



LivaNova PLC Half-Year Report

At 30 June 2016

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This Half-Year Report should be read in conjunction with our 2015 Annual Report, which includes a detailed analysis of our operations and activities.

These condensed consolidated interim financial statements have not been audited or reviewed.

Interim Management Report

Business Unit Highlights

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 (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”.

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, Cardiac Rhythm Management and Neuromodulation, 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.

In the first half of 2016, we operated our business through three segments, which we call Business Units: Cardiac Surgery, Cardiac Rhythm Management and Neuromodulation. Each Business Unit corresponds to one of our three main therapeutic areas resulting from the strategic combination of Cyberonics and Sorin and aligned to best serve our customers and capitalize upon the benefits of the business combination. The historical Cyberonics operations are included under the Neuromodulation Business Unit.

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. Cardiac Surgery consists of two sub-categories, Cardiopulmonary and Heart Valves. Cardiopulmonary products include oxygenators, heart-lung machines, perfusion tubing systems, cannulae and accessories and systems for autotransfusion and autologous blood washing. Heart Valve products include a comprehensive line of surgical tissue and mechanical valve replacements and repair products for damaged or diseased heart valves.

Cardiopulmonary Recent Developments

In December 2015, we received United States (“U.S.”) Food and Drug Administration (“FDA”) Warning Letter (the “Warning Letter”) alleging certain violations of FDA regulations applicable to our Munich, Germany and Arvada, Colorado, U.S. manufacturing facilities. The Warning Letter included an immediate prohibition on the importation of 3T Heater Cooler devices to the U.S., though the Warning Letter did not request that existing users cease using the 3T Heater Cooler device. While we cannot sell additional 3T Heater Cooler devices to new customers, we can service existing customers through a medically necessary protocol. We take these matters seriously and are working diligently to resolve the concerns raised by the FDA and to reduce any adverse impact this import restriction will have on existing U.S. customers of 3T Heater Cooler devices. We believe that the FDA’s concerns can be resolved without a material impact on our financial results. Manufacturing and shipment of all of our products other than the 3T Heater Cooler are unaffected by this limitation at the present time and will continue as normal. For further information, please refer to “Note 17. *Commitments and Contingencies*” in our condensed consolidated financial statements included in this Half Year Report ended 30 June 2016.

Heart Valve Recent Developments

In January 2016, we announced FDA approval of our PercevalTM valve. PercevalTM is the only sutureless biological aortic replacement valve on the market today with a unique self-anchoring frame that enables the surgeon to replace the diseased valve without suturing it into place. While we have been selling PercevalTM in other parts of the world, we began commercial distribution of the device in the U.S. with the first implant announced on 8 March 2016. To date, the PercevalTM valve has been implanted in more than 15,000 patients in over 310 hospitals worldwide.

In addition, in early February 2016, we announced that we had received FDA approval of the CROWN PRTTM valve for the treatment of aortic valve disease. The CROWN PRTTM is a stented aortic bioprosthesis technology and features a surgeon-friendly design, with optimized hemodynamics with patented PRT, designed to enhance valve durability. We anticipate launching CROWN PRTTM in the U.S. later this year.

In the production area, we entered into a supply agreement in March 2013 for the production of components for the LotusTM system, Boston Scientific Corporation's second-generation device for transcatheter aortic valve replacement ("TAVR"). Under the terms of the agreement, LivaNova continues to perform certain stages of production of the tissue valve at our manufacturing facility in Vancouver, Canada.

Cardiac Rhythm Management Business Unit

The Cardiac Rhythm Management ("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 Recent Developments

The 2015 and the 2016 Reorganization Plans (the "Plans") were initiated October 2015 and March 2016, respectively, and were initiated in conjunction with the Mergers. These Plans are intended to leverage economies of scale, streamline distribution and logistics and strengthen operational and administrative effectiveness in order to reduce overall costs. Costs associated with these Plans were reported as restructuring expense in the operating results of our condensed consolidated statement of income (loss). As part of these Plans, certain activities previously undertaken within the New Ventures organization will be integrated into and combined with the CRM Business Unit. We estimate that these Plans will result in a net reduction in the workforce at our manufacturing and research and development ("R&D") facility located in Clamart, France. This plan also includes the closure of our R&D facility in Meylan, France and consolidation of the R&D capabilities into the Clamart facility.

In November 2015, we launched the PLATINIUMTM ICD in Europe. During 2015, we continued the development of our IS4 PLATINIUMTM CRTD with SonRTM dedicated to the use of quadripolar left ventricular leads 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.

In June 2015, we announced the European launch of a full body MRI compatible pacemaker, the KORA 250TM. The KORA 250TM is equipped with our proprietary Automatic MRI mode. In addition, the device is designed to proactively manage comorbidities, including a pacing mode that manages all types of atrioventricular block ("AV"), referred to as "SafeRTM", and the ability to monitor patients for severe sleep apnea using Sleep Apnea Monitoring ("SAM"). In the first quarter of 2016, the KORA 250TM was approved and launched in Japan.

In June 2013, following FDA approval to initiate a clinical trial under an Investigational Device Exemption ("IDE"), the first patients were enrolled in the U.S. in the Respond CRTTM clinical trial. The purpose of this trial is to assess the safety and effectiveness of the SonR CRTTM system in patients affected by advanced heart failure. In October 2014, Sorin announced having completed enrollment in the Respond CRTTM clinical trial, enrolling 1,039 patients in the study. In May 2016 we announced results from the Respond CRTTM clinical trial, showing that a 35% risk reduction in heart failure hospitalization was associated with SonRTM.

Neuromodulation Business Unit

Our Neuromodulation Business Unit designs, develops and markets neuromodulation-based medical devices for the treatment of epilepsy and depression. Through this Business Unit, we market our proprietary implantable VNS Therapy® Systems that deliver vagus nerve stimulation therapy for the treatment of epilepsy and depression. In July 2005, the FDA approved our VNS Therapy® System for the adjunctive long-term treatment of chronic or recurrent depression for patients 18 years of age or older who have not had an adequate response to multiple anti-depressant treatments. Regulatory bodies in the European Economic Authority (“EEA”), Canada, Brazil, Mexico, Australia, Israel and certain other international markets have approved our 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.

Neuromodulation Recent Developments

In June 2015, the FDA approved AspireSR™ for commercialization in the U.S.. 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.

New Ventures

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

New Ventures Recent Developments

Heart failure. In the heart failure area, New Ventures is currently managing three internal neurostimulation projects that are each aimed at treating heart failure through vagus nerve stimulation: Equilia™, VITARIA™ and Intense. 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 of 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 autonomic regulation therapy (“ART”), and it includes the same elements as the VNS Therapy® System - pulse generator, lead, programming wand and software, programming computer, tunneling tool and accessory pack, but without the patient kit with magnets. Cyberonics conducted a pilot study, ANTHEM-HF, outside the U.S., 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 U.S..

The other principal New Ventures heart failure initiative, Intense, is a broader project that is partially subsidized 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 project, which could include future development efforts such as additional clinical trials or re-evaluation of certain projects.

Sleep Apnea. In October 2014, Sorin invested \$20 million in Respicardia, a U.S.-based developer of implantable therapies designed to improve Respiratory Rhythm Management and cardiovascular health. Respicardia’s remedé® System is an implantable device system designed to restore a more natural breathing pattern during sleep in patients with central sleep apnea (“CSA”) by transvenously stimulating the phrenic nerve. The remedé® System received CE Mark certification in 2010 and is

currently available in certain countries in Europe. Results from a randomized, controlled pivotal trial were reported at the European Society of Cardiology - Heart Failure meeting in May 2016. Investigators reported that patients in the treatment group were significantly more likely to have a reduction in Apnea Hypopnea Index ("AHI") of $\geq 50\%$ between baseline and 6 months ($p < 0.001$) compared to patients in the control group. This result was matched by significant improvements in other apnea-related parameters and quality of life measures. The device was well-tolerated, with 91% of patients free from serious adverse events associated with implantation. Respicardia expects to apply for U.S. FDA approval later this year.

Cyberonics completed an investment of \$12.0 million in ImThera Medical, Inc. ("ImThera") by December 2013. ImThera is a privately held company developing an implantable neurostimulation device system for the treatment of obstructive sleep apnea ("OSA"). The aura6000® System stimulates the hypoglossal nerve to treat OSA. In November 2014, ImThera announced that the U.S. FDA approved an IDE for their pivotal clinical study and patient enrollment has commenced. Additionally, in 2013, Cyberonics acquired the assets of Apex Medical, a privately held medical device company developing an implantable neurostimulation device system for the treatment of OSA. The Apex HGNS System is an implantable therapy that is intended to work by activating the muscles in the upper airway to ensure that the airway remains open during sleep.

