015
Loss for the period		\$ (24,378)
<i>Items of other comprehensive income (loss) that will subsequently be reclassified under profit:</i>		
Cash flow hedges for interest rate fluctuations	11	124
Tax impact		(41)
Foreign currency translation differences		(22,665)
<b>Total items of other comprehensive income (loss) that will subsequently be reclassified under profit</b>		(22,582)
<i>Items of other comprehensive income (loss) that will not subsequently be reclassified under profit:</i>		
Remeasurements of net liability (asset) for defined benefits	16	(8)
Tax impact		3
<b>Total items of other comprehensive income (loss) that will not subsequently be reclassified under profit</b>		(5)
<b>Total other comprehensive income (loss), net of taxes</b>		(22,587)
<b>Total comprehensive income (loss) for the period, net of taxes</b>		<b>\$ (46,965)</b>

See accompanying notes to the Company financial statements

**LIVANOVA PLC**  
**COMPANY BALANCE SHEET**  
(In thousands)

	<u>Notes</u>	<u>31 December 2015</u>
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Property, plant and equipment	6	\$ 434
Intangible Assets	7	1,086
Investments in subsidiaries	8	3,476,708
Deferred tax assets	17	5,088
Other Assets		4,288
<b>Total non-current Assets</b>		<b>\$ 3,487,604</b>
Trade receivables	10	3,847
Other receivables		14,495
Other financial assets	9	88,054
Tax assets		8,098
Cash and cash equivalents		10,102
<b>Total current assets</b>		<b>\$ 124,596</b>
<b>Total assets</b>		<b>\$ 3,612,200</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Equity</b>		
Share capital	12	\$ 75,444
Merger relief reserve	12	2,649,592
Share premium	12	1,673
Accumulated other comprehensive income (loss)	12	(22,587)
Retained earnings (deficit)	12	(22,614)
<b>Total equity</b>		<b>\$ 2,681,508</b>
<b>Non-current liabilities</b>		
Financial derivative liabilities	11	\$ 1,786
Financial liabilities	13	192,375
Provision for employee severance indemnities and other employee benefit	16	285
<b>Total non-current liabilities</b>		<b>194,446</b>
<b>Current liabilities</b>		
Trade payables		\$ 10,186
Other payables	14	9,471
Financial derivative liabilities	11	1,798
Other financial liabilities	13	709,961
Tax payable	17	4,830
<b>Total current liabilities</b>		<b>\$ 736,246</b>
<b>Total liabilities and equity</b>		<b>\$ 3,612,200</b>

See accompanying notes to the Company financial statements

The financial statements were approved by the Board of Directors and were signed on its behalf on 29 April 2016 by:

A handwritten signature in dark ink, consisting of a series of loops and a long horizontal stroke at the bottom.

André-Michel Ballester

Chief Executive Officer & Director

See accompanying notes to the Company financial statements

LIVANOVA PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

(In thousands)

		Ordinary Shares		Merger		Accumulated	Retained	Total
	Notes	Number of Shares	Share Capital	Relief Reserve	Share Premium	Other Comprehensive Income (Loss)	Earnings (Deficit)	Equity
<b>Opening balance at 20 February 2015</b>		—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of LivaNova (ex Sand HoldCo) ordinary shares	12	50	75	—	—	—	—	75
Cancellation of LivaNova (ex Sand HoldCo) ordinary shares	12	(50)	(75)	—	—	—	—	(75)
Issuance of LivaNova ordinary shares	12	48,719	75,218	2,649,592	—	—	—	2,724,810
Share-based compensation plans	16	149	226	—	1,673	—	1,764	3,663
Total transactions with owners, recognised directly in		48,868	75,444	2,649,592	1,673	—	1,764	2,728,473
Loss for the period		—	—	—	—	—	(24,378)	(24,378)
Other comprehensive loss	12	—	—	—	—	(22,587)	—	(22,587)
Total comprehensive income (loss) for the period		—	—	—	—	(22,587)	(24,378)	(46,965)
<b>Balance at 31 December 2015</b>		48,868	\$ 75,444	\$ 2,649,592	\$ 1,673	\$ (22,587)	\$ (22,614)	\$ 2,681,508

See accompanying notes to the Company financial statements

**LIVANOVA PLC**  
**COMPANY STATEMENT OF CASH FLOWS**

(In thousands)

	Notes	From Inception to 31 December 2015
<b>Cash Flows From Operating Activities:</b>		
Loss for the period	\$	(24,378)
<b>Non-cash items included in net income (loss):</b>		
Depreciation and amortization	6,7	132
Share-based compensation	16	1,764
Deferred income tax expense		13,908
Unrealised loss in foreign currency transactions		2,248
Other non-cash items		233
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net		(1,339)
Other current and non-current assets		(6,279)
Current and non-current liabilities		(13,053)
Net cash used in by operating activities		(26,764)
<b>Cash Flow From Investing Activities:</b>		
Purchase of property, plant and equipment		(92)
Purchase of intangible assets		(227)
Cash obtained in the Merger		2,917
Net cash provided by investing activities		2,598
<b>Cash Flows From Financing Activities:</b>		
Repayment of long-term debt obligations		(9,048)
Proceeds from exercise of options for shares		1,741
Short-term borrowings		41,701
Net cash used in financing activities		34,394
Effect of exchange rate changes on cash and cash equivalents		(126)
Net increase in cash and cash equivalents		10,102
Cash and cash equivalents at beginning of period		—
Cash and cash equivalents at end of period	\$	10,102
<b>Supplementary Disclosures of Cash Flow Information:</b>		
Cash paid for interest		384

See accompanying notes to the Company financial statements

## **Note 1. Nature of Operations**

*Company information.* LivaNova PLC (the “Company”, “LivaNova”, “we”, or “our”) is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 09451374). The Company is domiciled in the United Kingdom and its registered address is 5 Merchant Square, North Wharf Road, London, W2 1AY, United Kingdom.

The principal legislation under which LivaNova operates is the Companies Act 2006, and regulations made thereunder. The LivaNova Shares are admitted to listing on the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for standard listings. LivaNova complies with Listing Principles 1 and 2 as set out in Chapter 7 of the Listing Rules, as required by the Financial Conduct Authority.

*Background.* LivaNova was incorporated in England and Wales on 20 February 2015 (the “Inception date”) for the purpose of facilitating the business combination of Cyberonics, Inc., a Delaware corporation (“Cyberonics”) and Sorin S.p.A., a joint stock company organized under the laws of Italy (“Sorin”). As a result of the business combination, LivaNova became the holding company of the combined businesses of Cyberonics and Sorin. This business combination (the “Mergers”) became effective on 19 October 2015, at which time LivaNova’s ordinary shares were listed for trading on the NASDAQ Global Market (“NASDAQ”) and on the London Stock Exchange (the “LSE”) as a standard listing under the trading symbol “LIVN”.

As part of the Mergers Sorin undertook a cross-border legal entity merger with LivaNova (the “Sorin merger”) under which LivaNova was the surviving ultimate holding company. The Company elected to apply predecessor accounting to this common control business combination and as a result of the Sorin merger the assets and liabilities of Sorin were transferred to LivaNova and recorded in the Company’s books using the predecessor book values in the amount of \$903.0 million as at the date of the transfer. All shares of Sorin were cancelled and LivaNova issued 22,673 thousands shares to the Sorin shareholders. As a result of the Sorin merger a merger relief reserve was recorded in the amount of \$867.9 million.

Immediately following the Sorin merger, each issued and outstanding Cyberonics common shares was converted into LivaNova ordinary shares. As a result of the share conversion LivaNova issued 26,046 thousands shares to the Cyberonics shareholders in exchange for Cyberonics shares. The investment in Cyberonics was recorded at cost, being the fair value of consideration transferred which is calculated by reference to the fair value of Cyberonics’s closing share price of \$69.95 per share on 16 October 2015, the last business day prior to the date of the share exchange. As a result of the share exchange transaction the Company recognised a merger reserve in the amount of \$1,781.7 million equal to the difference between the fair value of the increase in the investment carrying value and the aggregate nominal value of the shares issued. Since the shares issued by LivaNova as part of the Cyberonics merger were issued with nominal value equal to fair value on that basis the shares were not issued at a premium, therefore, no share premium was recognised.

In respect of both of these share issues, the Company took merger relief in line with the Companies Act 2006 and recognised a merger relief reserve instead of share premium.



*Description of the business.* Headquartered in London, United Kingdom (“U.K.”), LivaNova, is a global medical device company focused on the development and delivery of important therapeutic solutions for the benefit of patients, healthcare professionals, and healthcare systems throughout the world. Working closely with medical professionals throughout the world in the field of Cardiac Surgery, Neuromodulation and Cardiac Rhythm Management, we design, develop, manufacture and sell innovative therapeutic solutions that are consistent with our mission to improve our patients’ quality of life, increase the skills and capabilities of healthcare professionals and minimize healthcare costs.

## **Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies**

*Basis of Preparation.* These separate financial statements of LivaNova have been prepared on a going concern basis, in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRIC).

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and share based payments awards that have been measured at fair value. The financial statements are presented in United States (U.S.) dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

*Fiscal Year-End.* The period presented is from the Inception date to 31 December 2015.

*Investments.* Investments in subsidiaries, associates and joint ventures are accounted for at cost less any provision for impairment.

*Foreign currencies.* The U.S. dollar (US\$) is the functional currency of the Company and presentation currency of LivaNova separate financial statements. Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income (loss), except when deferred in other comprehensive income (loss) as qualifying cash flow hedges.

Foreign currency differences arising from translation are recognised in the income statement, except for available-for-sale equity investments which are recognised in other comprehensive income (loss), unless regarding an impairment in which case foreign currency differences that have been recognised in other comprehensive income (loss) are reclassified to the income statement.

The British pound (GBP) exchange rate to the U.S. dollar used in preparing the Company financial statements was as follows:

	Weighted average rate GBP	Closing rate GBP
For the period from inception to 31 December 2015	0.650364	0.678578

All exchange differences are presented as part of "Foreign exchange" on the statement of income (loss).

*Financial Instruments*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(a) *Financial assets*

*Initial recognition and measurement.* Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, Available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date on which the Company commits to purchase or sell the asset.

*Impairment of financial assets.* The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The subsequent measurement and impairment of financial assets depends on their classification as described below:

*Financial assets at fair value through profit or loss.* Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. We use freestanding derivative forward contracts to offset exposure to the variability of the value associated with assets and liabilities denominated in a foreign currency. These derivatives are not designated as hedges, and therefore changes in the value of these forward contracts are recognised in income statement, thereby offsetting the current net income (loss) effect of the related change in value of foreign currency denominated assets and liabilities. The Company has not designated any financial assets as at fair value through profit or loss.

*Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The receivables balance consists of trade receivables from subsidiaries and third party customers. We maintain an allowance for doubtful accounts for potential credit losses based on our estimates of the ability of customers to make required payments, historical credit experience, existing economic conditions and expected future trends. We write off uncollectible accounts against the allowance when all reasonable collection efforts have been exhausted. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. The losses arising from impairment are recognised in the statement of income or loss in net operating expenses. Refer to “*Note 10. Trade Receivables and Allowance for Bad Debt*” for further information.

*Available-for-sale (AFS) financial investments.* AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have financial instruments classified as AFS.

*Derecognition.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of its continuing involvement in it. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(b) *Financial liabilities*

*Initial recognition and measurement.* Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings (bank debt), payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable

transaction costs. The Company's financial liabilities include trade and other payables, loans and bank debt including bank overdrafts, and derivative financial instruments.

The measurement of financial liabilities depends on their classification, as follows:

*Financial liabilities at fair value through profit or loss.* Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains or losses on liabilities held-for-trading are recognised in the statement of income or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liabilities as at fair value through profit or loss.

*Loans and borrowings (bank debt).* After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of income or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

*Financial guarantee contracts.* Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

*Derecognition.* A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of income or loss.

*Derivative financial instruments and hedge accounting.* We use currency exchange rate derivative contracts and interest rate derivative instruments, to manage the impact of currency exchange and interest rate changes on income statement and cash flows. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. We evaluate hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in income statement. Cash flows from derivative contracts are reported as operating activities in the statements of cash flows.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

In order to minimize income statement and cash flow volatility resulting from currency exchange rate changes, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities and of some revenue. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassified into income statement to offset exchange differences originated by the hedged item or to adjust the value of operating income (expense). We do not enter into currency exchange rate derivative contracts for speculative purposes.

We use interest rate derivative instruments designated as cash flow hedges to manage the exposure to interest rate movements and to reduce the risk of increase of borrowing costs by converting floating-rate debt into fixed-rate debt. Under these agreements, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to agreed-upon notional principal amounts. The interest rate swaps are structured to mirror the payment terms of the underlying loan. The fair value of the interest rate swaps is reported in the balance sheets financial assets or liabilities (current or non-current) depending upon the gain or loss position of the contract and the maturity of the future cash flows of the fair value of each contract. The effective portion of the gain or loss on these derivatives is reported as a component of accumulated other comprehensive income (loss). The non-effective portion is reported in interest expense in income statement.

*Cash and Cash Equivalents.* Cash and cash equivalents include all cash balances highly liquid investments with an original maturity of three months or less, consisting of demand deposit accounts and money market mutual funds, and are carried in the balance sheet at cost, which approximate their fair value.

*Borrowing costs.* General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

*Property, Plant and Equipment ("PP&E").* PP&E is carried at cost, less accumulated depreciation and any accumulated impairment losses. Maintenance and repairs, and minor replacements are charged to expense as incurred, while significant renewals and improvements are capitalised. We compute depreciation using the straight-line method over estimated useful lives. Where an item of PP&E comprises several parts with different useful lives, each part is recognised as a separate item and depreciated over its useful life. Useful life and residual value of PP&E are reviewed at each period-end. As necessary, the occurrence of changes to the useful life or residual value is recognised prospectively as a change in accounting estimates.

