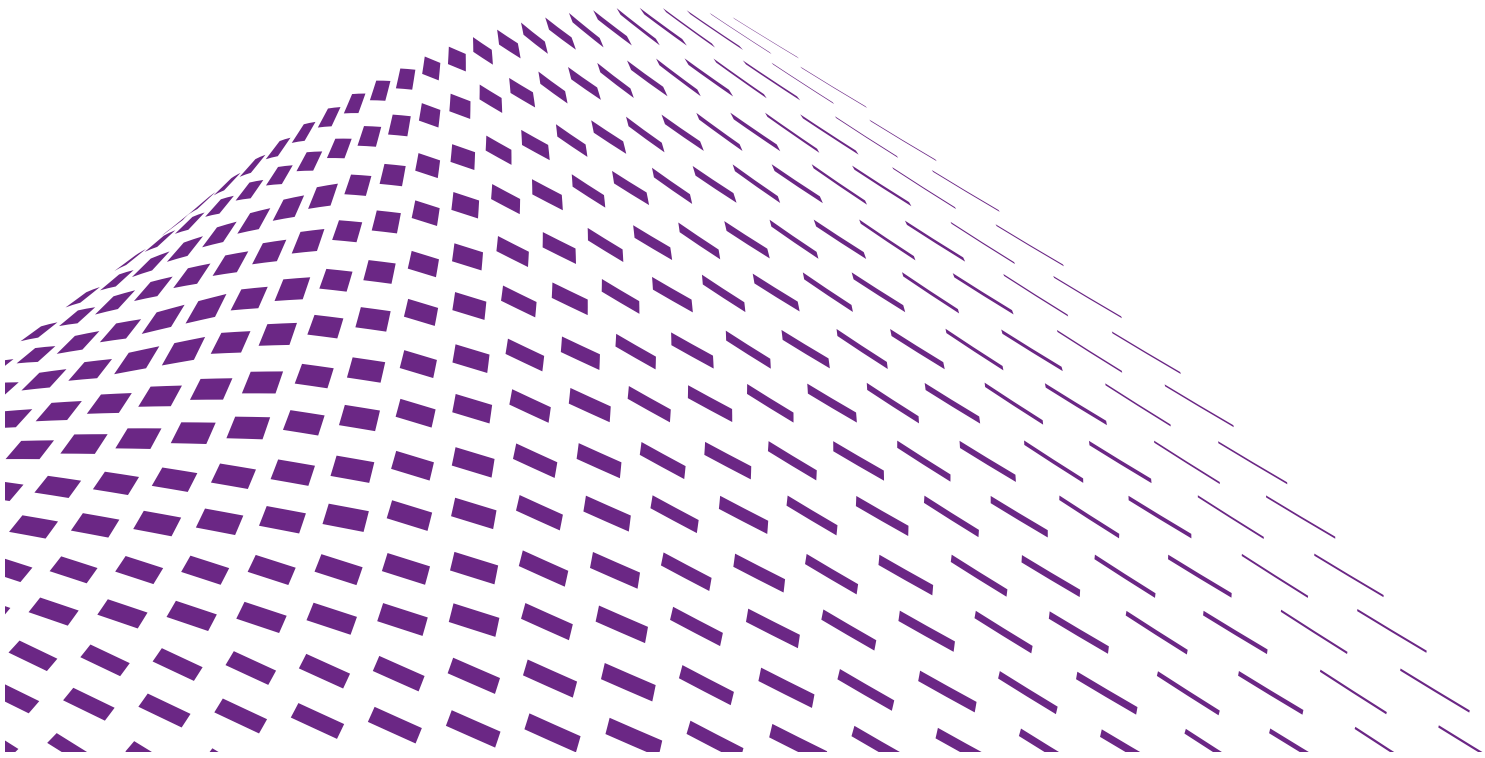
Annual Report
2016

LivaNova

Health innovation that matters



UK Annual Report and IFRS Financial Statements
Period Ended 31 December 2016

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

This UK Annual Report has been prepared to satisfy the reporting requirements of the Companies Act 2006 and will be included in the 2016 Annual General Meeting materials made available to shareholders.