Mitral valve regurgitation. Sorin also invested in three mitral valve startups. Cardiosolutions Inc., a startup headquartered in the U.S. is developing an innovative Spacer technology for treating mitral regurgitation. In addition, Highlife S.A.S. ("Highlife"), headquartered in France, and Caisson Interventional LLC ("Caisson"), headquartered in the U.S., 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. We loaned an additional \$2.8 million to Highlife S.A.S and additional \$1.0 million to Caisson Interventional LLC during the six months ended 30 June 2016.

Results For The Six Months Ended 30 June 2016

The merger of Cyberonics and Sorin on 19 October 2015 was considered a business combination with Cyberonics considered the acquirer of Sorin using the acquisition method of accounting. As a result, Sorin's assets and liabilities were acquired at their estimated fair values. In addition, LivaNova became the holding company of the combined businesses of Cyberonics and Sorin and the "successor" company to Cyberonics for accounting purposes. We are reporting the results for LivaNova and its consolidated subsidiaries for the period 1 January 2016 to 30 June 2016, which is the first half of the fiscal year ended 31 December 2016. In addition, we are reporting the historical results of Cyberonics and its consolidated subsidiaries for the twenty-six weeks ended 24 July 2015, as the comparative prior fiscal year period, which consists of the thirteen weeks ended 24 April 2015, or the fourth quarter of Cyberonics' fiscal year ended 24 April 2015 and the thirteen weeks ended 24 July 2015, or the first quarter of the transitional fiscal year that ended 31 December 2015.

Upon completion of the Mergers, we reorganized our reporting structure and aligned our segments and the underlying divisions and businesses. The Cyberonics operations and historical data are now included in the Neuromodulation segment, and the Sorin operations are included in the Cardiac Surgery and the CRM segments. Refer to "Note 18. *Segment Information*" to review the condensed consolidated financial statements included in this half year report ended 30 June 2016 for additional discussion related to our segment reporting.

Net Sales

The table below illustrates net sales by operating segment (in thousands, except for percentages):

	Six Months Ended 30 June 2016	Twenty-Six Weeks Ended 24 July 2015 ⁽¹⁾	\$ Increase	% Change
Cardiac Surgery	\$ 304,494	\$ —	\$ 304,494	100.0%
Cardiac Rhythm Management	131,289	—	131,289	100.0%
Neuromodulation	171,397	155,082	16,315	10.5%
Corporate	836	—	836	100.0%
Total	\$ 608,016	\$ 155,082	\$ 452,934	

(1) We developed the equivalent prior period data using unaudited historical Cyberonics' data.

The Cardiac Surgery and CRM segment sales occurred from 1 January 2016 to 30 June 2016, as a result of the Mergers on 19 October 2015.

Neuromodulation net sales for the six months ended 30 June 2016 increased by \$16.3 million or 10.5%, as compared to the twenty-six weeks ended 24 July 2015. Revenue growth was due to an increase in revenue of 14.9% in the U.S. market and a 9.4% decrease in revenue in non-U.S. markets. The revenue increase in the U.S. market resulted from an increase in the average selling price of generators of 12.8% and an increase in generator unit sales of 2.1%. The increase in the average selling price was primarily due to product mix with an increased market penetration of the higher priced AspireSR® generator. The decrease in revenue in non-U.S. markets resulted from a decrease in generator unit sales of 8.7% and a decrease in the average selling price of 0.7%. The decrease in the average selling price was primarily due to unfavourable foreign exchange rates although partially offset by an increase in sales of leads. The decrease in international unit volume was primarily due to the drop-off of sales activity in Venezuela.

The table below illustrates net sales by market geography (in thousands):

	Six Months Ended 30 June 2016				Twenty-Six Weeks Ended 24 July 2015
	Neuromodulation	Cardiac Surgery	Cardiac Rhythm Management	Corporate	Neuromodulation
United States	\$ 146,053	\$ 87,200	\$ 5,300	\$ —	\$ 127,101
Europe ⁽¹⁾	15,785	90,200	104,400	—	17,186
Rest of World	9,559	127,094	21,589	836	10,795
Total	\$ 171,397	\$ 304,494	\$ 131,289	\$ 836	\$ 155,082

(1) 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 our cost of sales and major expenses as a percentage of sales for the six months ended 30 June 2016 as compared to the twenty-six weeks ended 24 July 2015. We developed the equivalent prior period data using unaudited historical Cyberonics' data:

	Six Months Ended 30 June 2016	Twenty-Six Weeks Ended 24 July 2015	% Change
Cost of sales	42.6%	10.9%	31.7 %
Selling, general and administrative	41.3%	40.6%	0.7 %
Research and development	11.4%	13.7%	(2.3)%
Merger and integration expenses	2.1%	9.8%	(7.7)%
Restructuring expenses	5.4%	—%	5.4 %
Litigation related expenses	0.4%	—%	0.4 %

Cost of Sales

Cost of sales consisted primarily of direct labor, allocated manufacturing overhead, the acquisition cost of raw materials and components. Our cost of sales as a percentage of net sales increased to 42.6% for the six months ended 30 June 2016, as compared to 10.9% reported for Cyberonics' historical data for the twenty-six weeks ended 24 July 2015. This increase was primarily due to the inclusion of Sorin's business activities after the Mergers. The amortisation of the step-up in inventory basis at the Mergers accounted for 5.8% of our cost of sales as a percent of net sales for the six months ended 30 June 2016.

Selling, General and Administrative ("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 2015 and 2016 Restructuring Plans initiated after the Mergers.

SG&A expenses as a percentage of net sales for the six months ended 30 June 2016 was 41.3%, as compared to 40.6% for the twenty-six weeks ended 24 July 2015. This increase was primarily due to the increase in amortisation of intangible assets, partially offset by a reimbursement received from the Italian government for the May 2012 earthquake. Amortisation of intangible assets recorded in SG&A for the six months ended 30 June 2016 increased as compared to the twenty-six weeks ended 24 July 2015 due to amortisation of the stepped-up basis of Sorin's intangible assets at the Mergers, principally related to Sorin's customer relationships. In addition, in May 2016, we received a grant of \$4.7 million from the Italian government, the Regione Emilia Romagna, as a reimbursement and offset to the costs Sorin incurred as a consequence of the earthquake of May 2012 in Italy, which we recorded as a reduction to SG&A expenses for the quarter ended 30 June 2016.

Research and Development ("R&D") Expenses

R&D expenses consist of product design and development efforts, clinical trial programs and regulatory activities. R&D expense as a percentage of net sales was 11.4% and 13.7% for the six months ended 30 June 2016 and the twenty-six weeks ended 24 July 2015, respectively. This decrease was due to the completion of certain R&D projects and the reduction of R&D work as a result of our ongoing review of projects and priorities in conjunction with the 2015 and 2016 Reorganization Plans.

Exceptional Items

Merger and Integration Expenses. Our merger and integration expenses consisted primarily of consulting costs associated with computer systems integration efforts, organization structure integration, synergy and tax planning, as well as the integration of internal controls for the two legacy organizations. In addition, integration expenses include retention bonuses, branding and renaming efforts and lease cancellation penalties in Milan and Brussels.

During the six months ended 30 June 2016, we incurred \$13.0 million in merger and integration expenses. We reported these expenses as a part of exceptional items separately in the condensed consolidated statements of income (loss). For the twenty-six weeks ended 24 July 2015 our merger and integration expenses were \$15.2 million. These expenses decreased by \$2.2 million due to a reduction in merger cost post 19 October 2015 partly offset by integration cost.

Restructuring Expenses. Restructuring expenses were primarily due to our efforts under our 2015 and 2016 Reorganization Plans to leverage economies of scale, eliminate duplicate corporate expenses and streamline distributions, logistics and office functions in order to reduce overall costs. We reported these expenses as a part of exceptional items separately in the condensed consolidated statements of income (loss). We incurred restructuring expenses of \$32.8 million in the six months ended 30 June 2016. There were no restructuring expenses in the comparative twenty-six weeks ended 24 July 2015.

Impairment of available-for-sale assets. During the twenty-six weeks ended 24 July 2015, an impairment of \$2.1 million in equity investment in Cerbomed GmbH was recorded. There were no impairments of available-for-sale assets during the period ended 30 June 2016.

Litigation Related Expenses. We report separately certain litigation expenses as part of exceptional items in the condensed consolidated statements of income (loss). For the six months ended 30 June 2016, we reported \$2.3 million of litigation expense related to: (i) the FDA Warning Letter regarding our 3T Heater Cooler devices we manufactured at our Munich facility, and (ii) the SNIA S.p.A litigation regarding potential liabilities arising from claims for environmental damage. There were no litigation related expenses in the comparative twenty-six weeks ended 24 July 2015.

Interest Expense, Net of Interest Income

We incurred interest expense, net of interest income, of \$2.6 million for the six months ended 30 June 2016 and interest income, net of interest expense, of \$56 thousand for the twenty-six weeks ended 24 July 2015. Interest expense for the six months ended 30 June 2016 was primarily interest due the U.S. Internal Revenue Service ("IRS") related to the installment sale of intellectual property to our United Kingdom ("U.K.") subsidiary and interest expense related to the debt acquired in the Mergers.