Leasehold improvements are depreciated over the shorter of the useful life of an asset or the lease term. Capital improvements to the building are added as building components and depreciated over the useful life of the improvement or the building, whichever is less.

The estimated useful lives for our depreciable PP&E as of 31 December 2015 are as follow:

	Lives in years
Building and building improvements	up to 10
Equipment, furniture, fixtures	up to 8

Where there are any internal or external indications that the value of an item of PP&E may be impaired, the recoverable amount of the group of cash generating units (CGUs) to which it belongs is calculated. If the recoverable amount is less than the carrying amount of the group of CGUs, a provision for impairment is recorded. PP&E is reviewed for impairment annually on 1<sup>st</sup> of October.

*Intangible Assets.* Intangible assets shown on the balance sheet are finite-lived assets that are carried at cost less accumulated amortisation. We amortise our intangible assets over their useful lives using the straight-line method. We evaluate our intangible assets each reporting period to determine whether events and circumstances indicate either a different useful life or impairment. If we change our estimate of the useful life of an asset, we amortize the carrying amount over the revised remaining useful life.

*Impairment of Intangible Assets.* The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's CGU's fair value less costs of disposal and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

*Revenue.* Revenue largely consists of intercompany re-charges, services and management fees. Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met.

*Defined Benefit Pension Plans and Other Post-Employment Benefits.* The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), defined contribution savings plans and termination indemnity plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the balance sheet with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date on which the Company recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under 'Net operating expenses' in the statement of income (loss):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Provision for severance indemnity (TFR) is mandatory for Italian companies and is considered:

- a defined benefit plan with respect to amounts vested up to 31 December 2006 and amounts vesting as from 1 January 2007 for employees who have chosen to maintain the TFR at the company, for companies with 50 or fewer employees;
- a defined contribution plan with respect to amounts vesting as from 1 January 2007 for employees who have opted for supplementary pensions or who have chosen to maintain the TFR at the company, for companies with more than 50 employees.

As a defined benefit plan, the TFR is measured using the unit credit projection method based on actuarial assumptions (financial assumptions: discount rate, benefit growth rate). The increase in the present value of the TFR is included in net operating expenses, with the exception of the revaluation of the net liability, which is recorded among items of other comprehensive income. The cost of TFR accrued up to 31 December 2006 no longer includes a component related to future salary increases. Payments of TFR, as a defined contribution plan, are also included in personnel expense, and until they are settled financially, they have a balancing entry in the statement of financial position in the form of current payables.

#### *Share-Based Compensation*

We grant share-based incentive awards to directors, officers, key employees and consultants during each fiscal year. We measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair market value of the award. The cost of equity-settled transactions is recognised in employee benefits expense, together with a corresponding increase in equity ("Retained earnings (deficit)") over the period in which the service and the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. We issue new shares upon share option exercise, share appreciation right ("SAR") exercise, the award of restricted share and at our election, on vesting of a restricted share unit. The social security contributions on employee share-based payment awards is accrued over the service period.

The following share-based incentive awards are offered by the Company:



- *Share Appreciation Rights.* A share appreciation right (“SAR”) confers upon an employee the contractual right to receive an amount of cash, share, or a combination of both that equals the appreciation in the Company’s common share from an award’s grant date to the exercise date. SARs may be exercised at the employee’s discretion during the exercise period and do not give the employee an ownership right in the underlying share. The SARs may be settled in LivaNova shares and/or cash, as determined by LivaNova and as set forth in the individual award agreements. SARs do not involve payment of an exercise price. We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of SARs. We determine the expected volatility on historical volatility.
- *Share Options.* Options granted under the Share Plans are service-based and typically vest annually over four years, or cliff-vest in one year, following their date of grant, as required under the applicable agreement establishing the award, and have maximum terms of 10 years. Share option grant prices are set equal to the closing price of our ordinary shares on the day of the grant. When the share options are exercised LivaNova issues new shares. There are no post-vesting restrictions on the shares issued. We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of share option awards. We determine expected volatility based on the historic volatility of our share price over a period equal to the expected term of the option.
- *Restricted Share and Restricted Share Units.* We grant restricted share and restricted share units at no purchase cost to the grantee, which typically vest over four years or cliff-vest in one or three years. Unvested restricted share entitles the grantees to dividends, if any, and voting rights for their respective shares. Sale or transfer of the share and share units are restricted until they are vested. We issue new shares for our restricted share and restricted share unit awards. We have the right to elect to pay the cash value of vested restricted share units in lieu of the issuance of new shares. Under our share-based compensation plans we repurchase a portion of these shares from our employees to permit our employees to meet their minimum statutory tax withholding requirements on vesting of their restricted share.
- *Service-Based Restricted Share and Restricted Share Units.* The fair market value of service-based restricted share and restricted share units are determined using the market closing price on the grant date, and compensation is expensed ratably over the vesting period. Calculation of compensation for restricted share awards requires estimation of employee turnover and forfeiture rates.
- *Market and Performance-Based Restricted Share and Performance-Based Restricted Share Units.* We may grant restricted share and restricted share units subject to market or performance conditions that vest based on the satisfaction of the conditions of the award. The fair market values of market condition-based awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilised must be estimated, including the derived service period, which is estimated based on our judgement of likely future performance and our share price volatility. The fair value of performance-based awards is determined using the market closing price on the grant date. Derived service periods and the periods charged with compensation expense for performance-based awards are estimated based on our judgement of likely future performance and may be adjusted in future periods depending on actual performance.



*Income Taxes.* The tax expense for the period comprises current and deferred tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes are recognised by the liability method for temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax base. They are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Adjustments to deferred taxes resulting from changes in tax rates are recognised in profit or loss. However, when the deferred tax relates to items recognised in equity, the adjustment is also recognised in equity. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. At each period-end, the Company reviews the recoverable value of deferred tax assets of tax entities holding significant loss carryforwards. This value is based on the strategy for recoverability of the tax loss carryforwards. Deferred taxes are charged or credited directly to equity when the tax relates to items that are recognised directly in equity, such as gains and losses on cash flow hedges and actuarial gains and losses on defined benefit plan obligations. Deferred tax assets and liabilities are set off when they are levied by the same taxation authority and the entity has a legally enforceable right of set off. Deferred taxes are recognised for all temporary differences associated with investments in subsidiaries and associates, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax balances are not discounted.

*Leases.* We account for leases that transfer substantially all benefits and risks incident to the ownership of property as an acquisition of an asset and the incurrence of an obligation, and we account for all other leases as operating leases. Certain of our leases provide for tenant improvement allowances that have been recorded as deferred rent and amortized, using the straight-line method, over the life of the lease as a reduction to rent expense. In addition, scheduled rent increases and rent holidays are recognised on a straight-line basis over the term of the lease.

*Equity.* Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

*Contingencies.* The Company is subject to product liability claims, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in Selling, general and administrative expenses in the Statement of Income (Loss). Contingent accruals are recorded when the Company determines that a loss is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgement regarding future events.

*Critical Estimates and Judgements.* The preparation of our financial statements in conformity with IFRS requires management to make estimates and judgements that affect the amounts reported in such financial statements and accompanying notes. These estimates and judgements are based on management's best knowledge of current events and actions we may undertake in the future. Actual results could differ materially from those estimates. Application of the following accounting policies requires certain judgements and estimates that have the potential for the most significant impact on our financial statements:

- *Commitments and Contingencies.* We record accruals for contingencies when it is probable that a liability has been incurred and the amount can be reliably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. Expected legal defense costs are accrued when the amount can be reliably estimated. Provisions relating to estimated future expenditure for liabilities do not usually reflect any insurance or other claims or recoveries, since these are only recognized as assets when the amount is reasonably estimable and collection is virtually certain.
- *Retirement and Other Post-Employment Benefit Plans.* We sponsor pension and other post-employment benefit plans in various forms that cover a significant portion of our current and former associates. For post-employment plans with defined benefit obligations, we are required to make significant assumptions and estimates about future events in calculating the expense and the present value of the liability related to these plans. These include assumptions about the interest rates we apply to estimate future defined benefit obligations and net periodic pension expense as well as rates of future pension increases. In addition, our actuaries provide management with historical statistical information such as withdrawal and mortality rates in connection with these estimates. Assumptions and estimates used by the Company may differ materially from the actual results we experience due to changing market and economic conditions, higher or lower withdrawal rates, and longer or shorter life spans of participants among other factors. For more information on obligations under retirement and other post-employment benefit plans and underlying actuarial assumptions, see "Note 16. *Employee Retirement Plans*".
- *Taxes.* We prepare and file our tax returns based on an interpretation of tax laws and regulations, and record estimates based on these judgements and interpretations. Our tax returns are subject to examination by the competent taxing authorities, which may result in an assessment being made requiring payments of additional tax, interest or penalties. Inherent uncertainties exist in our estimates of our tax positions. We believe that our estimated amounts for current and deferred tax assets or liabilities, including any amounts related to any uncertain tax positions, are appropriate based on currently known facts and circumstances.
- *Share-based payments.* Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.

- *Exceptional items.* Exceptional items are expense or income items recorded in a period which have been determined by management as being material and non-recurring in nature and are presented separately within the results of the Company. The determination of which items are disclosed as exceptional items will affect the presentation of profit measures and requires a degree of judgement. Details relating to exceptional items reported during the period are set out in “Note 22. *Exceptional items*”.

### **Note 3. Financial Risk Management**

#### *Management of financial risk*

Increasing market fluctuations may result in significant earnings and cash flow volatility risk for the Company. The Company’s operating business as well as its investment and financing activities are affected particularly by changes in foreign exchange rates, interest rates and concentration of procurement suppliers. The Company seeks to manage and control these risks primarily through its regular operating and financing activities, and uses derivative financial instruments when deemed appropriate.

The Company’s CFO oversees the management of these risks. The CFO is supported by a senior financial management team that advises on financial risks and the appropriate financial risk governance framework for the Company. The senior financial management team provides assurance to the Company’s senior management that the Company’s financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company’s policy that no trading in derivatives for speculative purposes may be undertaken. Intercompany financing or investments of operating units are preferably carried out in their functional currency or on a hedged basis. The Board of Directors reviews and agrees policies for managing each of these risks.

#### *Liquidity risk*

Liquidity risk results from the Company’s inability to meet its financial liabilities. The Company follows a deliberated financing policy that is aimed towards a balanced financing portfolio, a diversified maturity profile and a comfortable liquidity cushion. The Company mitigates liquidity risk by the implementation of an effective working capital and centralised cash management and arranged credit facilities with highly rated financial institutions. In addition, the Company constantly monitors funding options available in the capital markets, as well as trends in the availability and costs of such funding, with a view to maintaining financial flexibility and limiting repayment risks.

The following tables reflect the undiscounted cash outflows related to settlement and repayments, of the Company's financial liabilities at a balance sheet date. The disclosed expected undiscounted net cash outflows from derivative financial liabilities are determined based on each particular settlement date of an instrument and based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the conditions existing at respective balance sheet date.

**Contractual undiscounted cash outflows at 31 December 2015** (in thousands):

	<b>DUE WITHIN 1 YEAR</b>	<b>1-2 YEARS</b>	<b>2-5 YEARS</b>	<b>OVER 5 YEARS</b>	<b>TOTAL</b>
<b>Non-derivative financial instruments</b>					
Trade payables	\$ 10,186	\$ —	\$ —	\$ —	10,186
Financial liabilities	709,961	18,070	54,245	120,060	902,336
Other liabilities	—	4,423	—	—	4,423
<b>Total</b>	<b>\$ 720,147</b>	<b>\$ 22,493</b>	<b>\$ 54,245</b>	<b>\$ 120,060</b>	<b>\$ 916,945</b>
<b>Financial derivative liabilities</b>					
- on exchange risk	\$ 708	\$ —	\$ —	\$ —	708
- on rate risk	1,090	858	918	10	2,876
<b>Total</b>	<b>\$ 1,798</b>	<b>\$ 858</b>	<b>\$ 918</b>	<b>\$ 10</b>	<b>\$ 3,584</b>

*Foreign Currency Exchange Rate Risk*

Foreign exchange risk is the risk that reported financial performance of the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates in many countries and currencies and therefore currency fluctuations may impact the Company's financial results. In the ordinary course of business the Company is exposed to foreign currency exchange rate fluctuations, particularly between the U. S. dollar, the Euro, Pound Sterling and Japanese Yen. The Company is exposed to currency risk in the following areas:

- Transaction exposures, related to anticipated sales and purchases and on-balance-sheet receivables/payables resulting from such transactions
- Translation exposure of foreign-currency intercompany and external debt
- Translation exposure of foreign-currency denominated equity invested in the Company's subsidiaries

It is the Company's policy to reduce the potential year on year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases. The Company is prohibited from borrowing or investing in foreign currencies on a speculative basis.

Based on an exposure to foreign currency exchange rate risk, a sensitivity analysis indicates that if the U.S. dollar had uniformly weakened or strengthened by 10% against the Pound Sterling and the Euro the effect on our unrealised income or expense for our derivatives outstanding at 31 December 2015 would have been approximately \$2.3 million.

Any gains and losses on the fair value of derivative contracts would generally be offset by gains and losses on the underlying transactions. These offsetting gains and losses are not reflected in the above analysis.