Cautionary statement

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

- Trademarks for LivaNova's VNS therapy systems, the VNS Therapy® System, the VITARIA®™ System and

LivaNova's proprietary Pulse generators products: Model 102 (Pulse™), Model 102R (Pulse Duo™), Model 103 (Demipulse®), Model 104 (Demipulse Duo®), Model 105 (AspireHC®) and the Model 106 (AspireSR®).

- Trademarks for LivaNova's Oxygenators product systems: Inspire™, Heartlink™ and Connect™.
- Trademarks for LivaNova's line of surgical tissue and mechanical valve replacements and repair products: Mitroflow™, Crown PRT™, Solo Smart™, Perceval™, Top Hat™, Reduced Series Aortic Valves™, Carbomedics Carbo-Seal™, Carbo-Seal Valsalva™, Carbomedics Standard™, Orbis™ and Optiform™, and Mitral valve repair products: Memo 3D™, Memo 3D ReChord™, AnnuloFlo™ and AnnuloFlex™.
- Trademarks for LivaNova's implantable cardiac pacemakers and associated services: REPLY 200™, ESPRIT™, KORA 100™, KORA 250™, SafeR™, the REPLY CRT-P™, the remedé® System.
- Trademarks for LivaNova's Implantable Cardioverter Defibrillators and associated technologies: the INTENSIA™, PLATINIUM™, and PARADYM® product families.
- Trademarks for LivaNova's cardiac resynchronization therapy devices, technologies services: SonR®, SonRtip™, SonR CRT™, the INTENSIA™, PARADYM RF™, PARADYM 2™ and PLATINIUM™ product families and the Respond CRT™ clinical trial.
- Trademarks for heart failure treatment product: Equilia®™.
- Trademarks for LivaNova's bradycardia leads: BEFLEX™ (active fixation) and XFINE™ (passive fixation).

These trademarks and trade names are the property of LivaNova or the property of LivaNova's consolidated subsidiaries and are protected under applicable intellectual property laws. Solely for convenience, LivaNova's trademarks and trade names referred to in this Annual Report may appear without the ® or ™ symbols, but such references are not intended to indicate in any way that LivaNova will not assert, to the fullest extent under applicable law, LivaNova's rights to these trademarks and trade names.

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STRATEGIC REPORT

Introduction

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

Chief Executive Officer's Letter to Shareholders

Dear Shareholder,

I am excited and honoured to have been asked to lead LivaNova, where I have seen first-hand the passion and commitment to improve the lives of patients around the world.

2016 was our first full year as a public company. It was a year focused on bringing together a dedicated workforce of more than 4,500 employees and creating a solid foundation from which to drive future growth. We made great strides by launching new products, capturing post-merger synergies and implementing major restructuring activities to improve profitability. We also focused investments in our highest growth drivers, eliminated duplication in our R&D portfolio, optimized inventory levels and enhanced our relationships with distributors in emerging markets. These initiatives helped us deliver multiple operational achievements.

Our Neuromodulation business franchise successfully rolled out our newest VNS Therapy® device, the AspireSR® pulse generator, to the epilepsy community. The market was quick to appreciate AspireSR's advanced technology, which detects heart rate changes associated with the onset of a seizure. As a result, the adoption rate was rapid resulting in nearly seven per cent new patient growth in 2016.

Also in 2016, our Cardiac Surgery business franchise received U.S. Food and Drug Administration approval of the Perceval™ aortic heart valve, the only truly sutureless aortic heart valve. The valve was very well received in 2016, experiencing 50 per cent year-over-year growth.