Foreign Exchange and Other, Net

Foreign exchange and other, net loss of \$1.2 million was recognised during the six months ended 30 June 2016, respectively. This net loss was primarily due to foreign exchange gains and losses on inter-company debt and related freestanding foreign exchange derivative contracts and foreign exchange gains and losses from partially hedged third party financial assets and liabilities. For the twenty-six weeks ended 24 July 2015, foreign exchange and other, net gain of \$0.1 million consisted primarily of foreign exchange gains related to an intercompany trade account.

Income Taxes

Our effective tax rate was (298.9)% for the six months ended 30 June 2016. This rate differed from the U.K. statutory rate of 20% primarily due to the tax impact of the intellectual property migration and to not recording a deferred tax benefit on losses of \$17.7 million primarily in France and the U.K., as well as the tax expense generated by profitable operations in higher tax jurisdictions, such as the U.S. and Germany, offset by tax savings from our inter-co financing, which we entered into as part of our 2015 tax restructuring.

We have consolidated certain of our intangible assets into an entity organized under the laws of England and Wales. As a result, a deferred tax liability was established in the selling jurisdiction to recognise the future tax liability of the sale in the amount of \$156 million and a corresponding deferred tax asset was recorded in the buying jurisdiction to recognise the future tax benefit of the amortisation of the purchased intangibles in the amount of \$76 million. As a result, the impact to deferred tax expense at the time of this transaction is approximately \$80 million.

The effective tax rate for the historical Cyberonics activity for the twenty-six weeks ended 24 July 2015 was 39.8%. This rate was primarily comprised of the U.S. federal income tax rate of 35%, plus state and foreign income taxes and permanent differences.

In April 2016, the Guardia di Finanza, the Italian enforcement agency, under the authority of the Minister of Economy and Finance, commenced an audit of Sorin Group Italia Srl for tax years 2015 and 2014. At this time we are unable to predict the results of the audit.

In April 2016, the U.S. IRS and U.S. Treasury Department issued new rules that materially change the manner in which the determination is made as to whether the U.S. anti-inversion rules under Section 7874 will apply. The new rules have the effect of linking certain future acquisitions of U.S. businesses made in exchange for LivaNova equity with the Mergers, and such linkage may impact our ability to engage in particular acquisition strategies. For example, the new temporary regulations would impact certain acquisitions of U.S. companies in an exchange for stock in LivaNova during the 36 month period beginning 19 October 2015 by excluding from the Section 7874 calculations the portion of shares of LivaNova that are allocable to the legacy Cyberonics shareholders. This new rule would generally have the effect of increasing the otherwise applicable Section 7874 fraction with respect to future acquisitions of a U.S. business, thereby increasing the risk that such acquisition could cause LivaNova to be treated as a U.S. corporation for U.S. federal income tax purposes.

In April 2016, the U.S. IRS and U.S. Treasury Department issued section 385 which provides that certain intercompany debt instruments issued on or after 4 April 2016 will be treated as equity for U.S. federal income tax purposes, therefore limiting U.S. tax benefits and resulting in possible U.S. withholding taxes. Moreover, while these new rules are not retroactive, they may result in our existing debt instruments being treated as reissued, will impact our future intercompany transactions and our ability to engage in future restructuring. These new rules may also impact intercompany transactions relating to financing, treasury, and inventory movements.

Risks & Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on LivaNova's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. For the remainder of 2016 we view our principal risks as relating to the following:

- Global healthcare policy changes, including U.S. healthcare reform legislation, may have a material adverse effect on LivaNova.
- 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.
- 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.
- Patient confidentiality and federal and state privacy and security laws and regulations in the U.S. may adversely impact LivaNova's selling model.
- 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 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.

- If LivaNova's marketed medical devices are defective or otherwise pose safety risks, the U.S. FDA and similar foreign governmental authorities could require their recall, or LivaNova may initiate a recall of its products voluntarily.
- LivaNova's manufacturing operations require LivaNova to comply with the U.S. 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.
- Product liability claims could adversely impact LivaNova's consolidated financial condition and LivaNova's earnings and impair its reputation.
- 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 insurance policies may not be adequate to cover future losses.
- Consolidation in the healthcare industry could have an adverse effect on LivaNova's revenue and results of operations.
- 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 is exposed to foreign currency exchange 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 subject to lawsuits.
- Risks related to access to financial resources.
- Certain of LivaNova's debt instruments will require it to comply with certain affirmative covenants and specified financial covenants and ratios.
- 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'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.
- LivaNova may not realise the cost savings, synergies and other benefits that are anticipated as a result of the Mergers.
- LivaNova's business relationships may be subject to disruption due to uncertainty associated with the Mergers.
- LivaNova has and will continue to incur certain transaction and merger-related costs in connection with the Mergers.
- The IRS may not agree with the conclusion that the Company should be treated as a foreign corporation for U.S. federal tax purposes, and the Company may be required to pay substantial U.S. federal income taxes.
- The Company's ability to engage in certain acquisition strategies and certain internal restructurings may be impacted by recent IRS guidance.
- The Company's status as a foreign corporation for US federal income tax purposes could be affected by a change in law.
- Future changes to U.S. and foreign tax laws could adversely affect the Company.
- The Company may not qualify for benefits under the tax treaty entered into between the U.K. and the U.S..
- The Company believes that it operates so as to be treated exclusively as a resident of the U.K. for tax purposes, but the relevant tax authorities may treat it as also being a resident of another jurisdiction for tax purposes.
- The effective tax rate that will apply to the Company is uncertain and may vary from expectations.

A detailed explanation of these risks can be found on pages 32 to 47 of the U.K. Annual Report and International Financial Reporting Standards ("IFRS") Financial Statements for that period; that report may be located at: www.livanova.com.

The one new risk factor is related to the United Kingdom's Referendum on Withdrawal from the European Union.

The United Kingdom's Referendum on Withdrawal from the European Union

We are a multinational company headquartered in London with worldwide operations, including significant business operations in Europe. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, and has given rise to calls for certain regions within the United Kingdom to preserve their place in the European Union by separating from the United Kingdom as well as for the governments of other European Union member states to consider withdrawal.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility. Lack of clarity about future United Kingdom laws and regulations as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal, including financial laws and regulations, tax and free trade agreements, intellectual property rights, supply chain logistics, environmental, health and safety laws and regulations, immigration laws and employment laws, could increase costs, depress economic activity and restrict our access to capital. If the United Kingdom and the European Union are unable to negotiate acceptable withdrawal terms or if other European Union member states pursue withdrawal, barrier-free access between the United Kingdom and other European Union member states or among the European economic area overall could be diminished or eliminated. Any of these factors could have a material adverse effect on our business, financial condition and results of operations and reduce the price of our ordinary shares.

The current impact on our results of operations has been minimal and the full impact of Brexit, however, remains uncertain. A process of negotiation, which is likely to take two years or longer, will determine the future terms of the United Kingdom's relationship with the European Union. It is unclear at this stage what financial, trade and legal implications the withdrawal of the United Kingdom from the European Union would have and how such withdrawal would affect us. Management will continue to monitor and assess the potential impact of this event on an ongoing basis.

Statement of Directors' Responsibilities

The Directors confirm that, to the best of their knowledge, the condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting', as adopted by the European Union and gives a true and fair view of the assets, liabilities, financial position and profit or loss of LivaNova PLC. The half-year management report includes a fair review of the information required by each of Disclosure and Transparency Rule 4.2.7R and Disclosure and Transparency Rule 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial information, and the description of the principal risks and uncertainties for the remaining six months of the financial year, and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last Annual Report.

The Directors of LivaNova PLC are listed in the LivaNova PLC U.K. Annual Report and IFRS Financial Statements for the period ended 31 December 2015, with the exception of the following changes in the period: Ms. Andrea Saia was appointed on 27 July 2016. A list of current Directors is maintained on the LivaNova website: www.livanova.com.