With regard to financial instruments denominated in currencies other than the currency of account of the companies holding them, the currencies involving the greatest exposure are the U. S. dollar, the Euro, Pound Sterling and Japanese Yen as indicated below (in thousands):

31 December 2015						
	EUR	USD	JPY	GBP	OTHER	TOTAL
<b>Assets</b>						
Cash and cash equivalents in foreign currency	\$ 84	\$ 3,179	806	1,287	\$ 362	5,718
Financial assets in foreign currency	—	9,626	4,745	—	10,387	24,758
Other assets in foreign currency	372	(100)	—	353	—	625
<b>Total assets</b>	<b>456</b>	<b>12,705</b>	<b>5,551</b>	<b>1,640</b>	<b>10,749</b>	<b>31,101</b>
<b>Liabilities</b>						
Trade payables in foreign currency	125	1,248	—	643	649	2,665
Financial liabilities in foreign currency	423,752	101,938	—	4,418	67,393	597,501
Other liabilities in foreign currency	—	—	—	2,361	—	2,361
<b>Total liabilities</b>	<b>423,877</b>	<b>103,186</b>	<b>—</b>	<b>7,422</b>	<b>68,042</b>	<b>602,527</b>
<b>Net exposure</b>	<b>\$ (423,421)</b>	<b>\$ (90,481)</b>	<b>5,551</b>	<b>(5,782)</b>	<b>(57,293)</b>	<b>(571,426)</b>
<b>Financial derivative liabilities</b>						
- not for hedging <sup>(1)</sup>	\$ —	\$ —	(147)	(567)	\$ 603	(111)
<b>Total</b>	<b>—</b>	<b>—</b>	<b>(147)</b>	<b>(567)</b>	<b>603</b>	<b>(111)</b>
<b>Total net exposure</b>	<b>\$ —</b>	<b>\$ —</b>	<b>(147)</b>	<b>(567)</b>	<b>603</b>	<b>(111)</b>

<sup>(1)</sup> for hedging transactions that do not meet the requirements for hedge accounting

#### *Interest Rate Risk*

The Company's main interest rate risk arises from long-term debt with variable rates, which expose the Company to cash flow interest rate risk. The Company decides, case by case, to hedge interest rate risk on medium-long term loans bearing floating interest rates, from a floating rate to a fixed rate, against a potential increase of interest rates which would negatively impact LivaNova net earnings.

During the period from inception to 31 December 2015 the Company's debt held with banks at variable interest rate was denominated only in Euro. The Company manages a portion of its interest rate risk with contracts that swap floating-rate interest payments for fixed rate interest payments.

As at 31 December 2015, the Company had outstanding derivative contracts to hedge against the risk of interest rate fluctuations for a notional amount of \$79.6 million, equal to about 52% of financial liabilities at 31 December 2015.

At 31 December 2015, if interest rates on Euro-denominated bank debt had been 10 basis points higher/ lower with all other variables held constant, the calculated post-tax profit for the period would have been US \$74 thousand lower/ higher, mainly as a result of higher/ lower interest expense on floating rate debt; other components of equity would have been US \$219 thousand lower and US \$223 thousand higher mainly as a result of decrease/ increase in the fair value of fixed rate interest rate swaps (derivatives designated for hedge accounting).

The following assumptions were used for the sensitivity analysis as at 31 December 2015:

- Interest-bearing assets: change of +0.25% -0.05% in short-term rates at 31 December;
- Unhedged financial liabilities: change of +0.5% - 0.05% in the rate curve at 31 December relative to euro and not euro denominated rates;
- Hedged financial liabilities: change of +0.5% - 0.05% in the rate curve at 31 December relative to euro rate.

#### *Credit Risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Company's trade receivables balances due from the subsidiaries and third parties represent potential concentrations of credit risk. Refer to "Note 10. *Trade Receivables and Allowance for Bad Debt*" for more details. Although we do not currently foresee a concentrated credit risk associated with these receivables, repayment is dependent on the financial stability of a respective subsidiary.

The maximum theoretical credit risk exposure for the Company is an aggregate carrying amount of financial assets at each reporting period date (in thousands):

	<b>31 December 2015</b>
Other assets	\$ 4,288
Trade receivables	3,847
Other receivables	12,207
Other financial assets	88,054
Cash and cash equivalents	10,102
Guarantees	11,427
<b>Total</b>	<b>\$ 129,925</b>

The risk related to bank accounts, financial assets and assets for financial derivatives is limited since all bank and financial counterparties have a high rating.

The guarantees issued by the Company are primarily due to regulatory requirements (security issued to credit institutions to back guarantees issued by them for competitive bidding procedures), and thus, the related risk is remote as also seen on a historical basis.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' (or equivalent) are accepted.

For external customers, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external information in accordance with limits set by the Company's Treasury Group. The compliance with and authorisation of credit limits by customers is regularly monitored by line management. Additionally, the Company established a Bad Debt Policy, which provides the methodology to be used to calculate an addition to the provision for uncollectible receivables for past-due receivables for each LivaNova company and the ageing of each receivable.

#### *Capital management*

The Company maintains a sufficient amount of capital to meet its development needs, fund its subsidiaries' operations and ensure the Company continues to be a going concern. The equilibrium of sources of funding, which is also aimed at minimising overall capital costs, is achieved by balancing risk capital contributed on a permanent basis by shareholders, and debt capital, which is in turn diversified and structured with several due dates and in many currencies. To this end, changes in debt levels in relation to both equity and operating profit, and the generation of cash by the business units are constantly kept under control.

#### **Note 4. Fair Value Measurements**

We follow the guidance on fair value measurements and disclosures with respect to assets and liabilities that are measured at fair value on both a recurring and nonrecurring basis. Under this guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability, based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels defined as follows:

- Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly
- Level 3 - Inputs are unobservable for the asset or liability

No assets or liabilities are classified as Level 1. Financial assets and liabilities that are classified as Level 2 include derivative instruments, primarily forward and option currency contracts and interest rate swaps contracts, which are valued using standard calculations and models that use readily observable market data as their basis.

#### *Assets and Liabilities That Are Measured at Fair Value on a Recurring Basis*

The following table provides information by level for assets and liabilities that are measured at fair value on a recurring basis as at 31 December 2015 (in thousands):

	Fair Value as of 31 December 2015	Fair Value Measurements Using Inputs Considered		
		Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Derivative Liabilities - for hedging (interest rates)	\$ 2,876	\$ —	\$ 2,876	\$ —
Derivative Liabilities - not for hedging (exchange rates)	708	—	708	—
<b>Total Liabilities</b>	<b>\$ 3,584</b>	<b>\$ —</b>	<b>\$ 3,584</b>	<b>\$ —</b>

#### *Level 2*

To measure the fair value of derivative transactions, we calculate the mark-to-market of each transaction using prices quoted in active markets (e.g., the spot exchange rate of a currency for forward exchange transactions) and observable market inputs processed for the measurement (e.g., the fair value of an interest rate swap using the interest rate curve), or the measurement of an exchange rate option (with the processing of listed prices and observable variables such as volatility).

For all level 2 valuations, we use the information provided by a third-party as a source for obtaining quoted observable prices and to process market variables. In particular, we use the following techniques to calculate the fair value of derivatives:

- For forward exchange rate transactions, fair value is calculated using the forward market exchange rate on the reporting date for each contract: the difference calculated between this amount and the contractual forward rate is discounted (present value) to the same reporting date;
- For interest rate swaps, the fair value is calculated taking into account the present value of interest flows calculated on the notional amount of each contract using the forward interest rate curve applicable on the reporting date.

#### *Transfers*

We review the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. Our policy is to recognise transfers into and out of levels within the fair value hierarchy at the end of the fiscal quarter in which the actual event or change in circumstances that caused the transfer occurs. There were no transfers between Level 1, Level 2, or Level 3 during the periods from Inception to 31 December 2015. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value.

#### *Assets and Liabilities that are measured at Fair Value on a Non-recurring Basis*



Non-financial assets such as investments in subsidiaries, that are accounted for using the cost method intangible assets, and property, plant, and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognised. The fair values of these non-financial assets are based on our own judgements about the assumptions that market participants would use in pricing the asset and on observable market data, when available. We classify these measurements as Level 3 within the fair value hierarchy.

#### *Financial Instruments Not Measured at Fair Value*

The carrying values of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these items.

The carrying value of our long and short-term debt, as of 31 December 2015 was \$902.3 million which we believe approximates fair value.

### **Note 5. Financial Instruments**

The Company uses several instruments to fund its operating activities including: short and long-term debt from credit institutions and other lenders, short-term bank loans and loans from LivaNova subsidiaries. The Company's other financial instruments consist of trade payables and receivables resulting from operating activities, assets and liabilities for financial derivatives (primarily interest rate swaps and forward foreign currency contracts) and other receivables and payables other than those related to staff, tax authorities and welfare agencies.

#### *Classification of financial instruments*

With regard to classification of financial instruments on the basis of the types as specified in IAS 39, the following should be noted:

- Assets and liabilities for financial derivatives related to contracts entered into to mitigate exchange risk on imports and exports are classified under "Hedging derivatives" when they meet the requirements for being recognised as hedge accounting instruments and under "Financial assets/liabilities at fair value through profit or loss" when these requirements are not met.
- Assets and liabilities for financial derivatives related to contracts entered into to mitigate interest rate risk are classified under "Hedging derivatives" when they meet the requirements for being recognised as hedge accounting instrument and under "Financial assets/liabilities at fair value through profit or loss" when these requirements are not met.

**Classification of financial instruments at 31 December 2015**

Classification of Financial Instruments as of December 31, 2016									
	CLASSIFICATION				CARRYING AMOUNT				
	FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	RECEIVABLES AND LOANS	FINANCIAL LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVES	TOTAL	CURRENT PORTION	NON-CURRENT PORTION	FAIR VALUE	
Assets									
Financial assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—
Trade receivables	—	3,847	—	—	3,847	3,847	—	—	3,847
Other receivables	—	18,783	—	—	18,783	14,495	4,288	—	18,783
Other financial assets	—	88,054	—	—	88,054	88,054	—	—	88,054
Cash and cash equivalents	—	10,102	—	—	10,102	10,102	—	—	10,102
Total financial assets	\$ —	\$ 120,786	\$ —	\$ —	\$ 120,786	\$ 116,498	\$ 4,288	\$ —	\$ 120,786
Liabilities									
Financial liabilities	\$ —	\$ —	210,438	\$ —	210,438	18,063	192,375	—	210,852
Trade payables	—	—	10,186	—	10,186	10,186	—	—	10,186
Other payables	—	—	4,423	—	4,423	4,423	—	—	4,423
Financial derivative liabilities	708	—	—	2,876	3,584	1,798	1,786	—	3,584
Other financial liabilities	—	—	691,898	—	691,898	691,898	—	—	691,898
Total financial liabilities	\$ 708	\$ —	\$ 916,945	\$ 2,876	\$ 920,529	\$ 726,368	\$ 194,161	\$ —	\$ 920,943

**Note 6. Property, Plant and Equipment**

	Building and building improvements	Equipment, other, furniture, fixtures	Total
<b>At 31 December 2015</b>			
Gross amount	\$ 267	\$ 2,994	\$ 3,261
Accumulated depreciation and impairment	(68)	(2,759)	(2,827)
<b>Net amount</b>	<b>\$ 199</b>	<b>\$ 235</b>	<b>\$ 434</b>

Changes during the year in the net amount of each category of property, plant and equipment are indicated below:

	Building and building improvements	Equipment, other, furniture, fixtures	Total
<b>Net amount at Inception</b>	\$ —	\$ —	\$ —
Purchases	90	2	92
Acquisitions	117	260	377
Depreciation	(3)	(16)	(19)
Currency translation gains/losses	(5)	(11)	(16)
<b>Net amount at 31 December 2015</b>	<b>\$ 199</b>	<b>\$ 235</b>	<b>\$ 434</b>

#### Note 7. Intangible Assets

	Patents	Trademarks and trade names	Software	Total
<b>At 31 December 2015</b>				
Gross amount	\$ 7,230	\$ 1,302	\$ 5,224	\$ 13,756
Accumulated amortisation and impairment	(7,230)	(1,273)	(4,167)	(12,670)
<b>Net amount</b>	<b>\$ —</b>	<b>\$ 29</b>	<b>\$ 1,057</b>	<b>\$ 1,086</b>

The changes in the net carrying value of each class of intangible assets during the year are indicated below:

	Patents	Trademarks and trade names	Software	Total
<b>Inception</b>	\$ —	\$ —	\$ —	\$ —
Purchases	—	—	227	227
Acquisitions	—	34	982	1,016
Amortisation	—	(3)	(110)	(113)
Currency translation gains/losses	—	(2)	(42)	(44)
<b>Net amount at 31 December 2015</b>	<b>\$ —</b>	<b>\$ 29</b>	<b>\$ 1,057</b>	<b>\$ 1,086</b>

Amortisation costs charged to the statement of income (loss) totaled \$0.1 million and was recorded within net operating expenses for the period from inception to 31 December 2015.