In our Cardiac Rhythm Management business franchise, our KORA 250™ full-body MRI compatible pacemaker continued to gain market share in Japan and our high-voltage PLATINIUM™ defibrillator experienced strong growth, significantly higher than market growth.

While the last 12 months presented us with many opportunities, we also faced certain challenges. One challenge relates to bacterial contamination in certain 3T Heater-Cooler™ devices. We have recently announced a Device Remediation Plan to address this issue and will continue to work with interested parties to ensure access to this important device that enables lifesaving cardiac surgery.

Although we weren't able to grow our top line as fast as we would have liked, we were able to hit the high end of our adjusted earnings guidance, fully fund our exciting portfolio of equity investments and return $50 million to shareholders in the form of a share buyback program.

In February 2017, we announced our intention to voluntarily delist from the London Stock Exchange. This was primarily due to the low trading volume on that exchange, and the fact that the vast majority of our shareholders trade on the NASDAQ market.

In conclusion, our primary goal over the last year was to ensure that we have in place a solid foundation from which to drive long-term growth, a foundation comprised of a broad product portfolio, a global presence and a position of financial strength. This is a goal that we accomplished.

My first few months as Chief Executive Officer confirmed the nature and scale of the challenges we face, but also my view that within the organization, we have both the capabilities and skills necessary to achieve sustainable growth and to be a great place to work. Going forward, I see tremendous opportunities to maintain our strong leadership positions in cardiac surgery and neuromodulation by creating innovative new products designed to improve the lives of patients, and by investing wisely in growth, both organically and inorganically. We will continue to execute toward our strategy, expand our operating margins, and grow our revenues and earnings per share, all while improving the lives of patients and building long-term shareholder value.

We look forward to the future with confidence based on our people, processes and products. We are LivaNova.

Thank you,

DAMIEN McDONALD
CHIEF EXECUTIVE OFFICER

2 May 2017

I. Overview and Background to the Mergers

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

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

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

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

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

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

II. Business

A. LivaNova's Strategy

LivaNova is a premier global medical technology company built on nearly five decades of experience drawn from the Mergers, which combined Cyberonics' global leadership in devices used for the treatment of epilepsy and neuromodulation with Sorin's global leadership in cardiac surgery and cardiac rhythm management. The company is a market leader in many of its product categories and is leveraging innovation to gain additional market share.

The company is focused on building a strong and balanced portfolio, and will accomplish this by:

- **Delivering sustained revenue growth**

  LivaNova is already a leader in large and growing markets, benefitting from its diverse yet complementary product mix.

LivaNova's leadership position in cardiac surgery is based on many factors, including its established leadership position in heart-lung machines and oxygenators, along with its recognition as the world's #1 cardiopulmonary bypass company. The company's advanced solutions have made significant contributions to open-heart surgery outcomes for many patients. Notably, LivaNova offers the only sutureless valve available for aortic surgery – Perceval™. As pioneers of the VNS (Vagus Nerve Stimulation) Therapy® system, LivaNova continues to advance medical device solutions for people affected by treatment-resistant epilepsy, depression, heart failure and other chronic disorders. LivaNova utilises its legacy commercial network in developing markets to further enhance the sales of VNS Therapy for patients with refractory epilepsy in those markets.

LivaNova leverages its cardiac rhythm management global market and reputation, which is particularly strong in Europe and Japan. In Europe, our family of high-voltage devices, called PLATINIUM, are in high demand due to their long battery life and innovative benefits. In Japan LivaNova has made significant progress with its KORA 250 full-body MRI pacemaker.

LivaNova is marketing new products and technologies through existing sales channels in all of the global markets in which LivaNova operates, including through clinicians ranging from epileptologists, neurologists, neurosurgeons and perfusionists. The company is also working to expand its commercial reach into emerging markets. By focusing on its growth platforms, LivaNova will drive business development, seizing opportunities in adjacent markets and territories.