By order of the Board



André-Michel Ballester, Chief Executive Officer

28 September 2016

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

	Notes	Six Months Ended 30 June 2016 (Unaudited)	Twenty-Six Weeks Ended 24 July 2015 (Unaudited)
Revenue	18	\$ 608,016	\$ 155,082
Cost of sales		(258,982)	(16,968)
Gross profit		<u>349,034</u>	<u>138,114</u>
Operating expenses:			
Selling, general and administrative		(251,039)	(62,931)
Research and development		(69,265)	(21,222)
Operating profit before exceptional items		<u>28,730</u>	<u>53,961</u>
Exceptional items	20	(48,108)	(17,305)
Operating (loss)/profit		<u>(19,378)</u>	<u>36,656</u>
Interest income		534	85
Interest expense		(3,170)	(29)
Foreign exchange and other		(1,218)	107
Share of loss from equity method investments	8	(6,253)	—
(Loss)/profit before tax		<u>(29,485)</u>	<u>36,819</u>
Income tax expense	16	88,119	14,671
(Loss)/profit attributable to owners of the parent		<u>\$ (117,604)</u>	<u>\$ 22,148</u>
Basic (loss)/earnings per share		\$ (2.40)	\$ 0.85
Diluted (loss)/earnings per share		\$ (2.40)	\$ 0.84
Shares used in computing basic (loss)/earnings per share		48,987	26,010
Shares used in computing diluted (loss)/earnings per share		48,987	26,248

See accompanying notes to the condensed consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Notes	Six Months Ended 30 June 2016 (Unaudited)	Twenty-Six Weeks Ended 24 July 2015 (Unaudited)
(Loss)/profit attributable to owners of the parent		\$ (117,604)	\$ 22,148
<i>Items of other comprehensive income that will subsequently be reclassified to profit or loss:</i>			
Cash flow hedges for interest rate fluctuations	12	(212)	—
Tax impact		70	—
Cash flow hedges for exchange rate fluctuations	12	(7,054)	—
Tax impact		2,116	—
Foreign currency translation differences	12	44,485	(313)
Total items of other comprehensive (loss)/income that will subsequently be reclassified to profit or loss		39,405	(313)
<i>Items of other comprehensive income that will not subsequently be reclassified to profit or loss:</i>			
Remeasurements of net (asset) for defined benefits	12	(337)	—
Tax impact		129	—
Total items of other comprehensive (loss)/income that will not subsequently be reclassified to profit or loss		(208)	—
Total other comprehensive (loss)/income, net of taxes		39,197	(313)
Total comprehensive (loss)/income for the period, net of taxes attributable to owners of the parent		\$ (78,407)	\$ 21,835

See accompanying notes to the condensed consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	Notes	30 June 2016 (Unaudited)	31 December 2015 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	7	\$ 232,954	\$ 232,434
Intangible assets	7	671,337	678,231
Goodwill	7	732,710	710,843
Equity investments in associates and joint ventures measured at equity	8	56,282	61,412
Financial assets	9	24,096	18,498
Deferred tax assets		94,102	60,445
Other assets		1,541	1,463
Total non-current assets		1,813,022	1,763,326
Inventories	10	192,730	212,650
Trade receivables	11	296,245	249,075
Other receivables		29,155	24,305
Financial derivative assets		2,829	—
Other financial assets	9	7,263	9,271
Tax assets		30,896	28,624
Cash and cash equivalents		63,886	112,613
Total current assets		623,004	636,538
Total assets		\$ 2,436,026	\$ 2,399,864
LIABILITIES AND EQUITY			
Equity			
Share capital	12	\$ 75,733	\$ 75,444
Group reconstruction reserve	12	1,729,764	1,729,764
Share premium		6,177	1,673
Accumulated other comprehensive income (loss)	12	(25,222)	(64,419)
Retained earnings		(46,535)	59,679
Total equity		\$ 1,739,917	\$ 1,802,141
Non-current liabilities			
Financial derivative liabilities		\$ 2,114	\$ 1,793
Financial liabilities	13	83,266	91,810
Other liabilities		6,177	7,083
Provisions	14	17,312	16,988
Provision for employee severance indemnities and other employee benefit provisions		32,629	32,597
Public grants		4,006	3,918
Deferred income taxes liability		212,351	107,595
Total non-current liabilities		357,855	261,784
Current liabilities			
Trade payables		\$ 117,919	\$ 106,258
Other payables	15	96,322	105,774

See accompanying notes to the condensed consolidated financial statements

Financial derivative liabilities		7,607	1,815
Other financial liabilities	13	68,871	82,513
Provisions	14	29,681	12,880
Tax payable		17,854	26,699
Total current liabilities		<u>338,254</u>	<u>335,939</u>
Total liabilities and equity		<u>\$ 2,436,026</u>	<u>\$ 2,399,864</u>

See accompanying notes to the condensed consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)

	Notes	Common		Additional Paid-In		Accumulated Other Comprehensive		Total Equity
		Number of Shares	Share Capital	Capital	Treasury Shares	Income (Loss)	Retained Earnings	
Balance at 24 January 2015 (unaudited)		32,042	\$ 320	\$ 441,592	\$ (235,185)	\$ (2,924)	\$ 67,313	\$ 271,116
Share-based compensation plans		52	1	8,922	—	—	—	8,923
Purchase of common shares	12	—	—	—	(10,580)	—	—	(10,580)
Total transactions with owners, recognised directly in shareholders equity		52	1	8,922	(10,580)	—	—	(1,657)
Net income		—	—	—	—	—	22,148	22,148
Other comprehensive loss	12	—	—	—	—	(313)	—	(313)
Balance at 24 July 2015 (unaudited)		32,094	\$ 321	\$ 450,514	\$ (245,765)	\$ (3,237)	\$ 89,461	\$ 291,294

	Notes	Ordinary		Group Reconstruction		Accumulated Other Comprehensive		Total Equity
		Number of Shares	Share Capital	Reserve	Share Premium	Income (Loss)	Retained Earnings	
Balance at 1 January 2016		48,868	\$ 75,444	\$ 1,729,764	\$ 1,673	\$ (64,419)	\$ 59,679	\$ 1,802,141
Share-based compensation plans		204	289	—	4,504	—	11,390	16,183
Total transactions with owners, recognised directly in shareholders equity		204	289	—	4,504	—	11,390	16,183
Net loss		—	—	—	—	—	(117,604)	(117,604)
Other comprehensive income	12	—	—	—	—	39,197	—	39,197
Balance at 30 June 2016 (unaudited)		49,072	\$ 75,733	\$ 1,729,764	\$ 6,177	\$ (25,222)	\$ (46,535)	\$ 1,739,917

See accompanying notes to the condensed consolidated financial statements

LIVANOVA AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Notes	Six Months Ended 30 June 2016 (Unaudited)	Twenty-Six Weeks Ended 24 July 2015 (Unaudited)
Cash Flows From Operating Activities:			
(Loss)/profit for the period		\$ (117,604)	\$ 22,148
Non-cash items included in (loss)/profit:			
Depreciation and amortisation	7	43,343	3,488
Share-based compensation		14,241	5,303
Deferred income tax expense (benefit)	16	67,995	2,825
Impairment of intangible assets	7	63	448
Loss on disposal of assets		841	—
Impairment of available-for-sale		—	2,064
Loss from equity method investments	8	6,253	—
Other non-cash items		4,708	432
Changes in operating assets and liabilities:			
Accounts receivable, net		(27,174)	(8,298)
Inventories		24,735	(3,800)
Other current and non-current assets		(15,736)	(723)
Restructuring reserve	14	16,803	—
Current and non-current liabilities		(5,884)	11,025
Net cash provided by operating activities		12,584	34,912
Cash Flow From Investing Activities:			
Purchase of short-term investments		(7,028)	(6,995)
Maturities of short-term investments		7,026	27,033
Purchase of property, plant and equipment	7	(15,403)	(2,881)
Intangible assets purchases	7	(1,253)	—
Proceeds from asset sales		609	—
Net cash provided by (used in) investing activities		(16,049)	17,157
Cash Flows From Financing Activities:			
Short-term borrowing		4,441	—
Short-term repayment		(20,040)	—
Repayment of long-term debt obligations		(11,066)	—
Repayment of trade receivables advances	11	(21,626)	—
Loans to associates	9	(3,775)	—
Purchase of treasury shares		—	(10,580)
Proceeds from exercise of options for shares		4,722	3,628
Cash settlement of compensation-based share units		—	(1,093)
Realised excess tax benefits - share-based compensation		869	2,131
Other financial assets and liabilities		299	—
Net cash used in financing activities		(46,176)	(5,914)
Effect of exchange rate changes on cash and cash equivalents		914	(10)
Net increase (decrease) in cash and cash equivalents		(48,727)	46,145
Cash and cash equivalents at beginning of period		112,613	116,214
Cash and cash equivalents at end of period		\$ 63,886	\$ 162,359
Supplementary Disclosures of Cash Flow Information:			
Cash paid for interest		\$ 1,810	\$ 15
Cash paid for income taxes		\$ 23,907	\$ 7,241

See accompanying notes to the condensed consolidated financial statements

Note 1. General Information

Company information. LivaNova PLC is a public limited company organized under the laws of England and Wales under the Companies Act 2006 (Registration number 09451374). The Company is domiciled in England 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”.

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, Cardiac Rhythm Management and Neuromodulation, 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 International Financial Reporting Standards (“IFRS”) 3 Business Combinations. Accordingly, the historical financial statements of Cyberonics are included in the comparative prior periods.

These condensed consolidated interim financial statements were approved for publication on 26 September 2016.

These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2015 were approved by the board of directors on 29 April 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

These condensed interim financial statements have not been audited or reviewed.

Note 2. Basis of Preparation, Accounting Policies and Estimates

Basis of Preparation. The condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with the IFRS as adopted by the European Union.