The amortisation periods for our finite-lived intangible assets as of 31 December 2015:

	Minimum Life in years	Maximum life in years
Trademarks and trade names	4	4
Software	3	5

## Note 8. Investments in Subsidiaries

(in thousands)	Cost
<b>Beginning balance at Inception date</b>	\$ —
Additions	3,476,708
Disposals	—
Impairment	—
<b>Net amount at 31 December 2015</b>	<b>\$ 3,476,708</b>

(in thousands)	31 December 2015
Gross amount	\$ 3,476,708
Accumulated impairment	—
<b>Net book value</b>	<b>\$ 3,476,708</b>

The detail of investments in subsidiary undertakings as at 31 December 2015 is shown as follows (in thousands):

	% Ownership	31 December 2015
Sorin CRM SAS	100.00	\$ 264,441
Sorin Group International SA	100.00	6,312
Sorin Group Nederland NV	100.00	61,287
Sorin Group USA Inc.	100.00	886,268
LivaNova Canada Corp.	100.00	111,013
LIVN UK Holdco Ltd	49.00	217,878
LIVN US 1 LLC (US FINCO)	100.00	147,330
LIVN Luxco Sarl	100.00	3,000
LIVN Irishco 1 UC	100.00	1,000,000
Sorin Group Italia Srl	90.37	761,605
Sorin Site Management Srl	86.42	17,574
		<b>\$ 3,476,708</b>

During the Mergers in October 2015 the Company issued its shares to the Cyberonics and Sorin shareholders in exchange for Cyberonics shares and Sorin net assets. For further details of these transactions refer to discussion in "Note 1. *Nature of Operations.*"

The Company had the following directly and indirectly owned subsidiaries as of 31 December 2015:

	REG. OFFICE	FUNCTIONAL CURRENCY	% CONSOLIDATED GROUP OWNERSHIP	NAME	% OWNERSHIP
LivaNova PLC (Italian Branch)	Italy	EUR	100		
Alcard Indústria Mecânica Ltda	Brazil	BRL	100	Sorin Group Italia SRL	100

Caisson Interventional LLC	USA	USD	100	Sorin Group USA Inc.	44
California Medical Laboratories (CalMed) Inc.	USA	USD	100	Sorin Group USA Inc.	100
Cardiosolutions Inc.	USA	USD	100	Sorin Group USA Inc.	35
Cellplex PTY LTD	Australia	AUD	100	Sorin Group Australia PTY LTD	100
Cyberonics Europe BV / BA	Belgium	EUR	100	Cyberonics Spain SL	100
Cyberonics France SARL	France	EUR	100	Cyberonics Europe BVBA	100
Cyberonics Holdings LLC	USA	USD	100	Cyberonics Inc.	100
Cyberonics Inc.	USA	USD	100	LIVN US Holdco Inc.	100
Cyberonics Latam SRL	Costa Rica	CRC	100	Cyberonics Spain SL	100
Cyberonics Netherlands CV	Netherlands	EUR	100	Cyberonics Holdings LLC	1
				Cyberonics Inc	99
Cyberonics Spain SL	Spain	EUR	100	CYBX Netherlands CV	100
Enopace Biomedical Ltd	Israel	USD	100	Sorin CRM SAS	32
Highlife SAS	France	EUR	100	Sorin CRM Holdings SAS	38
Imthera Medical, Inc	USA	USD	100		
La Bouscare S.C.I.	France	EUR	100	Sorin Group France SAS	50
LivaNova Canada Corp	Canada	CAD	100	Livanova PLC	100
Livn Irishco 2 UC	Ireland	EUR	100	LIVN UK Holdco Ltd	100
Livn Irishco Unlimited Company	Ireland	EUR	100		
Livn Luxco Sarl	Luxembourg	EUR	100	Livanova PLC	100
Livn Luxco 2 Sarl	Luxembourg	EUR	100	LIVN UK Holdco Ltd	100
Livn UK Holdco Limited	United Kingdom	EUR	100	LIVN UK 2 CO. Ltd	51
				Livanova PLC	49
Livn UK Limited 2 Co	United Kingdom	EUR	100	Livn US 1 LLC (US FINCO)	100
Livn UK Limited 3 Co	United Kingdom	EUR	100	Livn US LP	100
Livn US Holdco, Inc.	USA	USD	100	Livn US LP	56
				Livn UK LTD 3 Co.	44
Livn US Lp	USA	USD	100	Livn US 3 LLC	17
				Sorin Group USA Inc.	83
Livn US 1, LLC	USA	USD	100	Livanova PLC	100
Livn US 3 LLC	USA	USD	100	Sorin Group USA Inc.	100
LMTB - Laser - und Medizin - Technologie Gmbh	Germany	EUR	100	SORIN GROUP DEUTSCHLAND GMBH	23

MD Start I KG	Germany	EUR	100	SORIN GROUP DEUTSCHLAND GMBH	22
MD Start SA	Suisse	CHF	100	SORIN GROUP ITALIA SRL	21
MicroPort Sorin CRM (Shanghai) Co. Ltd	China	CNY	100	SORIN CRM HOLDING SAS	49
Reced Indústria Mecânica Ltda	Brazil	BRL	100	SORIN GROUP ITALIA SRL	100
Respicardia, Inc	USA	USD	100	SORIN CRM SAS	20
Sobedia Energia	Italy	EUR	100	SORIN GROUP ITALIA SRL	50
				SORIN SITE MANAGEMENT SRL	25
Sorin CP Holding S.r.l.	Italy	EUR	100	SORIN GROUP ITALIA SRL	100
Sorin CRM Holding SAS	France	EUR	100	SORIN CRM SAS	100
Sorin CRM SAS	France	EUR	100	Livanova PLC	100
Sorin CRM USA	USA	USD	100	Sorin Group USA Inc.	100
SorinCardio - Comercialização e Distribuição de Equipamentos Medicos, Lda	Portugal	EUR	100	SORIN CRM SAS	100
Sorin Group Asia Pte Ltd	Asia	USD	100	SORIN GROUP ITALIA SRL	100
Sorin Group Australia PTY Limited	Australia	AUD	100	LivaNova Nederland NV	100
Sorin Group Austria GmbH	Austria	EUR	100	LivaNova Nederland NV	100
Sorin Group Belgium SA	Belgium	EUR	100	LivaNova Nederland NV	100
Sorin Group Colombia Sas	Colombia	COP	100	SORIN GROUP ITALIA SRL	100
Sorin Group Czech Republic	Czech Republic	EUR	100	SORIN GROUP ITALIA SRL	100
Sorin Group Deutschland GmbH	Germany	EUR	100	SORIN GROUP ITALIA SRL	100
Sorin Group DR, S.r.l.	Dominican Republic	USD	100	SORIN CRM SAS	100
Sorin Group Espana S.L.	Spain	EUR	100	LivaNova Nederland NV	57
				SORIN CRM SAS	43
Sorin Group Finland OY	Finland	EUR	100	SORIN GROUP ITALIA SRL	100
Sorin Group France SAS	France	EUR	100	SORIN CRM SAS	100
Sorin Group India Private Limited	India	INR	100	LivaNova Nederland NV	100
Sorin Group International SA	Suisse	EUR	100	Livanova PLC	100
Sorin Group Italia S.r.l.	Italy	EUR	100	Livanova PLC - Italian Branch	90
				Sorin Site Management SRL	7
				Sorin CRM SAS	3

Sorin Group Japan K.K.	Japan	JPY	100	LivaNova Nederland NV	100
Sorin Group Nederland	Netherlands	EUR	100		
Sorin Group Norway AS	Norway	NOK	100	SORIN GROUP SCANDINAVI A AB	100
Sorin Group Polska Sp. Z.o.o.	Poland	PLN	100	LivaNova Nederland NV	100
Sorin Group Rus LLC	Russia	RUB	100	SORIN GROUP ITALIA SRL	100
Sorin Group Scandinavia AB	Scandinavia	EUR	100	SORIN GROUP ITALIA SRL	100
Sorin Group UK Limited	United Kingdom	EUR	100	LivaNova Nederland NV	100
Sorin Group USA Inc.	USA	USD	100	Livanova PLC	100
Sorin Medical Devices (Suzhou) Co. Ltd	China	CNY	100	SORIN CP HOLDING SRL	100
Sorin Medical (Shanghai) Co. Ltd	China	CNY	100	SORIN CP HOLDING SRL	100
Sorin Site Management S.r.l.	Italy	EUR	100	LIVANOVA PLC - ITALIAN BRANCH	86
				SORIN GROUP ITALIA SRL	14

## Note 9. Other Financial Assets

Our current financial assets in the balance sheet include receivables from subsidiaries. These represent loans and current receivable balances due from LivaNova with our subsidiaries and are repayable on demand.

(in thousands)	31 December 2015
Financial receivables due from subsidiaries	\$ 88,600
Other	(546)
	<u>\$ 88,054</u>

## Note 10. Trade Receivables and Allowance for Bad Debt

Trade receivables consisted of the following (in thousands):

	31 December 2015
Trade receivables due from third parties	\$ 257
Trade receivables due from LivaNova subsidiaries	3,840
Allowance for bad debt	(250)
	<u>\$ 3,847</u>

Trade receivables are reported net of the allowance for bad debt provision, the changes in which are provided below (in thousands):

	<b>31 December 2015</b>
<b>Beginning at inception date</b>	\$ —
Additions	261
Currency translation gains/losses	(11)
<b>End of period</b>	<b>\$ 250</b>

## Note 11. Derivative Financial Instruments

We enter into derivative instruments, principally foreign exchange forward and interest rate swaps contracts for the purpose of hedging the risk of fluctuations in foreign exchange and interest rates. For additional details refer to our accounting policy “*Derivatives*” included within “*Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies*”.

### *Freestanding derivative forward contracts*

Freestanding derivative forward contracts are used to offset the exposure to the change in value of our foreign currency denominated financial intercompany transactions (current accounts and loans) of certain long-term loans and the hedging of net revenues denominated in JPY and GBP of LivaNova subsidiaries. The gross notional amount of these contracts not designated as hedging instruments, outstanding at 31 December 2015 was \$321.3 million.

The amount and location of the gains (losses) in the statements of income (loss) related to derivative instruments, not designated as hedging instruments, for the period from inception to 31 December 2015 are as follows:

<b>(in thousands)</b>		
<b>Derivatives Not Designated as Hedging Instruments</b>	<b>Location</b>	<b>From Inception to 31 December 2015</b>
Foreign currency exchange rate contracts	Foreign exchange	\$ (11,974)

Foreign currency exchange differences include the losses, realised and unrealised, related to the forward contracts, not qualifying for hedge accounting, put in place, for the hedging of the following:

- intercompany financial accounts and loans not denominated in U.S. dollars, recording a loss for \$5.1 million;
- short and long-term loans denominated in Euro, recording a loss for the amount of \$7.9 million, of which \$4.8 million relates to a foreign exchange derivative arrangement on the EIB long-term loan. Such derivative arrangements have been discontinued in January 2016;
- revenues denominated in British pounds and Japanese yen for the period from date of the Mergers to 31 December 2015, recording a gain for \$1.1 million.

The foreign currency exchange losses on the above mentioned forward contracts are mainly due to the revaluation of the U.S. dollar against the euro and other currencies.



### *Interest rate swaps*

As discussed in "Note 13. *Financial Liabilities*" upon successful completion of the Mergers, the Company assumed the long-term loan from a European Investment Bank ("EIB") that bears floating-rate interest rate. To minimize the impact of changes in interest rates on its interest payments under the EIB loan, the Company entered into interest rate swap agreements to swap floating-rate interest payments for fixed-rate interest payments. The outstanding notional amount at 31 December 2015 is Euro 73.3 million (equivalent to \$79.6 million). The interest rate swap agreements mature in June 2021 and have periodic interest settlements. The interest rate swap agreements were designated as a cash flow hedge of the variability of interest payments under the EIB long-term loan agreement due to changes in the floating interest rates by converting from Euribor 3 month floating-rate to a fixed-rate loan.

The swaps fixed rates were structured to mirror the payment terms of the loan. The effective portion of the gain or loss on these derivatives is reported as a component of accumulated other comprehensive income. On interest rate swap contracts we the Company had an effective portion equivalent at \$83,000 in after-tax net unrealised gains, and an ineffective portion for the amount of \$25,000 reported in the line item interest expense in statement of income (loss).

### *Presentation in Financial Statements*

The amount of gains (losses) and location of the gains (losses) in the statements of income and accumulated other comprehensive income ("OCI") related to interest rate swap derivative instruments designated as cash flow hedges for the period from inception to 31 December 2015 are as follows:

(in thousands)	<b>Gross Gains Recognised in OCI</b>		
	<b>on Effective Portion of Derivative</b>	<b>Effective Portion of Gains (Losses) on Derivative Reclassified from:</b>	
	<b>Amount</b>	<b>Location</b>	<b>Amount</b>
<b>Derivatives in Cash Flow Hedging Relationships</b>			
Interest rate swap contracts	\$ 124	Interest expense	\$ 124
<b>Total</b>	<u>\$ 124</u>		<u>\$ 124</u>

The following tables summarize the location and fair value amounts of derivative instruments reported in the Company's balance sheet as of 31 December 2015. The fair value amounts are presented on a gross basis and are segregated between derivatives that are designated and qualify as hedging instruments and those that are not, and are further segregated by type of contract within those two categories.

(in thousands)

	Liability Derivatives	
	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>		
Interest rate contracts	Non-current financial derivative liabilities	\$ 1,786
Interest rate contracts	Current financial derivative liabilities	1,090
Total derivatives designated as hedging instruments		2,876
<b>Derivatives not designated as hedging instruments</b>		
Foreign currency exchange rate contracts	Current financial derivative liabilities	1,547
Foreign currency exchange rate contracts	Current financial derivative liabilities	(839)
Total derivatives not designated as hedging instruments		708
Total derivatives		\$ 3,584

## Note 12. Equity

### *Share capital.*

The Company's authorised share capital is as follows:

(in number of shares)	31 December 2015
<i>Authorised share capital, ordinary shares of £1 each, unlimited shares authorized</i>	
Issued - fully paid	48,868,305
Outstanding	48,868,305

*Merger relief reserve.* On 19 October 2015 pursuant to the Mergers the merger relief reserve of US \$2,649.6 million was recorded in respect of the excess of Sorin and Cyberonics mergers with and into the Company. Further information relating to the Mergers is detailed in “Note 1. *Nature of Operations*”.

*Comprehensive income.*

The table below presents the change in each component of accumulated other comprehensive income (loss), net of tax and the reclassifications out of accumulated other comprehensive income into net earnings.