- **Focusing on Innovation**

  LivaNova drives innovation by looking inward and outward. The company prioritises and accelerates its internal pipeline with commitments to innovation milestones and achievements for its current product line. The company also leverages technologies among its business franchises to further stimulate innovation. For instance, remote monitoring algorithms and wireless technologies used within neuromodulation and cardiac rhythm management are proving valuable for the treatment of chronic heart failure and sleep apnoea.

  At the same time, LivaNova strategically and selectively identifies external investments. Currently, the company is focused on developing new opportunities and commercialising new product offerings in three potential new markets: percutaneous mitral valve, sleep apnoea and heart failure.

  LivaNova has multiple investments in several early stage development companies that are working on devices for treating mitral regurgitation through percutaneous replacement of the native mitral valve. LivaNova also expects to benefit from the developing market for active implantable treatments for sleep apnoea, with investments aimed at the under-addressed obstructive sleep apnoea, or OSA, markets. Lastly, LivaNova continues to build clinical evidence in randomised trials on its VITARIA system for heart failure.

- **Maintaining Financial Discipline**

  LivaNova continues to maintain a strong balance sheet and operational cash balance. The company has delivered on synergies from the Mergers and has successfully restructured the organization. The efforts to simplify the business model have improved profitability. Continued financial discipline, efficient use of resources and control of expenses will allow LivaNova to continue to improve its financial profile in the future.

- **Being a great place to work**

  To remain a market leader and improve the business, LivaNova must attract, retain and develop the best talent. This will be the result of continuous improvement, accountability and on-going teamwork. With a committed workforce, LivaNova can instil a positive culture to generate positive results.

B. Business Franchises and the New Ventures – Business Model

Upon completion of the Mergers, in October 2015, LivaNova reorganised LivaNova's reporting structure and aligned LivaNova's underlying divisions and businesses. LivaNova was then comprised of three principal Business Units: Cardiac Surgery, Neuromodulation and Cardiac Rhythm Management, corresponding to three main therapeutic areas. The historic Cyberonics operations were included under the Neuromodulation Business Unit, and the historical Sorin businesses were included under the Cardiac Surgery and Cardiac Rhythm Management Business Units. Corporate activities included corporate business development and New Ventures. New Ventures was focused on new growth platforms and identification of other opportunities for expansion. The New Ventures group was created with contributions from both Cyberonics and Sorin.

In July 2016, LivaNova announced an organizational re-design that, in addition to LivaNova's existing corporate support functions, included the addition of a Chief Operating Officer. Damien McDonald joined the Company in October 2016 as the Chief Operating Officer and was responsible for driving innovative product development, commercialization and geographic expansion across the global organization with a focus on margin expansion and profitable growth. In executing the new organizational model, LivaNova created new regional leadership positions in the United States, Europe, and the rest of world to support LivaNova's three Business Franchises (formerly Business Units) corresponding to the three main therapeutic areas: Neuromodulation, Cardiac Surgery and Cardiac Rhythm Management. The New Ventures group continues unchanged. LivaNova's three reportable segments correspond to LivaNova's Business Franchises.

Cardiac Surgery Business Franchise

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

Cardiopulmonary Products

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

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

Oxygenators and perfusion tubing systems. The oxygenators product group, which includes oxygenators and other disposable devices for extracorporeal circulation, the new Inspire™, Heartlink™ and Connect™ system. The Inspire range of products, comprised of 12 models, will enable perfusionists to replace the existing oxygenator lines with more advanced systems capable of delivering better performance and greater flexibility. The total modularity of this new range of products will also help reduce production time and costs, providing perfusionists with a more customized approach to further benefit patients.

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

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

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

Heart Valves and Repair Products

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

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

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

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

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

Neuromodulation Business Franchise

LivaNova's Neuromodulation Business Franchise designs, develops and markets neuromodulation-based medical devices for the treatment of epilepsy and depression.