The condensed consolidated interim 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 condensed consolidated interim financial statements are presented in United States (“U.S.”) dollars and all values are rounded to the nearest thousands, except where otherwise indicated.

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 for at least the next twelve months from the date of approval of the condensed consolidated interim financial statements. 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 different 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 is constantly kept under control. Based on an assessment of the risks and availability of resources to meet capital needs, management considered it appropriate to adopt the going concern basis of accounting in preparing these condensed interim financial statements.

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. However, the impact of the seasonality on operations is not considered significant on the condensed consolidated interim financial information.

Reporting Periods. We are reporting the results of our operations for the six months ended 30 June 2016, which consist of the combined results of operations of Cyberonics and Sorin. Since LivaNova is the successor company to Cyberonics, we are presenting the results of Cyberonics' operations for the twenty-six weeks ended 24 July 2015, as the prior year equivalent period. The twenty-six weeks ended 24 July 2015 was selected for comparative purposes as it was the closest period to the six months ended 30 June 2016 (less than 30 days difference) and it was impracticable and cost prohibitive to recast Cyberonics' prior year financial information in order to present the six months ended 30 June 2015.

Accounting Policies. The accounting policies adopted are consistent with those used in the LivaNova annual financial statements for the year ended 31 December 2015.

Income taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Estimates. The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

Note 3. Financial Risk Management

Our activities expose us to a variety of financial risks: liquidity risk, foreign exchange rate risk, interest risk, and credit risk. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Company's annual financial statements as at 31 December 2015. There have been no changes in any risk management policies since the year end.

Note 4. Fair Value Measurements

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 contingent payments recognised as a result of acquisitions by Sorin, prior to the Mergers and investments in non-listed companies classified as available for sale (“AFS”).

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. There were no transfers between Level 1, Level 2, or Level 3 during the six months ended 30 June 2016 or the twenty-six weeks ended 24 July 2015.

There were no changes in valuation techniques during the periods.

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 (in thousands):

	Fair Value as at 30 June 2016	Fair Value Measurements Using Inputs Considered as:		
		Level 1	Level 2	Level 3
Assets:				
Available-for-sale investments	\$ 15,934	\$ —	\$ —	\$ 15,934
Derivative assets - freestanding hedges (exchange rates)	2,829	—	2,829	—
Total assets	\$ 18,763	\$ —	\$ 2,829	\$ 15,934
Liabilities:				
Derivative liabilities - designated as cash flow hedges (exchange rates)	\$ 6,478	\$ —	\$ 6,478	\$ —
Derivative liabilities - designated as cash flow hedges (interest rate swaps)	3,243	—	3,243	—
Earnout for contingent payments	3,562	—	—	3,562
Total liabilities	\$ 13,283	\$ —	\$ 9,721	\$ 3,562

	Fair Value Measurements Using Inputs Considered as:			
	Fair Value as at 31 December 2015	Level 1	Level 2	Level 3
Assets:				
Available-for-sale investments	\$ 15,844	\$ —	\$ —	\$ 15,844
Derivative Assets - designated as cash flow hedges (exchange rates)	839	—	839	—
Derivative Assets - not for hedging (exchange rates)	—	—	—	—
Total assets	\$ 16,683	\$ —	\$ 839	\$ 15,844
Liabilities:				
Derivative Liabilities - designated as cash flow hedges (interest rate swaps)	\$ 2,876	\$ —	\$ 2,876	\$ —
Derivative Liabilities - freestanding hedges (interest rate swaps)	24	—	24	—
Derivative Liabilities - freestanding hedges (exchange rates)	1,547	—	1,547	—
Earnout for contingent payments	3,457	—	—	3,457
Total Liabilities	\$ 7,904	\$ —	\$ 4,447	\$ 3,457

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. No impairment was recorded in the six months ended 30 June 2016. During the twenty-six weeks ended 24 July 2015 we recorded an impairment related to our investment in Cerbomed GmbH of \$2.1 million. The fair value of the other investments in equity shares approximated their carrying value as at 30 June 2016 and 24 July 2015. 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 the acquisition of Cellplex Pty Ltd., a contingent payment was recorded and valued using the Black-Scholes model at the acquisition date. This contingent payment arose as a result of acquisitions by Sorin, prior to the Mergers and is based on achievement of sales targets by the acquiree through 30 June 2018. The other acquisition was the commercial activities of a local distributor in Colombia and the contingent payments are based on sales of cardiopulmonary disposable products and heart lung machines of the acquiree through December 2019.

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. During the twenty-six weeks ended 24 July 2015, we fully impaired certain finite-lived intangible assets and property, plant and equipment for a loss of \$0.5 million and \$0.5 million, respectively, which was primarily related to research and development projects that no longer factored into our future product plans.

Short-Term 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 30 June 2016 and 31 December 2015 consisted of commercial paper carried at amortised cost which approximates its fair value.

The fair value of our long-term debt, including the short-term portion, as at 30 June 2016 and 31 December 2015 was \$152.8 million and \$175.4 million.

Note 5. 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.

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 estimated fair value of the assets acquired and liabilities assumed in the Mergers, as adjusted in the table below, are provisional and are based on information that is currently available. We recognise adjustments to the provisional amounts with a corresponding adjustment to goodwill in the reporting period in which the adjustments are determined. We have not finalized the determination of the fair values of the assets acquired and liabilities assumed and, therefore, the fair value estimates set forth below are subject to adjustment during a measurement period not to exceed one year subsequent to the Mergers date. The estimated fair values of certain assets and liabilities, including taxes and contingencies, require judgments and assumptions that increase the likelihood that adjustments may be made to these estimates during the measurement period. The measurement period ends and the fair values of the Mergers will be finalized by 19 October 2016.

The following table summarises the fair value of consideration transferred and preliminary fair values of Sorin's assets acquired and liabilities assumed in the Mergers on 19 October 2015, including measurement period adjustments recognised since the fair values were presented in our annual financial statements for the period ended 31 December 2015:

(in thousands)	19 October 2015	Adjustments	19 October 2015 (as adjusted)
Consideration transferred:			
Fair value of common shares issued to Sorin shareholders	\$ 1,577,603	\$ —	\$ 1,577,603
Fair value of common shares issued to Sorin share award holders	9,231	—	9,231
Fair value of LivaNova share appreciation rights issued to Sorin share appreciation rights holders	2,249	—	2,249
Total fair value of consideration transferred	<u>\$ 1,589,083</u>	<u>\$ —</u>	<u>\$ 1,589,083</u>
Estimated fair value of assets acquired and liabilities assumed:			
Cash and cash equivalents	12,495	—	12,495
Accounts receivable	224,466	—	224,466
Inventories	233,832	—	233,832
Other current assets	60,674	(12,331)	48,343
Property, plant and equipment	192,503	—	192,503
Intangible assets	703,865	—	703,865
Equity investments	67,059	(72)	66,987
Other assets	7,483	(1,328)	6,155
Deferred tax assets	135,517	(106,315)	29,202
Total assets acquired	<u>1,637,894</u>	<u>(120,046)</u>	<u>1,517,848</u>
Short-term debt	110,601	—	110,601
Other current liabilities	237,855	—	237,855
Long-term debt	128,458	—	128,458
Deferred tax liabilities	278,940	(145,355)	133,585
Other long-term liabilities	57,674	—	57,674
Total liabilities assumed	<u>813,528</u>	<u>(145,355)</u>	<u>668,173</u>
Goodwill	<u>\$ 764,717</u>	<u>\$ (25,309)</u>	<u>\$ 739,408</u>

The measurement period adjustments reflect changes in the estimated fair values of certain assets and liabilities, primarily related to deferred income taxes as a result of new information on facts and circumstances that existed at the time of acquisition. Adjustments were made to deferred income taxes as a result of the allocation of fair value to the legal entities. In addition, deferred income taxes were aggregated and presented on a net basis by jurisdiction.

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. We assigned goodwill arising from the Mergers to the Cardiac Surgery, Cardiac Rhythm Management and Neuromodulation operating segments. This assignment was made by taking into consideration market participant rates of return for each acquired operating segments (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 expected 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 \$272.8 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 include \$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.

During the six months ended 30 June 2016, LivaNova incurred \$13.0 million of merger and integration expenses. The merger and the integration costs were related primarily to advisory, legal and accounting fees.

Note 6. Reorganization Plans

Our 2015 and 2016 Reorganization Plans (the "Plans") were initiated October 2015 and March 2016, respectively, in conjunction with the completion of the Mergers. These Plans are intended to leverage economies of scale, streamline distribution and logistics and strengthen operational and administrative effectiveness in order to reduce overall costs. Costs associated with these Plans were reported as restructuring expenses in the operating results of our condensed consolidated statement of income (loss). There were no restructuring expenses in the comparative twenty-six weeks of historical Cyberonics activity ended 24 July 2015.