	Change in unrealised gain (loss) on derivatives	Foreign currency translation adjustments	Revaluation of net liability (asset) for defined	Total
Balance from Inception	\$ —	\$ —	\$ —	\$ —
Reclassification of (gain)/loss from accumulated other comprehensive income, before tax	124	(22,665)	(8)	(22,549)
Tax effect	(41)	—	3	(38)
Reclassification of (gain)/loss from accumulated other comprehensive income, after tax	83	(22,665)	(5)	(22,587)
Net current-period other comprehensive income (loss), net of tax	—	—	—	—
Ending Balance - 31 December 2015	\$ 83	\$ (22,665)	\$ (5)	\$ (22,587)

**Note 13. Financial Liabilities**

The outstanding principal amount of long-term debt at 31 December 2015 consisted of the following (in thousands, except interest rates):

	Principal Amount at 31 December 2015	Maturity	Effective Interest Rate
European Investment Bank	\$ 99,426	June 2021	1.15%
Loans payable to LivaNova subsidiaries	111,012		
Total long-term facilities	210,438		
Less current portion of long-term debt	18,063		
Total long-term debt	\$ 192,375		

The outstanding principal amount of short-term debt as of 31 December 2015 consisted of the following (in thousands, except interest rates):

	<b>Principal Amount at 31 December 2015</b>	<b>Effective Interest Rate</b>
Intesa San Paolo Bank	\$ 20,630	0.25%
BNL BNP Paribas	18,459	0.27%
Unicredit Banca	15,201	0.45%
Other short-term facilities	146	
Loans payable to LivaNova subsidiaries	637,462	
Total short-term facilities	691,898	
Current portion of long-term debt	18,063	
Total current debt	<u>\$ 709,961</u>	

During the Mergers the Company assumed the loan from the European Investment Bank (“EIB”) loan that was previously provided to Sorin to support research and development projects in Italy and France related to the development of new products or improvements in Sorin’s products in cardiac surgery, cardiac rhythm management and new therapeutic solutions aimed at treating heart failure and mitral valve regurgitation. The loan was originally issued in July 2014, has a seven-year term with interest paid in quarterly installments. The loan is guaranteed by Sorin Group Italia S.r.l. and Sorin CRM SAS, subsidiaries of LivaNova. In December 2015, we paid our scheduled semi-annual \$9.0 million principal payment.

The EIB loan is subject to the various terms and conditions:

- certain financial ratios calculated based on the LivaNova Consolidated financial statements;
- subordination clauses, based on which the loan cannot be subordinated to other loans, with the exception of loans given preference deriving from legal obligations;
- negative pledge clauses that place limits on the issue of collateral;
- other customary clauses for loans of this type, including limits on LivaNova’s asset disposals.

LivaNova PLC, in the management of LivaNova centralized treasury and acting as in-house bank of the Group, receives excess cash and deposit from subsidiaries which generate cash. The amount of the short-term intercompany deposits received, together with the current accounts balance in favor of its subsidiaries, amounted US \$214 million at 31 December 2015.

In December 2015 LivaNova PLC has issued a promissory note in favor of LIVN UK Holdco, of the amount of US \$111 million for the settlement of the purchase price of LivaNova Canada Corp. ; the promissory note bears a fixed interest rate of 0.56% p.a. and has a maturity of more than 12 months with an expiry date on 31 December 2016.

In December 2015 LivaNova PLC has issued a promissory note to Sorin Group Italia srl, for Euro 390 million (US \$423.5 million at 31 December 2015), for the settlement of the purchase price of Sorin Group USA Inc.; the promissory note bears a fixed interest rate of 1.5% p.a. and has a maturity of 12 months with an expiry date on 15 December 2016.

The total amount of the loans payable to LivaNova subsidiaries is US\$ 748.5 million at 31 December 2015.

#### Note 14. Other Payables

(in thousands)	31 December 2015
Accrued expenses- employee-related charges	\$ 1,605
Other accrued expenses	2,219
Other current liabilities with subsidiaries	3,860
Other current liabilities	563
Other amounts due to health and social security institution	186
Amounts due to employees	1,037
Deferred income	1
Total	<u>\$ 9,471</u>

#### Note 15. Share-Based Incentive Plans

##### *Share-Based Incentive Plans*

##### *Sorin awards exchanged for LivaNova awards*

Prior to the Mergers, the Sorin Board of Directors adopted the Long-Term Incentive 2012-2014 (the “2012-2014 Plan”), 2013-2015 (the “2013-2015 Plan”) and 2014-2016 (the “2014-2016 Plan”) share grant plans in April 2012, April 2013 and April 2014, respectively. The share grant plans authorised the issuance of share appreciation rights (2014-2016 Plan only), performance share units and restricted share units. The awards under these share grant plans were converted into LivaNova awards pursuant to the terms of the Mergers as described below and were accounted for as equity settled. Refer to “Note 1. *Nature of Operations*” for details related to the Mergers.

Pursuant to the Mergers, 3,815,824 share appreciation rights outstanding (2014-2016 Plan) and 3,365,931 restricted share units (2013-2015 and 2014-2016 Plans) and performance share units (2012-2014 Plan) that were unvested immediately prior to the Mergers were accelerated and vested upon the close of the Mergers and were converted into 180,076 LivaNova share appreciation rights and 158,716 LivaNova ordinary shares, respectively, in a manner designed to preserve the intrinsic value of such awards.

In addition, pursuant to the Mergers, 2,617,490 unvested performance share units granted under the 2014-2016 Plan and 2013-2015 Plan which were held by Sorin employees upon close of the Mergers were converted into 123,456 LivaNova ordinary shares in a manner designed to preserve the intrinsic value of such awards. For awards not yet earned based on performance achieved as of the date of the Mergers, a service requirement was added to the remaining awards and the performance conditions were removed, resulting in a modification to the award (see below for further details). A portion of the service awards vested on the date of the Mergers and of the remaining awards, 50% were paid on 26 February 2016 and 50% will be paid on 26 February 2017, in each case subject to continued employment. The awards will continue to be governed in accordance with the terms and conditions as were applicable immediately prior to the completion of the Mergers, with the exception of the modified terms pursuant to the Mergers. The modifications made to the performance share units granted under the 2014-2016 Plan and 2013-2015 Plan constituted modifications under the authoritative guidance for accounting for share compensation. The modification resulted in \$8.6 million incremental costs of which \$0.9 million was recognised on the acquisition date and the remaining \$7.7 million will be recognised over the remaining service period of the award. The Company recognised \$1.4 million share-based compensation expense related to these modifications from the date of the acquisition through the period ended 31 December 2015.

Further, pursuant to the Mergers, 1,721,530 deferred bonus shares held by Sorin employees that were outstanding immediately prior to the Mergers were accelerated and became vested upon the close of the Mergers, and were converted to 81,251 LivaNova ordinary shares in a manner designed to preserve the intrinsic value of such awards. The accelerated vesting and share conversion constituted a modification under the authoritative guidance for accounting for share-based compensation. This guidance requires the Company to revalue the award upon the transaction close and allocate the revised fair value between consideration paid and post-combination expense based on the ratio of service performed through the transaction date over the total service period of the award. The revised fair value allocated to post-combination services resulted in \$0.3 million of incremental costs which was recognised on the acquisition date.

#### *Cyberonics awards exchanged for LivaNova awards*

Prior to the Mergers, Cyberonics issued share options and restricted share awards under its Amended and Restated New Employee Equity Inducement Plan and 2009 Share Plan. All of the awards under these plans were accounted for as equity settled and were accelerated and vested as a result of the Mergers. Cyberonics share options (except as described below) and restricted shares were converted into 813,794 LivaNova share options and 209,043 LivaNova ordinary shares, respectively, in a manner designed to preserve the intrinsic value of such awards. The share options will continue to become exercisable in accordance with the terms and conditions as were applicable immediately prior to the completion of the Mergers. Additionally, 146,105 Cyberonics share options held by executive officers that were outstanding immediately prior to the Mergers were settled in cash in the amount of \$5.0 million.

### *LivaNova awards*

On 16 October 2015, the sole shareholder of LivaNova approved the adoption of the Company's 2015 Incentive Award Plan (the "2015 Plan"), which was previously approved by the Board of Directors of the Company on 14 September 2015 subject to such shareholder approval. The Plan was adopted in order to facilitate the grant of cash and equity incentives to non-employee directors, employees (including our named executive officers) and consultants of the Company and certain of our affiliates and to enable the Company and certain of our affiliates to obtain and retain services of these individuals. The Plan became effective as of 19 October 2015. Incentive awards may be granted under the 2015 Plan in the form of share options, share appreciation rights, restricted share, restricted share units, other share and cash-based awards and dividend equivalents. As of 31 December 2015, there were approximately 8,047,364 shares available for future grants under the 2015 Plan.

### *Share-Based Compensation*

Amounts of share-based compensation recognised in the statement of income (loss) by expense category are as follows (in thousands):

	<b>From Inception to 31 December 2015</b>
Net operating expenses	\$ 1,764
Total share-based compensation expense	\$ 1,764

Amounts of share-based compensation expense recognised in the statement of income (loss) by type of arrangement are as follows, (in thousands):

	<b>From Inception to 31 December 2015</b>
Service-based share appreciation rights	\$ 523
Service-based restricted and restricted share unit awards	1,241
Total share-based compensation expense	\$ 1,764

The expense for the period from inception to 31 December 2015 related to awards was accounted for as equity settled.

### Share Options and Share Appreciation Rights

We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of share option awards and share appreciation rights. The following table lists the assumptions we utilised as inputs to the Black-Scholes model:

	From Inception to 31 December 2015
Weighted average share price	\$ 69.39
Exercise price	51.34 - 69.39
Dividend Yield <sup>(1)</sup>	—
Risk-free interest rate - based on grant date <sup>(2)</sup>	1.2% - 1.4%
Expected option term - in years per group of employees/consultants <sup>(3)</sup>	4 - 5
Expected volatility at grant date <sup>(4)</sup>	34%

(1) We do not plan to pay dividends.

(2) We use yield rates on U.S. Treasury securities for a period that approximated the expected term of the award to estimate the risk-free interest rate.

(3) We estimated the expected term of the awards granted using historic data of actual time elapsed between the date of grant and the exercise or forfeiture of options or SARs for employees. For consultants, the expected term is the remaining time until expiration of the option or SAR.

(4) Refer to “Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies-Share-based Compensation” for further information regarding expected volatility.

The following tables detail the activity for service-based share option awards and share appreciation rights, including awards assumed or issued as a result of the Mergers:

	From Inception to 31 December 2015	
Options and SARs	Number of Optioned Shares	Wtd. Avg. Exercise Price
Outstanding - at beginning of period	—	\$ —
Granted	677,560	69.39
Assumed in Merger	1,305,814	51.34
Exercised	(199,655)	34.11
Forfeited	(45,553)	61.27
Cashed-out in Merger	(146,105)	31.67
Expired	(2,500)	28.21
Outstanding - end of year	1,589,561	\$ 55.56
Fully vested and exercisable - end of year	935,586	45.90
Fully vested and expected to vest - end of year <sup>(1)</sup>	1,571,191	\$ 55.40

(1) Factors in expected future forfeitures.

The weighted average remaining contractual life for the share options and SARs outstanding at 31 December 2015 is 4.70 years.



The aggregate intrinsic value of the options and SARs outstanding at 31 December 2015 is \$12.7 million. The aggregate intrinsic value of options and SARs is based on the difference between the fair market value of the underlying share at the end of the period using the market closing share price, and exercise price for in-the-money awards.

The range of exercise prices for options and SARs outstanding at 31 December 2015 are categorised in exercise price ranges as follows:

<b>Outstanding Options</b>	<b>31 December 2015</b>
\$10-20	94,021
\$21-30	90,368
\$31-40	20,481
\$41-50	91,887
\$51-60	633,329
\$61-70	659,475
<b>Total</b>	<b>1,589,561</b>

	<b>From Inception to 31 December 2015</b>
Weighted average grant date fair value of share option awards and SARs during the fiscal year <sup>(1)</sup>	\$ 21.05
Weighted average price of share option exercises during the period	34.97
Aggregate intrinsic value of share option and SAR exercises during the fiscal year (in thousands)	\$ 5,464

(1) Including weighted average Mergers date fair value of SARs assumed in the Mergers.

#### *Restricted Share and Restricted Share Units Awards*

The following tables detail the activity for service-based restricted share and restricted share unit awards, including activity from restricted share units assumed or issued as a result of the Mergers:

	<b>From Inception to 31 December 2015</b>	
	<b>Number of Shares</b>	<b>Wtd. Avg. Grant Date Fair Value</b>
Non-vested shares at the beginning of period	—	\$ —
Granted	99,870	57.55
Assumed in Merger	492,856	69.39
Vested	(378,322)	54.92
Forfeited	(10,831)	54.65
Non-vested at end of year	203,573	63.57

		<b>From Inception to 31 December 2015</b>
Weighted average grant date fair value of service-based share grants issued during the fiscal year	\$	57.55
Aggregate fair value of service-based share grants that vested during the year (in thousands)	\$	24,384

The following tables detail the activity for performance-based and market-based restricted share and restricted share unit awards:

		<b>From Inception to 31 December 2015</b>
	<b>Number of Shares</b>	<b>Wtd. Avg. Grant Date Fair Value</b>
Non-vested shares at at beginning of period	—	\$ —
Granted	—	—
Conversion of shares	305,573	69.39
Vested	(245,466)	55
Forfeited	(60,107)	33.82
Non-vested shares at end of year	—	\$ —

<b>(in thousands)</b>		<b>From Inception to 31 December 2015</b>
Weighted average grant date fair value of performance-based share grants issued during the fiscal year	\$	—
Aggregate fair value of performance-based share grants that vested during the year	\$	9,648

## **Note 16. Employee Retirement Plans**

We sponsor various retirement plans, including defined benefit pension plans (pension benefits), an employee retirement savings plan, and a deferred compensation plan. The expense related to these plans was \$0.1 million for the period from inception to 31 December 2015.

As of 31 December 2015 the net underfunded status of our benefit plans was \$0.3 million.

### *Defined Benefit Plan.*

#### Risks Related to Defined-Benefit Plans

The defined benefit plans expose the Company to various demographic and economic risks such as longevity risk, investment risks, currency and interest rate risk and in some cases inflation risk. The latter plays a role in the assumed wage increase and in some smaller plans where indexation is mandatory.