VNS Therapy System

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

VNS for the treatment of epilepsy

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

In the U.S., LivaNova's VNS Therapy System was the first medical device treatment approved by the U.S. Food and Drug Administration in 1997 for refractory drug-resistant epilepsy in adults and adolescents over 12 years of age and is indicated for use as an adjunctive therapy in reducing the frequency of seizures. Other worldwide regulatory bodies have also approved the VNS Therapy System for the treatment of epilepsy, many without age restrictions or seizure-type limitations. Patients with epilepsy can also use a small, handheld magnet provided with LivaNova's VNS Therapy System to activate or inhibit stimulation manually. LivaNova sells a number of VNS product models for the treatment of epilepsy, including LivaNova's Model 102 (Pulse™), Model 102R (Pulse Duo™), Model 103 (Demipulse®), Model 104 (Demipulse Duo®), Model 105 (AspireHC®) and Model 106 (AspireSR®) pulse generators. To date, an estimated 100,000 patients have been treated with VNS Therapy System for epilepsy.

LivaNova's AspireSR® generator provides the benefits of VNS Therapy, with an additional feature: automatic stimulation in response to detection of changes in heart rate potentially indicative of a seizure. The AspireSR® generator is capable of delivering additional stimulation automatically by responding to a patient's relative heart-rate changes that exceed certain variable thresholds, which are adjustable. Heart-rate changes accompany seizure activity in certain patients. The thresholds are programmed by the patient's physician and can be adjusted to suit the patient's level of physical activity or for other reasons.

In May 2007, the Centres for Medicare and Medicaid issued a national determination of non-coverage within the United States with respect to reimbursement of the VNS Therapy System for patients with treatment-resistant depression, significantly limiting access to this therapeutic option for most patients. As the result of lack of access following this determination, LivaNova has not engaged in active commercial efforts with respect to treatment-resistant depression in any of LivaNova's markets. However, in the future, LivaNova intends to re-engage in limited commercial efforts in certain international markets. As a result of new clinical evidence, including the completion of a post-approval dosing study and other studies that have resulted in more than five recent publications in peer-reviewed journals, LivaNova submitted a formal request to CMS for reconsideration of VNS Therapy for treatment-resistant depression. CMS declined LivaNova's request for reconsideration in May 2013. In October 2013, two Medicare beneficiaries appealed the lack of coverage by Medicare through the Departmental Appeals Board of the Department of Health and Human Services. In January 2015, DAB concluded that the record relating to the non-coverage conclusion by CMS is complete and adequately supports the non-coverage determination.

Cardiac Rhythm Management Business Franchise

The Cardiac Rhythm Management Business Franchise 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 Cardiac Rhythm business franchise devices.

Cardiac Rhythm Management Products

The following are the principal products offered by the Cardiac Rhythm Management Business Franchise:

Implantable Cardiac Pacemakers. A pacemaker is a battery-powered device implanted in the chest that delivers electrical impulses to treat bradycardia, a condition of abnormally slow heart rhythms or unsteady heart rhythms that cause symptoms such as dizziness, fainting, fatigue and shortness of breath. LivaNova's pacemakers include the REPLY™ and ESPRIT™ models, which have received both FDA clearance and CE mark certification, and the KORA 100™ model which has received CE mark certification. In 2015, LivaNova launched KORA 250™ pacemakers in Europe. LivaNova's latest generation of pacemaker systems is compatible with 1.5 Tesla MRI machines.

Implantable Cardioverter Defibrillators. Implantable Cardioverter Defibrillators continually monitor the heart and deliver therapy when an abnormal heart rhythm such as tachyarrhythmia, or rapid heart rhythm, occurs and leads to sudden cardiac arrest. LivaNova's latest generation ICD is the PLATINIUM™, which has CE mark certification and which features industry-leading battery longevity, advanced shock reduction technology and a contoured shape with thin, smooth edges that better fits inside the body. Other ICDs include the PARADYM™ 2 family of ICDs. PLATINIUM was approved in Europe in the second quarter of 2015, in Japan in the fourth quarter of 2015 and in the U.S. in the third quarter of 2016.