We estimate that the Plans will result in a net reduction of approximately 184 personnel in the workforce, with reductions in workforce of 79 as of 30 June 2016. The Plans also include the closure of our research and development facility in Meylan, France and consolidation of its research and development capabilities into our Clamart, France facility.

The Reorganization Plan's accrual detail for the six months ended 30 June 2016 is as follows (in thousands):

	Employee severance and other termination costs	Other	Total
Beginning balance at 1 January 2016	\$ 6,919	\$ —	\$ 6,919
Restructuring Charges	29,664	3,174	32,838
Cash payments	(12,710)	(494)	(13,204)
Ending balance at 30 June 2016	<u>\$ 23,873</u>	<u>\$ 2,680</u>	<u>\$ 26,553</u>

Note 7. Property, Plant and Equipment, Intangible Assets and Goodwill

(in thousands)	Property, Plant and Equipment	Intangible Assets	Goodwill
Beginning balance at 1 January 2016	\$ 232,434	\$ 678,231	\$ 710,843
Purchases	12,954	1,253	—
Increases for internal work	2,449	—	—
Disposals	(1,401)	(49)	—
Impairment	—	(63)	—
Depreciation	(17,734)	(25,609)	—
Currency translation gains	4,150	17,050	21,867
Reclassification	(444)	444	—
Other changes	546	80	—
Ending balance at 30 June 2016	\$ 232,954	\$ 671,337	\$ 732,710

Property, Plant and Equipment. A building in Cantù, Italy with a net book value of \$1.1 and \$1.2 million as at 30 June 2016 and 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 13. *Financial Liabilities*” for further information.

Note 8. Investments in Associates, Joint Ventures and Subsidiaries

Equity investments in associates and joint ventures measured at equity. We adjusted the carrying amount of our equity-method investments for our share of the investees’ losses in the amount of \$6.3 million during six months ended 30 June 2016. Our share of the losses is reflected in the condensed consolidated statements of income (loss). In addition, we adjusted the carrying amount of our equity-method investments for foreign currency translation gains of \$1.1 million during the six months ended 30 June 2016, which are reflected in the condensed consolidated statement of other comprehensive income (loss). During the twenty-six weeks ended 24 July 2015, there were no historical Cyberonics equity-method investments.

In addition, we sold our total investment of LMTB -Laser -und Medizin Technologie GmbH during the six months ended 30 June 2016.

Refer to “Note 19. *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 30 June 2016. The Company has no contingent liabilities relating to its interests in the associates and joint ventures.

Principal subsidiaries. During the six months ended 30 June 2016, we established a subsidiary in the United Kingdom, LivaNova IP Limited, in order to own intangible assets under the laws of England and Wales.

Note 9. Financial Assets

We loaned an additional \$2.8 million to Highlife S.A.S and additional \$1.0 million to Caisson Interventional LLC during the six months ended 30 June 2016. As at 30 June 2016, we have outstanding loans to Caisson Interventional LLC and to Highlife S.A.S that amount to \$6.2 million included in non-current financial assets on the condensed consolidated balance sheet.

Note 10. Inventories

The write-down of inventories to net of the provision for obsolescence was \$2.8 million and \$0.8 million for the six months ended 30 June 2016 and the twenty-six weeks ended 24 July 2015, respectively. There were no reversal of the provision for obsolescence during the six months ended 30 June 2016 and the twenty-six weeks ended 24 July 2015.

Note 11. Trade Receivables and Allowance for Bad Debt

We increased our allowance for bad debt by \$6.0 million in June 2016. The increase is primarily attributable to an allowance for the outstanding balance of certain receivables in Greece whose probability of recoverability became doubtful during the six months ended 30 June 2016.

The balance of our factoring arrangements at 31 December 2015 and 30 June 2016 was \$24.5 million and \$3.4 million, respectively. The decrease during the six months ended 30 June 2016 relates to the expiration of factoring arrangements. Management does not intend to enter into new contracts for future periods.

Note 12. 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:

(in number of shares)	30 June 2016	31 December 2015
<i>Authorised share capital, ordinary shares of £1 each, unlimited shares authorised</i>		
Issued - fully paid	49,071,640	48,868,305
Outstanding	49,071,640	48,868,305

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. On 1 August 2016, the Board of Directors ("BOD") authorized a share repurchase plan pursuant to an authority granted by shareholders at the 2016 annual general meeting held on 15 June 2016. The repurchase program authorized by the BOD is structured to enable us to approve the buyback of up to \$30 million of ordinary shares on NASDAQ in the period up to and including 31 December 2016 and an aggregate of \$150 million of ordinary shares (inclusive of the \$30 million of Ordinary Shares set out above) also on NASDAQ up to and including 31 December 2018. As of 21 September 2016, 142,860 shares have been repurchased for cancellation.

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 twenty-six weeks ended 24 July 2015, pursuant to the approved plans, Cyberonics repurchased 129,221 shares of its common stock and repurchased 50,955 shares to cover employees' minimum tax withholding obligations related to vested stock-based incentive plans, at an average price for all shares repurchased of \$58.01.

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 5. *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 for the six months ended 30 June 2016 and the twenty-six weeks ended 24 July 2015 (in thousands).

	Change in unrealised gain (loss) on derivatives	Foreign currency translation adjustments ⁽¹⁾	Revaluation of net liability (asset) for defined benefits	Total
Beginning Balance at 1 January 2016	\$ 888	\$ (65,177)	\$ (130)	\$ (64,419)
Other comprehensive income (loss) before reclassifications, before tax	(8,768)	44,485	(337)	35,380
Tax benefit (expense)	2,639	—	129	2,768
Other comprehensive income (loss) before reclassifications, net of tax	(6,129)	44,485	(208)	38,148
Reclassification of (gain)/loss from accumulated other comprehensive income, before tax	1,502	—	—	1,502
Tax effect	(453)	—	—	(453)
Reclassification of (gain)/loss from accumulated other comprehensive income, after tax	1,049	—	—	1,049
Net current-period other comprehensive income (loss), net of tax	(5,080)	44,485	(208)	39,197
Ending Balance at 30 June 2016	\$ (4,192)	\$ (20,692)	\$ (338)	\$ (25,222)

	Foreign currency translation adjustments ⁽¹⁾	Total
Beginning Balance at 24 January 2015	\$ (2,924)	\$ (2,924)
Other comprehensive income (loss) before reclassifications, before tax	(313)	(313)
Ending Balance at 24 July 2015	\$ (3,237)	\$ (3,237)

(1) Taxes are not provided for foreign currency translation adjustments as translation adjustment are related to earnings that are intended to be reinvested in the countries where earned.

Note 13. Financial Liabilities

The outstanding carrying amount of long-term debt at 30 June 2016 and at 31 December 2015, consisted of the following (in thousands, except interest rates):

	30 June 2016	31 December 2015	Maturity	Effective Interest Rate
European Investment Bank ⁽¹⁾	\$ 92,427	\$ 99,426	June 2021	0.996%
Banca del Mezzogiorno ⁽²⁾	8,027	8,870	December 2019	0.50% - 3.35%
Bpifrance (ex-Oséo) ⁽³⁾	2,345	2,621	October 2019	2.58%
Novalia SA (Vallonie) ⁽⁴⁾	839	1,192	March 2020 - June 2033	0.00% - 3.42%
Mediocredito Italiano ⁽⁵⁾	904	944	September 2021-2026	0.525% - 0.765%
Other	73	—		
Total long-term facilities	104,615	113,053		
Less current portion of long-term debt	21,349	21,243		
Total long-term debt	\$ 83,266	\$ 91,810		

- (1) In July 2014, Sorin obtained a European Investment Bank (“EIB”) loan to support product development projects in Italy and France for the Cardiac Surgery (the “CS”) and Cardiac Rhythm Management (the “CRM”) Business Units, and in addition, for the support of New Ventures therapeutic solutions aimed at treating heart failure and mitral valve regurgitation. The interest rate for the EIB loan is reset by the lender each quarter based on the Euribor. Interest payments are quarterly and principal payments are at six months. The variable interest rate for this debt was hedged with interest rate swap agreements.
- (2) In January 2015, Sorin obtained loans to support R&D projects as a part of the Large Strategic Project program of the Italian Ministry of Education, Universities and Research. One loan is subsidized by Cassa Depositi e Prestiti, at a fixed rate of 0.5%, and a second loan provided by GE Capital Interbanca, at a floating interest rate of the 6-month Euribor rate plus 3.3%.
- (3) In 2012, Sorin obtained a loan with Bpifrance, a French government entity that provides financial support for R&D
- (4) In 2010, Sorin obtained loans, at various fixed interest rates, from Novalia SA, a finance company in the Wallonia Region in Belgium, to support several R&D projects
- (5) In 2014, Sorin assumed real estate loans with the acquisition of the cannulae business. The loans are due to Mediocredito Italiano and are secured by a mortgage on our building located at our Cantù manufacturing site in Italy

The outstanding carrying amount of short-term debt as of 30 June 2016 and 31 December 2015, consisted of the following (in thousands, except interest rates):

	30 June 2016	31 December 2015	Effective Interest Rate
Intesa San Paolo Bank	\$ 14,210	\$ 20,630	0.300%
BNL BNP Paribas	16,320	18,459	0.250%
Unicredit Banca	6,106	15,201	0.175%
Barclays Bank	4,441	—	0.284%
BNP Paribas (Brazil)	2,734	2,225	16.65%
French Government	2,077	2,030	—
Other short-term facilities	1,634	2,725	
Total short-term facilities	47,522	61,270	
Current portion of long-term debt	21,349	21,243	
Total current debt	68,871	82,513	
Total debt	\$ 152,137	\$ 174,323	

There was no outstanding debt in the historic Cyberonics financial statements prior to the Mergers.