The change in benefit obligations as of and for the period from inception to 31 December 2015 are as follows:

(in thousands)	<b>Pension Benefits</b>
<b>Accumulated benefit obligation at end of year:</b>	
<b>Change in projected benefit obligation:</b>	
Projected benefit obligation at beginning of year	\$ —
Service cost	—
Interest cost	1
Benefits obligations assumed in the Mergers	291
Employee contributions	—
Plan curtailments and settlements	—
Actuarial (gain) loss	8
Benefits paid	(15)
Foreign currency exchange rate changes and other	(12)
Projected benefit obligation at end of year	\$ 273

Major actuarial assumptions used in determining the benefit obligations and net periodic benefit (income) cost for our significant benefit plans are presented in the following table as weighted averages as of 31 December 2015.

	<b>Pension Benefits</b>
<b>Actuarial assumptions used to determine benefit obligation</b>	
Discount rate	2%
Rate of compensation increase	3%
<b>Actuarial assumptions used to determine net periodic benefit cost</b>	
Discount rate	2%
Rate of compensation increase	3%

*Severance Indemnity.* In Italy, upon termination of employment for any reason, employers are required to pay a termination indemnity (*Trattamento di fine Rapporto* or “TFR”) to all employees as required by Italian legislation. The TFR serves as a backup in the event of redundancy or as an additional pension benefit after retirement. The TFR is considered a defined contribution plan with respect to amounts vesting after January 1, 2007 for employees who have opted for a supplementary pensions system or who have chosen to maintain the TFR at the company, for companies with more than 50 employees. We have incurred expenses related to the Italian TFR severance indemnity of approximately \$1.5 million for the period from inception to 31 December 2015.

## Note 17. Income Taxes

Income tax expense (benefit) consists of the following:

(in thousands)	From Inception to 31 December 2015
Current tax	\$ (9,279)
Deferred tax	13,908
	<u>\$ 4,629</u>

The following is a reconciliation of the statutory income tax rate to our effective income tax rate expressed as a percentage of income before income taxes:

	From Inception to 31 December 2015
Statutory tax rate at U.K. Rate	20.0%
Effect of Reduction in Italian Tax Rate	(6.10)
Permanent differences	(0.33)
Adjustment to Italian branch NOL deferred tax asset resulting from the merger	(29.10)
Adjustment to Italian branch NOL deferred tax asset from the Italian tax litigation	(18.73)
Italian branch tax rate differential	9.95
Other, net	0.87
Effective tax rate	<u>(23.44) %</u>

Deferred income tax assets and liabilities are summarized as follows:

(in thousands)	31 December 2015
<b>Deferred tax assets:</b>	
Net operating loss carryforwards	\$ 2,625
Accruals and reserves	1,337
Depreciation & amortisation	113
Other	1,013
Total deferred tax assets	<u>\$ 5,088</u>

Deferred tax assets have not been recognized with respect of the following items:

(in thousands)	31 December 2015
Tax loss carryforwards	\$ 16,862
Other	(36,726)
	<u>\$ (19,864)</u>

## **Note 18. Commitments and Contingencies**

### *Litigation and Regulatory Proceedings*

*FDA Warning Letter.* On 31 December 2015, LivaNova received a Warning Letter dated 29 December 2015 from the FDA alleging certain violations of FDA regulations applicable to medical device manufacturers at the Company's Munich, Germany and Arvada, Colorado facilities.

The FDA inspected the Company's Munich facility from 24 August 2015 to 27 August 2015 and its Arvada facility from 24 August 2015 to 1 September 2015. On 27 August 2015, the FDA issued a Form 483 identifying two observed non-conformities with certain regulatory requirements at the Munich facility. The Company did not receive a Form 483 in connection with the FDA's inspection of the Arvada facility. Following the receipt of the Form 483, the Company provided written responses to the FDA describing corrective and preventive actions that were underway or to be taken to address the FDA's observations at the Munich facility. The Warning Letter responded in part to LivaNova's responses and identified other alleged violations not previously included in the Form 483.

The Warning Letter further stated that the Company's 3T Heater Cooler devices and other devices manufactured by the Company's Munich facility are subject to refusal of admission into the United States until resolution of the issues set forth by the FDA in the Warning Letter. The FDA has informed the Company that the import alert is limited to the 3T Heater Cooler devices, but that the agency reserves the right to expand the scope of the import alert if future circumstances warrant such action. The Warning Letter did not request that existing users cease using the 3T Heater Cooler device, and manufacturing and shipment of all of the Company's products other than the 3T Heater Cooler remain unaffected by the import limitation. To help clarify these issues for current customers, the Company issued an informational Customer Letter in January 2016, and that same month agreed with the FDA on a process for shipping 3T Heater Cooler devices to existing U.S. users pursuant to a certificate of medical necessity program.

Lastly, the Warning Letter states that premarket approval applications for Class III devices to which certain Quality System regulation deviations identified in the Warning Letter are reasonably related will not be approved until the violations have been corrected. However, the Warning Letter only specifically names the Munich and Arvada facilities in this restriction, which do not manufacture or design devices subject to premarket approval.

The Company is continuing to work diligently to remediate the FDA's inspectional observations for the Munich facility as well as the additional issues identified in the Warning Letter. The Company takes these matters seriously and intends to respond timely and fully to the FDA's requests.

The Warning Letter had no impact on the Company's financial statements during 2015. The Company currently believes that less than 1% of 2016 sales could be impacted by this Warning Letter and that the FDA's concerns can be resolved without a material impact on the Company's financial results.

*Baker, Miller et al v. LivaNova PLC.* On 12 February 2016, LivaNova was alerted that a class action complaint had been filed in the U.S. District Court for the Middle District of Pennsylvania with respect to the Company's 3T Heater Cooler devices, naming as evidence, in part, the Warning Letter issued by the FDA in December 2015. The named plaintiffs to the complaint are two individuals who underwent open heart surgeries at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center in 2015, and the complaint alleges that: (i) patients were exposed to a harmful form of bacteria, known as nontuberculous mycobacterium ("NTM"), from LivaNova's 3T Heater Cooler devices; and (ii) LivaNova knew or should have known that design or manufacturing defects in 3T Heater Cooler devices can lead to NTM bacterial colonization, regardless of the cleaning and disinfection procedures used (and recommended by the Company). Named plaintiffs seek to certify a class of plaintiffs consisting of all Pennsylvania residents who underwent open heart surgery at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center between 2011 and 2015 and who are currently asymptomatic for NTM infection (approximately 3,600 patients).

The putative class action, which has not been certified, seeks: (i) declaratory relief finding the 3T Heater Cooler devices are defective and unsafe for intended uses; (ii) medical monitoring; (iii) general damages; and (iv) attorneys' fees. On 21 March 2016, the plaintiffs filed a First Amended Complaint adding Sorin Group Deutschland GmbH and Sorin Group USA, Inc. as defendants.

At LivaNova, patient safety is of the utmost importance, and significant resources are dedicated to the delivery of safe, high-quality products. The Company intends to vigorously defend against these claims. Given the early stage of this matter, we cannot, however, give any assurances that additional legal proceedings making the same or similar allegations will not be filed against LivaNova PLC or one of its subsidiaries, nor that the resolution of the complaint and any related litigation in connection therewith will not have a material adverse effect on the Company's business, results of operations, financial condition and/or liquidity.

*SNIA Litigation.* Sorin S.p.A. was created as a result of a spin-off (the "Sorin spin-off") from SNIA S.p.A. ("SNIA"). The Sorin spin-off, which spun off SNIA's medical technology division, became effective on January 2, 2004. Pursuant to the Italian Civil Code, in a spin-off transaction, the parent and the spun-off company can be held jointly liable for certain indebtedness or liabilities of the pre-spin-off company in two scenarios:

- The parent and the spun-off company can be held jointly liable, up to the actual value of the shareholders' equity conveyed or received, for "debt" (*debiti*) of the pre-spin-off company that existed at the time of the spin-off. This joint liability is secondary in nature and, consequently, arises only when such indebtedness is not satisfied by the company owing such indebtedness. We estimate that at the time of the spin-off, the value of the residual shareholders' equity received was approximately €573 million.
- The parent and the spun-off company can be held jointly liable, up to the actual value of the shareholders' equity conveyed or received, for "liabilities" (*elementi del passivo*) whose allocation between the parties to the spin-off cannot be determined based on the spin-off plan.

For purposes of the Italian Civil Code, Sorin believes and has argued that the term "debt" (*debiti*) is generally understood to refer to indebtedness as reflected on a debtor's balance sheet for accounting purposes in accordance with the European Union directive pursuant to which these provisions of the Italian Civil Code were enacted, which translates "*debiti*" as "obligations." The European Union directive uses "obligations" to refer to indebtedness owed to creditors and the term "liabilities" to refer to general liabilities. In connection with the Sorin spin-off, the assets and liabilities of SNIA's medical technology division were allocated to Sorin, and the

remaining assets and liabilities of SNIA, including those related to the Caffaro chemical operations (as described below), were allocated to SNIA.

Between 1906 and 2010, SNIA's subsidiaries Caffaro Chimica S.r.l. and Caffaro S.r.l. and their predecessors (the "SNIA Subsidiaries"), conducted certain chemical operations (the Caffaro Chemical Operations"), at sites in Torviscosa, Brescia and Colleferro, Italy (the "Caffaro Chemical Sites"). These activities allegedly resulted in substantial and widely dispersed contamination of soil, water and ground water caused by a variety of hazardous substances released at the Caffaro Chemical Sites. In 2009 and 2010, SNIA and the SNIA Subsidiaries filed for insolvency. In connection with SNIA's Italian insolvency proceedings, the Italian Ministry of the Environment and the Protection of Land and Sea (the "Italian Ministry of the Environment"), sought compensation from SNIA in an aggregate amount of €3.4 billion for remediation costs relating to the environmental damage at the Caffaro Chemical Sites allegedly caused by the Caffaro Chemical Operations. The amount, which was based on certain clean-up activities and precautionary measures set forth in three technical reports prepared by ISPRA, the technical agency of the Ministry of Environment. Similar activities and precautionary measures have also been requested to the SNIA Subsidiaries by the Ministry of Environment and other competent authorities in the context of the administrative proceeding for the remediation of the Caffaro Chemical Sites. However, these administrative acts have been invalidated in part by courts in Friuli Venezia Giulia (for the site of Torviscosa) and Brescia, which deemed them based on fact-finding. The administrative proceeding regarding the Torviscosa site is also currently subject to a criminal investigation by the Public Prosecutor of Udine. In addition, partial final remediation plans have been approved and implemented for the Colleferro site. These plans provide remediation activities significantly different, and entailing much lower expenses, from those included in the ISPRA's technical reports which ground the request for compensation of the above mentioned amount. Notwithstanding the above, that amount, remains in dispute, and no final remediation plan has been approved for the other site.

In September 2011, the Bankruptcy Court of Udine, and in July 2014, the Bankruptcy Court of Milan each held that the Italian Ministry of the Environment and other Italian government agencies were not creditors of SNIA and the SNIA Subsidiaries in connection with the agencies' claims against them in the context of their Italian insolvency proceedings. LivaNova (as the successor to Sorin in the litigation) believes these findings are influential but not binding in other Italian courts, including civil courts. The Italian Ministry of the Environment and the other Italian government agencies have appealed both decisions, but in January 2016, the Court of Udine rejected the appeal (with a decision which has been challenged before the Italian Supreme Court), while the appeal before the Court of Milan is currently pending. LivaNova (as the successor to Sorin in the litigation) believes these findings are influential but not binding in other Italian courts, including civil courts.

In January 2012, SNIA filed a civil action against Sorin in the Civil Court of Milan on the basis of the Italian Civil Code's provisions for potential joint liability of a parent and a spun-off company in the context of a spin-off, as described above, seeking to determine Sorin's joint liability with SNIA for damages allegedly related to the Caffaro chemical operations (as described below). SNIA's civil action against Sorin also named the Italian Ministry of the Environment and other Italian government agencies, as defendants, in order to have them bound to a potential ruling. The Italian Ministry of the Environment, together with the Italian Ministry of Economy and Finance and certain additional Italian government agencies that also sought compensation from SNIA for the alleged environmental damages, subsequently counterclaimed against Sorin, seeking to have Sorin found jointly liable to them with SNIA, on the same basis. SNIA and these government agencies asked the court to find inapplicable to the Sorin spin-off the Italian Civil Code's caps on potential joint liability of parties to a

spin-off, which limit such joint liability to the actual value of the shareholders' equity received, on the basis that the Sorin spin-off was planned prior to the date such caps were enacted under the Italian Civil Code, and despite the fact that the Sorin spin-off became effective after such date. Sorin sought to contest SNIA's claims against Sorin, in their entirety, due to:

- the Italian bankruptcy courts' previous findings that the Italian Ministry of the Environment and other Italian government agencies were not creditors of SNIA and the SNIA subsidiaries in connection with the agencies' claims against them;
- Sorin's belief that the alleged liabilities related to the Caffaro chemical operations did not constitute indebtedness of SNIA at the time of the Sorin spin-off, and thus that Sorin should not be held liable under the Italian Civil Code's provisions relating to joint liability for indebtedness in the context of spin-offs, as described above; and
- the allocation to SNIA of the assets and liabilities related to the Caffaro chemical operations in connection with the Sorin spin-off, and Sorin's belief that Sorin should therefore not be liable under the Italian Civil Code's provisions relating to joint liability in the context of spin-offs for liabilities of indeterminate allocation, as described above.

A hearing to submit final claims (*precisazione delle conclusioni*) in connection with SNIA's civil action was held in September 2015 and parties have since filed final defense briefs. A favorable decision pertaining to the case was delivered in judgement No. 4101/2016 of 1 April 2016 (the "Decision"). In its Decision the Court of Milan dismissed the legal actions of SNIA s.p.a. in Amministrazione Straordinaria (SNIA) and of the Italian Public Administration (the Public Administration) against Sorin (now LivaNova PLC), further requiring the Public Administration to pay Sorin Euro 300,000, as legal fees (of which Euro 50,000 jointly with SNIA). Neither of the losing parties has yet filed an appeal in this case.

LivaNova (as successor to Sorin in the litigation) continues to believe that the risk of material loss relating to the SNIA litigation is not probable as a result of the reasons and recent court decisions described above. We also believe that the amount of potential losses relating to the SNIA litigation is in any event not estimable given that the underlying damages and related remediation costs (and which party would be responsible for what portion of time period related to which) remain in dispute and that no final decision on a remediation plan has been approved. As a result, LivaNova has not made any accrual in connection with the SNIA litigation.

Pursuant to European Union, United Kingdom and Italian cross-border merger regulations applicable to the Mergers, legacy Sorin's liabilities, including any potential liabilities arising from the claims against Sorin relating to the SNIA litigation, are assumed by LivaNova as successor to Sorin. Although LivaNova believes the claims against Sorin in connection with the SNIA litigation are without merit and continues to contest them vigorously, there can be no assurance as to the outcome. A finding, during any appeal or novel proceedings, that Sorin or LivaNova is liable for the environmental damage at the Caffaro chemical sites could have a material adverse effect on the financial position, results of operations and/or cash flows of LivaNova.



*Environmental Remediation Order.* On 28 July 2015, Sorin and other direct and indirect shareholders of SNIA received an administrative order from the Italian Ministry of the Environment (the “Environmental Remediation Order”), directing them to promptly commence environmental remediation efforts at the Caffaro chemical sites (as described above). LivaNova believes that the Environmental Remediation Order is without merit. LivaNova (as successor to Sorin) believes that it should not be liable for damages relating to the Caffaro chemical operations pursuant to the Italian statute on which the Environmental Remediation Order relies because the statute does not apply to activities occurring prior to 2006, the date on which the statute was enacted, and Sorin was spun off from SNIA in 2004. Additionally, LivaNova believes that Sorin should not be subject to the Environmental Remediation Order because Italian environmental regulations only permit such an order to be imposed on an “operator” of a remediation site, and Sorin had never been identified in any legal proceeding as an operator at any of the Caffaro chemical sites, has not conducted activities of any kind at any of the Caffaro chemical sites and had not caused any environmental damage at any of the Caffaro chemical sites.

Accordingly, LivaNova (as successor to Sorin) alongside other parties, challenged the Environmental Remediation Order before the Administrative Court of Lazio in Rome (TAR). A hearing was held on February 3, 2016.

On March 21, 2016 the TAR issued several judgements, annulling the Environmental remediation Order, one for each of the addressees of the Environmental Remediation Order, including LivaNova. Those judgements were based on the fact that (i) the Order lacks any detailed analysis of the causal link between the alleged damage and the activities of the Company, which is a pre-condition to imposition of the measures proposed in the Order, (ii) the situation of the Caffaro site does not require urgent safety measures, because no new pollution events have occurred and no additional information/evidence of a situation of contamination exists and (iii) the Order was not enacted using the correct legal basis, and in any event the Ministry failed to verify the legal elements that could have led to a conclusion of legal responsibility of the addressees of the Order.

The TAR decision described above may be appealed by the Ministry before the Council of State (within 60 days from the notification of the TAR’s judgement, or six months if the judgement has not been notified.)

*Andrew Hagerty v. Cyberonics, Inc.* On 5 December 2013, the United States District Court for the District of Massachusetts unsealed a qui tam action filed by former employee Andrew Hagerty against Cyberonics under the False Claims Act (the “False Claims Act”) and the false claims statutes of 28 different states and the District of Columbia (*United States of America et al ex rel. Andrew Hagerty v. Cyberonics, Inc.* Civil Action No. 1:13-cv-10214-FDS). The False Claims Act prohibits the submission of a false claim or the making of a false record or statement to secure reimbursement from, or limit reimbursement to, a government-sponsored program. A “qui tam” action is a lawsuit brought by a private individual, known as a relator, purporting to act on behalf of the government. The action is filed under seal, and the government, after reviewing and investigating the allegations, may elect to participate, or intervene, in the lawsuit. Typically, following the government’s election, the qui tam action is unsealed.

Previously, in August 2012, Mr. Hagerty filed a related lawsuit in the same court and then voluntarily dismissed that lawsuit immediately prior to filing this qui tam action. In addition to his claims for wrongful and retaliatory discharge stated in the first lawsuit, the qui tam lawsuit alleges that Cyberonics violated the False Claims Act and various state false claims statutes while marketing its VNS Therapy System, and seeks an unspecified amount consisting of treble damages, civil penalties, and attorneys’ fees and expenses.

In October 2013, the United States Department of Justice declined to intervene in the qui tam action, but reserved the right to do so in the future. In December 2013, the district court unsealed the action. In April 2014, Cyberonics filed a motion to dismiss the qui tam complaint, alleging a number of deficiencies in the lawsuit. In May 2014, the relator filed a First Amended Complaint. Cyberonics filed another motion to dismiss in June 2014, and the parties completed their briefing on the motion in July 2014. On 6 April 2015, the district court dismissed all claims filed by Andrew Hagerty under the False Claims Act, but did not dismiss the claims for wrongful and retaliatory discharge. On 28 July 2015, Cyberonics filed its answer to the surviving claims in Mr. Hagerty's first Amended Complaint and asserted its demand for arbitration pursuant to Mr. Hagerty's employment documents.

In August 2015, Mr. Hagerty filed a Motion Seeking Leave to file a Second Amended Complaint responding to certain deficiencies noted by the court when dismissing claims in his First Amended Complaint alleging that Cyberonics submitted, or caused the submission of false claims under the False Claims Act. On 4 September 2015, Cyberonics filed our Brief in Opposition to Hagerty's Motion for Leave to file a Second Amended Complaint. Mr. Hagerty filed a Reply Brief in support of his Motion for Leave to file a Second Amended Complaint on 11 September 2015. On 16 September 2015, the Court heard oral arguments on (a) Mr. Hagerty's motion seeking to amend his complaint, and (b) Cyberonics' pending motion demanding arbitration on the claims relating to wrongful and retaliatory discharge. On 17 November 2015, the court (1) denied Mr. Hagerty's Motion for Leave to File a Second Amended Complaint (accordingly, the previously dismissed claims remain dismissed); (2) granted Cyberonics' Motion to Compel Arbitration of the two remaining claims (for retaliatory discharge under the False Claims Act and for wrongful termination/retaliation under Massachusetts law); and (3) stayed the pending case (in order to consolidate all issues for appeal pending resolution of the arbitration). On or about 22 February 2016, Mr. Hagerty dismissed, without prejudice, his individual claims that were ordered to arbitration. Subsequently, on or about 21 March 2016, Mr. Hagerty filed an appeal of the previously dismissed FCA claims with the U.S. First Circuit Court of Appeals. The appeal is pending.

We believe that our commercial practices were and are in compliance with applicable legal standards, and we will continue to defend this case vigorously. We make no assurance as to the resources that will be needed to respond to these matters or the final outcome, and we cannot estimate a range of potential loss or damages.

*Tax Litigation.* In a tax audit report notified on 30 October 2009, the Regional Internal Revenue Office of Lombardy (the "Internal Revenue Office") informed Sorin Group Italia S.r.l. that, among several issues, it was disallowing in part (for a total of €102.6 million) a tax-deductible write down of the investment in the U.S. company, Cobe Cardiovascular Inc., which Sorin Group Italia S.r.l. recognised in 2002 and deducted in five equal installments, beginning in 2002. In December 2009, the Internal Revenue Office issued notices of assessment for 2002, 2003 and 2004. The assessments for 2002 and 2003 were automatically voided for lack of merit. In December 2010 and October 2011, the Internal Revenue Office issued notices of assessment for 2005 and 2006 respectively. The Company challenged all three notices of assessment (for 2004, 2005 and 2006) before the relevant Provincial Tax Courts.

The preliminary challenges filed for 2004, 2005 and 2006 were heard and all denied at the first jurisdictional level, and subsequently, the Company filed an appeal against the decisions in the belief that all the decisions are incorrect in their reasoning and radically flawed. The appeal submitted against the first-level decision for 2005 was rejected. The second-level decision (relating to the 2005 notice of assessment) was appealed to the Italian Supreme Court (Corte di Cassazione), where LivaNova will argue that the assessment should be deemed null and void and illegitimate because of a false application of regulations. This litigation is still pending before the Italian Supreme Court.

In November 2012, the Internal Revenue Office served a notice of assessment for 2007 and, in July 2013, served a notice of assessment for 2008, wherein the Internal Revenue Office claimed an increase in taxable income due to a reduction (similar to the previous notices of assessment for 2004, 2005 and 2006) of the losses reported by Sorin Group Italia S.r.l. for the 2002, 2003 and 2004 tax periods and utilized in 2007 and 2008. Both notices of assessment were challenged within the statutory deadline. The Provincial Tax Court of Milan suspended the decision until the litigation regarding years 2004, 2005 and 2006 are defined.

The total amount of losses in dispute is €62.6 million. At the time of Cyberonics-Sorin merger, LivaNova carefully reassessed its exposure, on this complex tax litigation, taking into account the recent general adverse trend to taxpayers on litigations with Italian tax authorities. Although the Company's defensive arguments are strong, the negative Court trend experienced so far by Sorin (four consecutive negative judgements received to date) as well as the fact of the ultimate outcome being dependent on the last possible Court level, i.e. the Italian Supreme Court, which is entitled to resolve only on procedural and legal aspects of the case but not on its substance, led LivaNova to recognise a risk provision of \$18.3 million.

*Other Litigation.* Additionally, we are the subject of various pending or threatened legal actions and proceedings that arise in the ordinary course of our business. These matters are subject to many uncertainties and outcomes that are not predictable and that may not be known for extended periods of time. Since the outcome of these matters cannot be predicted with certainty, the costs associated with them could have a material adverse effect on our net income, financial position or cash flows.

#### *Lease Agreements*

We have operating leases for facilities and equipment. Rent expense from all operating leases amounted to approximately \$0.5 million from inception to 31 December 2015.

Future minimum lease payments for operating leases as of 31 December 2015 are as follows (in thousands):

No later than 1 year	\$	1,366
Later than 1 year and no later than 5 years		1,770
Later than 5 years		—
Present value of minimum lease payments	\$	3,136

*Other commitments and contingencies.* Certain potential commitments of LivaNova related to the funding of equity method investments are such that LivaNova invests in minority shares of companies with assets still in development that often require milestone and/or royalty payments to a third party, contingent upon the occurrence of certain future events. Milestone payments may be required, and are contingent upon the successful achievement of an important point in the development life cycle of a product or upon certain pre-designated levels of achievement in clinical trials. A number of these arrangements give LivaNova the discretion to unilaterally make the decision to stop development of a product or cease progress of a clinical trial, which would allow LivaNova to avoid making the contingent payments. Although LivaNova is unlikely to cease development if a device successfully achieves clinical testing objectives, these are not considered contractual obligations because of the contingent nature of these payments and LivaNova's ability to avoid them if LivaNova decided to pursue a different path of development.

In the normal course of business, LivaNova periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of LivaNova's products or the negligence of LivaNova's personnel or claims alleging that its products infringe third-party patents or other intellectual property. LivaNova's maximum exposure under these indemnification provisions cannot be estimated, and LivaNova has not accrued any liabilities within LivaNova's financial statements, with the exceptions of those which will probably require the use of financial resources in an amount that can be estimated reliably.

#### **Note 19. Related Parties**

Interests in subsidiaries are set out in "Note 8. *Investments In subsidiaries*". In the normal course of business the Company issues loans, purchases and sells services from/ to various related parties in which the Company typically holds a 50% or less equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

The Company provided LivaNova group companies with support and assistance for human resource development, financial management, legal, tax and corporate assistance.

Payment for the services rendered is made in arrears each month, and interest rates are at arm's length.

The following transactions arose from sale and financing transactions with the Company's subsidiaries (in thousands):

	<b>Subsidiaries</b>	
	<b>From Inception to 31 December</b>	<b>% of Total</b>
Revenue	\$ 1,758	99.7 %
Selling, general and administrative	1,609	(14.3)%
Interest income	196	98.5 %
Interest expense	897	49.6 %

The following balances arose from sale and financing transactions with the Company's subsidiaries (in thousand):

	Subsidiaries	
	31 December 2015	% of Total
<b>Assets</b>		
Other assets - non-current	\$ 3,011	70.2%
Other financial assets - current	88,600	100.6%
Trade receivables - current	3,840	99.8%
Other receivables - current	11,471	79.1%
<b>Liabilities</b>		
Financial liabilities - current	\$ 637,462	89.8%
Trade payables - current	1,718	16.9%
Other payables - current	3,860	40.8%
Financial liabilities - non-current	111,012	57.7%

Total compensation in respect of key management, who are defined as the Board of Directors and certain members of senior management, is considered to be a related party transaction.