Note 14. 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 through 2017.

Current provisions

(in thousands)	30 June 2016	31 December 2015
Advances received on customer receivables	\$ 30	\$ 1,218
Contractual warranty reserve	2,065	2,119
Restructuring reserve	21,791	4,720
Merger related expense	—	1,506
Clinical study costs	—	2,004
Other	5,795	1,313
Total	\$ 29,681	\$ 12,880

Non-Current provisions

(in thousands)	30 June 2016	31 December 2015
Liability for uncertain tax provisions	\$ 13,282	\$ 13,048
Other	4,030	3,940
Total	\$ 17,312	\$ 16,988

Recorded with other non-current provisions are contingent payments we assumed during the Mergers for two acquisitions completed by Sorin prior to the Mergers. The first acquisition, in September 2015, was of Cellplex PTY Ltd. in Australia; the second acquisition was of the commercial activities of a local distributor in Colombia. The contingent payments for the first 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 of the acquiree through December 2019. Refer to "Note 4. Fair Value Measurements."

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 condensed 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 6. Reorganization Plans" for more details.

The changes in the carrying value of current provisions during the year are indicated below (in thousands):

	Restructuring reserve	Warranties reserve	Other reserves	Total
Beginning balance at 1 January 2016	\$ 4,720	\$ 2,119	\$ 6,041	\$ 12,880
Additions to provision	23,888	213	1,543	25,644
Utilisation	(6,890)	(286)	(1,879)	(9,055)
Release of provisions	(195)	—	—	(195)
Effect of changes in foreign currency exchange rates	268	19	120	407
Ending balance at 30 June 2016	\$ 21,791	\$ 2,065	\$ 5,825	\$ 29,681

The changes in the carrying value of non-current provisions during the year are indicated below (in thousands):

	Uncertain tax positions reserve	Other reserves	Total
Beginning balance at 1 January 2016	\$ 13,048	\$ 3,940	\$ 16,988
Additions to provision	—	72	72
Utilisation	—	(27)	(27)
Release of provisions	—	—	—
Effect of changes in foreign currency exchange rates	234	45	279
Ending balance at 30 June 2016	<u>\$ 13,282</u>	<u>\$ 4,030</u>	<u>\$ 17,312</u>

Note 15. Other Payables

(in thousands)	30 June 2016	31 December 2015
Accrued expenses- employee-related charges	\$ 48,580	\$ 44,580
Other accrued expenses	13,636	30,602
Other current liabilities	7,400	10,941
Other amounts due to health and social security institution	6,119	9,649
Amounts due to employees	15,840	5,585
Current advances from customers	3,232	3,330
Deferred income	1,515	1,087
Total	<u>\$ 96,322</u>	<u>\$ 105,774</u>

Note 16. Income Taxes

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

(in thousands)	Six Months Ended 30 June 2016	Twenty-Six Weeks Ended 24 July 2015
Current tax:		
Current tax on profit for the period	\$ 20,124	\$ 11,846
Adjustment in respect of prior years	—	—
Total current tax	<u>20,124</u>	<u>11,846</u>
Deferred tax:		
Origination and reversal of temporary differences	67,995	2,825
Total deferred tax	<u>67,995</u>	<u>2,825</u>
Income tax expense	<u>\$ 88,119</u>	<u>\$ 14,671</u>

Note 17. Commitments and Contingencies

FDA Warning Letter. At 31 December 2015, LivaNova received a Warning Letter (the “Warning Letter”) dated 29 December 2015 from the U.S. Food and Drug Administration (“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 Munich facility from 24 August 2015 to 27 August 2015 and the Arvada facility from 24 August 2015 to 1 September 2015. On August 27 2015, the FDA issued a Form 483 identifying two observed non-conformities with certain regulatory requirements at the Munich facility. We did not receive a Form 483 in connection with the FDA's inspection of the Arvada facility. Following the receipt of the Form 483, we 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 our responses and identified other alleged violations not previously included in the Form 483.

The Warning Letter further stated that our 3T Heater Cooler devices and other devices we manufactured at our 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 us 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 our products other than the 3T Heater Cooler remain unaffected by the import limitation. To help clarify these issues for current customers, we 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.

We are 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. We take these matters seriously and intend to respond timely and fully to the FDA's requests.

The Warning Letter had no impact on our condensed consolidated financial position, results of operations or cash flows in our fiscal year ended 31 December 2015, and the impact on our condensed consolidated financial position, results of operations or cash flows for the six months ended 30 June 2016 was not material. We continue to believe that less than 1% of our fiscal year 2016 consolidated sales will be impacted by this Warning Letter and the FDA's concerns will be resolved without a material impact on our condensed consolidated financial position, results of operations or cash flows for our fiscal year 2016.

Baker, Miller et al v. LivaNova PLC. At 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. At 21 March 2016, the plaintiffs filed a First Amended Complaint adding Sorin Group Deutschland GmbH and Sorin Group USA, Inc. as defendants.

The Company has recently been served with additional similar lawsuits related to surgical cases in which a 3T Heater Cooler device was allegedly used. Four complaints have been filed in Pennsylvania State Court in York, PA against the Company and Wellspan York Hospital related to surgical cases at York Hospital, one complaint has been filed in Pennsylvania State Court in Dauphin County, PA against the Company and Milton S. Hershey Medical Center related to a surgical case at Hershey Medical Center and four complaints have been filed in the U.S. District Court for the District of South Carolina related to surgical cases at Greenville Health System Hospital in Greenville, SC.

At LivaNova, patient safety is of the utmost importance, and significant resources are dedicated to the delivery of safe, high-quality products. We intend to vigorously defend each of 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 our 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 up to the actual value of the shareholders’ equity conveyed or received (we estimate that the value of the shareholders’ equity received was approximately) for certain indebtedness or liabilities of the pre-spin-off company:

- 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);
- for “liabilities” (elementi del passivo) whose allocation between the parties to the spin-off cannot be determined based on the spin-off plan

Sorin believes and has argued before the relevant fora that Sorin is not jointly liable with SNIA for its alleged liabilities. Specifically, 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 for remediation costs relating to the environmental damage at the Caffaro Chemical Sites allegedly caused by the Caffaro Chemical Operations. The amount 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. In addition to disputing liability, the Company also disputes the amount being claimed and the basis for its estimation by Italian authorities, and that issue also remains in dispute. No final remediation plan has been approved at any time by the Italian authorities.

In September 2011, the Bankruptcy Court of Udine, and in July 2014, the Bankruptcy Court of Milan each held (in proceedings to which our Company is not part) that the Italian Ministry of the Environment and other Italian government agencies (the “Public Administrations”) were not creditors of either SNIA or its SNIA Subsidiaries in connection with their claims in the context of their Italian insolvency proceedings. LivaNova (as the successor to Sorin in the litigation) believes these findings are and will be influential (although not formally binding) upon other Italian courts, including civil courts. Public Administrations have appealed both decisions in those insolvency proceedings: in January 2016 the Court of Udine rejected the appeal brought by the Italian Public Administrations. The Public Administrations have appealed that second loss in pending proceedings before the Italian Supreme Court. The appeal by the Public Administrations before the Court of Milan remains pending.

In January 2012, SNIA filed a civil action against Sorin in the Civil Court of Milan asserting provisions of the Italian Civil Code relating to potential joint liability of a parent and a spun-off company in the context of a spin-off, as described above. Those proceedings seek 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 Public Administrations Italian Ministry of the Environment and other Italian government agencies, as defendants, in order to have them bound to the final ruling. The Public Administrations that had also sought compensation from SNIA for alleged environmental damage subsequently counterclaimed against Sorin, seeking to have Sorin declared jointly liable towards those Public Administrations alongside SNIA, and on the same legal basis. SNIA and the Public Administrations also requested the court to declare inapplicable to the Sorin spin-off the cap on potential joint liability of parties to a spin-off otherwise provided for by the Italian Civil Code. The cap, if applied, would limit any joint liability to the actual value of the shareholders' equity received. The Public Administrations have argued before the court that the Sorin spin-off was planned prior to the date such caps were enacted under the Italian Civil Code (although executed after such caps were introduced into Italian law) and should therefore not be applied to the Sorin spin-off.