The total compensation, including amounts recharged from other Group companies, in respect of LivaNova PLC key management was as follows (in thousands):

	From Inception to 31 December 2015
Salaries and short-term benefits	\$ 1,473
Post-employment benefits	80
Termination benefits	1,452
Share-based compensation	1,962
	<u>\$ 4,967</u>

## Note 20. Statement of Income (Loss) - Expenses by Nature

(in thousands)	From Inception to 31 December 2015
Revenue	\$ 1,764
Other income	28
Cost of raw materials and other materials	(45)
Cost of services used	(9,363)
Personnel expense	(3,527)
Amortisation, depreciation and write-downs	(131)
Interest expense	(1,807)
Interest income	199
Foreign exchange	(6,867)
<b>Profit (loss) before taxes</b>	<b>(19,749)</b>
Income tax expense (benefit)	4,629
<b>Loss for the period</b>	<b>\$ (24,378)</b>

## Note 21. Employee and Key Management Compensation Costs

### *Employee costs*

	From Inception to 31 December 2015
Wages and salaries	\$ 1,344
Shared-based payments	1,764
Other employee costs	419
	<b>\$ 3,527</b>

Details of Directors' remuneration are included in pages 61 to 84 of the Directors' remuneration report, which forms part of these financial statements.

### *Employee numbers*

The average monthly employee numbers on a full-time equivalent basis, including executive directors were 35 for the period from inception to 31 December 2015.

## Note 22. Exceptional Items

The following exceptional items are included within operating profit:

	<b>From Inception to 31 December 2015</b>
Integration expenses	\$ 2,650
Restructuring expenses	1,456
	<b>\$ 4,106</b>

*Integration Expenses.* Integration expenses consisted primarily of consultation with regard to: our systems integration, organization structure integration, finance, synergy and tax planning, our London Stock Exchange listing and certain re-branding efforts.

*Restructuring Expenses.* After the consummation of the Mergers between Cyberonics with Sorin in October 2015, we initiated several restructuring plans to combine our business operations. We identify costs incurred and liabilities assumed for the Restructuring Plans. The Restructuring Plans are intended to leverage economies of scale, eliminate duplicate corporate expenses, streamline distributions and logistics and office functions in order to reduce overall costs.

## Note 23. Auditors' Remuneration

<b>(in thousands)</b>	<b>From Inception to 31 December 2015</b>
LivaNova auditors	
Fees payable to the Company's auditor and its associates for the audit of parent company financial statements	\$ 75
<b>Total audit fees payable to the Company's auditor</b>	<b>\$ 75</b>

## Note 24. New Accounting Pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

*IFRS 9 Financial Instruments.* In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

*IFRS 15 Revenue from Contracts with Customers.* IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

*IFRS 16 Leases.* In January 2016, the IASB issued final accounting guidance on leases which provides a new model for lease accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortization of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, *IFRS 15 Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

The Company does not expect to adopt IFRS 9 or IFRS 15 before 1 January 2018 and has not yet determined its date of adoption for IFRS 16. The Company has not yet completed its evaluation of the effect of adoption of these standards. The EU has not yet adopted IFRS 9, IFRS 15 or IFRS 16 and consequently these standards are not yet available for early adoption to the Company.

There are no other standards and interpretations in issue but not yet adopted that the management anticipate will have a material effect on the reported income or net assets of the Company.

## **Note 25. Events After Reporting Period**

### *Reorganisation Plan*

On March 10, 2016, the Company announced a reorganization plan for its Cardiac Rhythm Management Business Unit intended to strengthen its operational effectiveness and efficiency in response to changes in the global marketplace. The Company estimates that, net of new positions created, the reorganization plan will result in a reduction of around 140 in the workforce, primarily based at the Company's facility in Clamart, France. The plan also contemplates the closure of the Company's research and development facility in Meylan, France, and the consolidation of the Business Unit's research and development capabilities into the Clamart facility. In addition, the research and development team of the Company's New Ventures organization will be combined with those of the Cardiac Rhythm Management Business Unit. Although terms are not likely to be finalized until the second quarter of 2016, the Company believes that the reduction in force should be accomplished primarily through voluntary separation packages. The Company estimates that these actions will result in total pre-tax charges of approximately \$16 million to \$21 million in 2016, relating to non-recurring cash employee-related costs, including costs for severance and other employee-related assistance and other exit costs associated with the plan.



### *Capital (Reduction)*

Subsequent to the year end, the majority of the merger relief reserve as at 31 December 2015 was capitalised by way of a bonus share issue, which gave rise to an increase in the company's share premium account. Having previously obtained shareholder approval on 16 October 2015, and following the approval of the High Court of Justice, Chancery Division on 6 April 2016, the share premium of the Company in the amount of \$2,587 million was cancelled. The purpose of the cancellation of the share premium account was to create distributable reserves in the books of account of the Company to be used for any corporate purpose of the Company for which realised profits are required.

## GLOSSARY AND DEFINITIONS

The following definitions apply throughout this UK Annual Report (other than in the Financial Statements) unless the context requires otherwise:

<b>"Affordable Care Act"</b> .....	the US Patient Protection and Affordable Care Act, as amended by the Health Care and Educational Reconciliation Act;
<b>"ART"</b> .....	autonomic regulation therapy;
<b>"Auditor"</b> .....	PricewaterhouseCoopers LLP, the Company's independent UK statutory auditor;
<b>"Board"</b> .....	the Company's board of directors;
<b>"Business Units"</b> .....	LivaNova's three principal business units, Neuromodulation, Cardiac Surgery and CRM;
<b>"Caisson"</b> .....	Caisson Interventional LLC;
<b>"CEO"</b> .....	Chief Executive Officer;
<b>"CE Mark"</b> .....	certification demonstrating minimum standards of performance, safety and quality (i.e., the essential requirements) set out in the EU Medical Devices Directives (Council Directive 93/42/EEC on Medical Devices and Council Directive 90/385/EEC on Active Implantable Medical Devices);
<b>"Cerbomed"</b> .....	Cerbomed GmbH;
<b>"CFO"</b> .....	Chief Financial Officer;
<b>"CMS"</b> .....	the Centers for Medicare and Medicaid Services;
<b>"Code"</b> .....	the US Internal Revenue Code;
<b>"Company"</b> .....	LivaNova PLC, a company incorporated in England and Wales;
<b>"Companies Act"</b> .....	the Companies Act 2006 of England and Wales;
<b>"COSO Framework"</b> .....	the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission in the US;
<b>"CRM"</b> .....	cardiac rhythm management;
<b>"CRT-Ds"</b> .....	cardiac resynchronisation therapy devices;
<b>"CSA"</b> .....	central sleep apnea;
<b>"Cyberonics"</b> .....	Cyberonics. Inc., a Delaware corporation, including (whether the context requires) its subsidiaries and subsidiary undertakings;
<b>"Cyberonics Compensation Committee"</b> .....	the compensation committee of the board of directors of Cyberonics;
<b>"Cyberonics FY 2015"</b> .....	the financial year for Cyberonics ended 24 April 2015;
<b>"Cyberonics Merger"</b> .....	the merger of Merger Sub with and into Cyberonics, with Cyberonics continuing as the surviving company and a wholly-owned subsidiary of the Company;
<b>"DAB"</b> .....	the Departmental Appeals Board of the US Department of Health and Human Services;
<b>"DTRs"</b> .....	the disclosure rules and transparency rules of the FCA;

<b>"EBT"</b> .....	LivaNova PLC Employee Benefit Trust;
<b>"EEA"</b> .....	the European Economic Area;
<b>"EIB"</b> .....	European Investment Bank;
<b>"EU"</b> .....	the European Union;
<b>"Exchange Act"</b> .....	the US Securities Exchange Act of 1934 (as amended);
<b>"FCA"</b> .....	the UK Financial Conduct Authority;
<b>"FCPA"</b> .....	the US Foreign Corrupt Practices Act of 1977;
<b>"FSCAs"</b> .....	field safety corrective actions;
<b>"ICDs"</b> .....	implantable cardioverter defibrillators;
<b>"IDE"</b> .....	investigational device exemption;
<b>"IFRS"</b> .....	International Financial Reporting Standards, as adopted by the EU;
<b>"ImThera"</b> .....	ImThera Medical, Inc.;
<b>"IRBs"</b> .....	institutional review boards;
<b>"ISO"</b> .....	the International Standards Organisation;
<b>"Italian Stock Exchange"</b> .....	the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A.;
<b>"Highlife"</b> .....	Highlife S.A.S.;
<b>"HIPAA"</b> .....	the US Health Insurance Portability and Accountability Act of 1996;
<b>"HITECH"</b> .....	the US Health Information Technology and Clinical Health Act;
<b>"Incentive Award Plan"</b> .....	the LivaNova PLC 2015 Incentive Award Plan;
<b>"IRS"</b> .....	the US Internal Revenue Service;
<b>"KPI"</b> .....	key performance indicator;
<b>"Legacy Sorin Plans"</b> .....	the legacy Sorin share plans;
<b>"LivaNova"</b> .....	the Company and its subsidiaries and subsidiary undertakings, including (where the context so requires) Cyberonics and Sorin prior to the Mergers becoming effective;
<b>"LSE"</b> .....	the London Stock Exchange plc;
<b>"MDET"</b> .....	medical device excise tax;
<b>"Medical Devices Regulation"</b> .....	proposed replacement for the Medical Devices Directive and the Active Implantable Medical Devices Directive as part of revision of the EU regulatory framework for medical devices;
<b>"Merger Agreement"</b> .....	the definitive transaction agreement entered into by the Company, Cyberonics, Sorin and Merger Sub, dated 23 March 2015;
<b>"Merger Sub"</b> .....	Cypher Merger Sub, Inc., a Delaware corporation;
<b>"Mergers"</b> .....	the Sorin Merger and the Cyberonics Merger;

<b>"MRI"</b> .....	magnetic resonance imaging;
<b>"MHLW"</b> .....	the Ministry of Health, Labour and Welfare of Japan;
<b>"NASDAQ"</b> .....	the NASDAQ Global Market;
<b>"NASDAQ Rules"</b> .....	NASDAQ Stock Market Rules;
<b>"New Ventures"</b> .....	LivaNova's New Ventures group;
<b>"NTM"</b> .....	nontuberculous mycobacterium;
<b>"Official List"</b> .....	the official list of listed securities maintained by the FCA;
<b>"Ordinary Shares"</b> .....	ordinary shares of £1.00 each in the capital of the Company;
<b>"OSA"</b> .....	obstructive sleep apnea;
<b>"PAC"</b> .....	political action committee;
<b>"PAL"</b> .....	the Pharmaceutical Affairs Law of Japan;
<b>"Pearl Meyer"</b> .....	Pearl Meyer & Partners, LLC, an independent compensation consultant with an international scope;
<b>"PMA"</b> .....	pre-market approval;
<b>"PMDA"</b> .....	the Pharmaceutical and Medical Devices Agency of Japan;
<b>"PRT"</b> .....	phospholipid reduction treatment;
<b>"QSR"</b> .....	the US FDA's Quality System Regulation under section 520 of the US FDCA;
<b>"Restructuring Plan"</b> .....	the restructuring plan initiated by LivaNova after consummation of the Mergers in October 2015;
<b>"R&amp;D"</b> .....	research and development;
<b>"RSUs"</b> .....	restricted stock units;
<b>"SARs"</b> .....	stock appreciation rights;
<b>"SEC"</b> .....	the US Securities and Exchange Commission;
<b>"Section 4985 Excise Tax"</b> .....	the tax imposed under section 4985 of the Code;
<b>"Section 7874"</b> .....	section 7874 of the Code;
<b>"Section 7874 Percentage"</b> .....	the per cent. ownership requirements imposed by Section 7874 under which a company may be considered to be a corporation foreign to the US;
<b>"SG&amp;A"</b> .....	selling, general and administrative;
<b>"Sorin"</b> .....	Sorin S.p.A., a joint stock company organised under the laws of Italy, including (where the context so requires), its subsidiaries and subsidiary undertakings;
<b>"Sorin Merger"</b> .....	the merger of Sorin with and into the Company, with the Company continuing as the surviving company;
<b>"Transitional Period"</b> .....	the results from operations for Cyberonics for the period 25 April 2015 to 31 December 2015 and the results of operations for Sorin for the period 19 October 2015 to 31 December 2015;

<b>"TRD"</b> .....	treatment resistant depression;
<b>"UK Bribery Act"</b> .....	the UK Bribery Act of 2010;
<b>"UK Corporate Governance Code"</b> .	the UK Corporate Governance Code published by the Financial Reporting Council;
<b>"US"</b> .....	the United States of America;
<b>"US Anti-Kickback Statute"</b> .....	the US federal Anti-Kickback Statute;
<b>"US False Claims Act"</b> .....	the US federal False Claims Act;
<b>"US FDA"</b> .....	the US Food and Drug Administration;
<b>"US FDCA"</b> .....	the US federal Food, Drug and Cosmetic Act;
<b>"US GAAP"</b> .....	the accounting principles generally accepted in the US;
<b>"VNS"</b> .....	vagus nerve stimulation; and
<b>"\$"</b> .....	US dollars.



*From left to right on front cover -*

**AspireSR:**

*Neuromodulation*

The only VNS Therapy system that provides responsive stimulation to heart-rate increases that are often associated with seizures in people with epilepsy. Aspire SR® was approved in the United States in June, 2015.

**INSPIRE:**

*Cardiac Surgery*

A completely new family of adult oxygenators designed from years of research and laboratory experience, input from clinical experts from around the world and the application of advanced manufacturing technologies that adhere to the highest quality standards. Combined with an electronic perfusion charting system (Connect™) and a world-leading heart-lung machine design, Inspire™ was first introduced into the market in 2011.

**Platinum:**

*Cardiac Rhythm Management*

A new range of implantable cardiac defibrillators (ICDs) and cardiac resynchronization therapy devices (CRT-Ds) with the world's longest projected longevity. Platinum™'s longevity will protect patients from avoidable replacement surgeries and inherent risk of complications. Platinum was approved in Europe and Japan in November, 2015.

**Perceval:**

*Cardiac Surgery*

A 100 percent sutureless valve for aortic valve replacement. Perceval™ is designed to be highly versatile and suitable for a wide range of surgical approaches, including traditional and minimally invasive. Launched in the United States in January, 2016, Perceval is commercially available in more than 80 countries and has the broadest follow-up published in sutureless solutions.