Sorin has vigorously contested all of SNIA's claims against Sorin as well as those claims brought by the Public Administrations. A favourable decision pertaining to the case was delivered in Judgment No. 4101/2016 at 1 April 2016 (the "Decision"). In its Decision, the Court of Milan dismissed all legal actions of SNIA and of the Public Administrations against Sorin (now LivaNova), further requiring the Public Administrations to pay Sorin, as legal fees (of which jointly with SNIA).

At 21 June 2016, the Public Administrations filed an appeal against the above decision before the Court of Appeal of Milan. To date SNIA has not filed an appeal in this case. The first hearing of the appeal proceedings is scheduled for 22 November 2016.

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 reasoning contained in, and legal conclusions reached in, the 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, related remediation costs, allocation and apportionment of any such responsibility, which party is responsible for which time period, all remain issues 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 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 relating to the environmental damage at the Caffaro Chemical Sites or its alleged cause(s) could have a material adverse effect on our condensed consolidated financial position, results of operations or cash flows.

Environmental Remediation Order. At 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, inter alia, the statute does not apply to activities occurring prior to 2006, the date on which the statute was enacted (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 has never operated any activity of whatsoever nature at any of the industrial sites concerned and, further, has never been identified in any legal proceeding as an operator at any of these Caffaro Chemical Sites, and could not and in fact did not cause 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 (the "TAR"). A hearing was held at 3 February 2016.

At 21 March 2016 the TAR issued several judgments, annulling the Environmental Remediation Order, one for each of the addressees of the Environmental Remediation Order, including LivaNova. Those judgments were based on the fact that (i) the Environmental Remediation 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 Environmental Remediation 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 Environmental Remediation 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 Environmental Remediation Order.

LivaNova has welcomed the decisions. The TAR decisions described above have nonetheless been appealed by the Ministry before the Council of State. No information on the timing of the first hearing of this appeal is presently available.

Andrew Hagerty v. Cyberonics, Inc. At 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. At 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. At 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. At 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. At 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. At 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. On or about 20 June 2016, the Company received the briefing schedule from the U.S. First Circuit Court of Appeals, which will require the parties to exchange briefs in August and September 2016.

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 at 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) 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 we argued that the assessment should be deemed null and void and illegitimate because of a false application of regulations. The Court's decision is pending. The appeal we submitted against the first-level negative decision for 2004 assessment was accepted by the Commissione Tributaria Regionale di Bologna in June 2016, allowing our tax deduction. We expect the Italian Revenue Agency will file an appeal against this decision to the 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 for 2007 until the litigation regarding years 2004, 2005 and 2006 are defined.

The total amount of losses in dispute is or \$71.3 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 judgments received and one positive judgment 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 leave unchanged the previously recognised risk provision of \$19.2 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 condensed consolidated financial position, results of operations or cash flows.

Note 18. 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. 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. 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.

Corporate expenses include shared services for finance, legal, human resources and information technology, together with corporate business development ("New Ventures").

Revenue and income (loss) before merger and integration, restructuring, impairment of AFS and litigation expenses by reportable segment are as follows (in thousands):

	Six Months Ended 30 June 2016	Twenty-Six Weeks Ended 24 July 2015
Net Sales		
Cardiac Surgery	\$ 304,494	\$ —
Cardiac Rhythm Management	131,289	—
Neuromodulation	171,397	155,082
Corporate	836	—
Total Net Sales	\$ 608,016	\$ 155,082

	Six Months Ended 30 June 2016	Twenty-Six Weeks Ended 24 July 2015
Segment Income (Loss) from Operations:		
Cardiac Surgery	\$ (3,189)	\$ —
Cardiac Rhythm Management	(17,044)	—
Neuromodulation	87,431	53,961
Corporate	(38,468)	—
Total Reportable Segments' Income from Operations	28,730	53,961
Merger and Integration expenses	(12,961)	(15,241)
Restructuring expenses	(32,838)	—
Impairment of AFS assets	—	(2,064)
Litigation related expenses	(2,309)	—
Operating Income (Loss)	\$ (19,378)	\$ 36,656

The following table presents our assets by reportable segment (in thousands):

Total Assets	30 June 2016	31 December 2015
Cardiac Surgery	\$ 1,383,209	\$ 1,351,546
Cardiac Rhythm Management	383,826	401,842
Neuromodulation	579,646	540,041
Corporate	89,345	106,435
Total	\$ 2,436,026	\$ 2,399,864

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 and integration, restructuring, impairment of AFS assets and litigation expenses. This measurement is included in the reporting package for the chief operating decision maker ("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.

Note 19. Related Parties

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):

Balance Sheet	30 June 2016	31 December 2015
Financial assets - non-current:		
Highlife SAS	\$ 4,441	\$ —
Caisson Interventional LLC	1,781	2,041
	<u>6,222</u>	<u>2,041</u>
Trade receivables - current:		
Microport Sorin	1,379	1,204
Cardiosolution Inc	—	10
	<u>1,379</u>	<u>1,214</u>
Other financial assets - current:		
Highlife SAS	—	1,632
	<u>\$ —</u>	<u>\$ 1,632</u>

The following sales and financing transactions were entered into with associates (in thousands):

Income Statement	Six Months Ended 30 June 2016
Revenue:	
Microport Sorin	\$ 1,533
Financial income:	
Highlife SAS	\$ 68

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):

	Six Months Ended 30 June 2016	Twenty-Six Weeks Ended 24 July 2015
Salaries and short-term benefits	\$ 5,751	\$ 2,233
Post-employment benefits	328	34
Termination benefits	2,200	—
Share-based compensation	10,072	1,910
Total compensation	<u>\$ 18,351</u>	<u>\$ 4,177</u>

Note 20. Exceptional Items

The following exceptional items are included within operating profit (loss) (in thousands):

	Six Months Ended 30 June 2016	Twenty-Six Weeks Ended 24 July 2015
Merger and integration expenses	\$ 12,961	\$ 15,241
Restructuring expenses	32,838	—
Impairment of AFS assets	—	2,064
Litigation related expenses	2,309	—
Total exceptional items	<u>\$ 48,108</u>	<u>\$ 17,305</u>

Merger and Integration 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 5. *Business Combinations*" for more details. 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 twenty-six weeks ended 24 July 2015, an impairment of \$2.1 million in equity investment in Cerbomed GmbH was recorded. Refer for details to "Note 4. *Fair Value Measurements*." There were no impairments of AFS assets during the period ended 30 June 2016.

Litigation expenses. We segregate and report separately certain litigation expenses in the condensed consolidated statements of net income (loss). For the six months ended 30 June 2016, we reported \$2.3 million of litigation expenses related to the FDA Warning Letter regarding our 3T Heater Cooler devices we manufactured at our Munich facility and the SNIA S.p.A litigation regarding potential liabilities arising from claims for environmental damage. Refer for details to "Note 17. *Commitments and Contingencies*."

Note 21. 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. 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. IFRS 15 will be effective 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 amortisation 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. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

IFRS 2 Share-Based Payment. In June 2016, the IASB issued three amendments to IFRS 2 to eliminate the diversity in practice in the classification and measurement of particular share-based payment transactions. The amendments to IFRS 2 are effective for annual periods beginning on or after 1 January 2018, with early application permitted. Amendments should be applied without restating prior periods, but retrospective application is permitted, provided certain criteria are met. 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 or IFRS 2. 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, IFRS 16 or IFRS 2 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 22. Events After the Reporting Period

Financing arrangements. On 11 July 2016, LivaNova PLC and its wholly-owned subsidiary, Sorin Group Italia Srl (the “Guarantor” and the “Borrower”, respectively) entered into two term loans as part of the Fondo Innovazione Tecnologica program implemented by the Italian Ministry of Education, University and Research through Mediocredito Italiano Bank. The first loan, for \$7.2 million, has a fixed interest rate of 0.50% per annum, with principal and interest payments due half yearly, starting 31 December 2016 and ending 31 December 2023. The second loan of \$0.8 million, has a floating interest rate using the six month Euribor rate plus 3.30%, with principal and interest due half yearly starting 30 June 2021 and ending 31 December 2023.

Investments. In July 2016, we invested \$7.5 million in Series B Preferred Units of Caisson Interventional LLC as a previously agreed upon milestone payment.

Realignment of organization structure. On 6 July 2016, we announced the addition of a Chief Operating Officer (“COO”), who will be responsible for driving innovative product development, commercialization and geographic expansion across the global organization with a focus on margin expansion and profitable growth. Under the COO we will be transitioning the organization to a regional focus with leaders in the U.S., Europe and the rest of the world.

Income taxes. Due to U.K. legislation substantively enacted in September 2016, the U.K. corporation tax rate will decrease from 18% to 17% from 1 April 2020. Upon enactment, this has the effect of decreasing the deferred tax asset recognised in the balance sheet by \$2.1 million and increasing the deferred tax expense recognised in the condensed consolidated statement of income (loss) by \$2.1 million.