Implantable Cardiac Resynchronization Therapy Devices. Implantable Cardiac Resynchronization Therapy devices treat heart failure patients by altering the abnormal electrical sequence of cardiac contractions by sending tiny electrical impulses to the lower chambers of the heart to help them beat in a more synchronized fashion. LivaNova's latest generations of CRT-Ds use the SonR™ technology that provides heart failure patients with automatic and frequent hemodynamic CRT optimization both at rest and exercise using a unique hemodynamic sensor embedded in the SonRtip™ atrial sensing/pacing lead. SonR™ technology is found in INTENSIA™, PARADYM RF™, PARADYM 2™ and the most recent PLATINIUM™ families of CRT-Ds. LivaNova has FDA approval for PLATINIUM™ CRT-D since the third quarter of 2016 and the PARADYM RF™ SonR CRT-D is under clinical investigation in the U.S.

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

Cardiac Rhythm Management Developments

In November 2015, LivaNova launched the PLATINIUM implantable cardiac defibrillator in Europe. In September 2016, LivaNova announced the launch in the U.S. During 2015, LivaNova continued the development of LivaNova's IS4 PLATINIUM CRT-D with SonR dedicated to the use of quadripolar left ventricular catheters with IS4 compatibilities. This product was launched in Europe in December 2016. 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.

During the third quarter of 2016, the CRM Business Franchise experienced lower than expected sales partially as a result of the delayed launch of PLATINIUM in the U.S., continued price pressure in Europe in the Bradycardia (pacemaker) segment and lower than expected demand for all CRM product lines. In turn, LivanNova lowered its fourth quarter sales projections for CRM. LivaNova's stock price also declined significantly during the fourth quarter, reaching a low following the Mergers of $40.84 on 15 November 2016. Management considered these events and concluded the Cardiac Rhythm Management reporting unit may be impaired.

Based on the valuation performed, LivaNova recorded a non-cash loss on goodwill impairment totalling $18.3 million. In addition, we recorded impairments in Developed Technology, Customer Relationships and Other Intangible assets of $10.5 million, $37.0 million and $0.9 million respectively. The total impairment related to CRM was $72.3 million (including $5.5 million in equipment) and was recorded in Exceptional Items in our consolidated statement of income for the year ended December 31, 2016.

In June 2015, LivaNova announced the European launch of a full body MRI conditional pacemaker, the KORA 250. The KORA 250 is equipped with LivaNova's 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, referred to as "SafeR", and the ability to monitor patients for severe sleep apnoea using Sleep Apnoea Monitoring. In the first quarter 2016, the KORA 250 was approved and launched in Japan.

In June 2013, following FDA approval to initiate a clinical trial under an Investigational Device Exemption, the first patients were enrolled in the United States in the Respond CRT clinical trial (cardiac resynchronization therapy). The purpose of this trial is to assess the safety and effectiveness of the SonR CRT™ system in patients affected by advanced heart failure. In October 2014, enrolment was completed in the Respond CRT™ clinical trial, enrolling 1,039 patients in the study. In May 2016, LivaNova announced results from the Respond CRT™ clinical trial, showing that a 35 per cent risk reduction in heart failure hospitalization was associated with SonR. In August 2016, LivaNova announced the results from the 18-month follow-up period that confirm significant long-term risk reduction in heart failure hospitalization.

During 2014, LivaNova executed a joint venture with MicroPort Scientific Corporation to enter China's Cardiac Rhythm Management market, and in the same year also completed the acquisition of Oscor Inc.'s Cardiac Rhythm Management leads business, including a manufacturing facility in the Dominican Republic. In particular, the joint venture agreement with MicroPort Scientific Corporation to market and develop Cardiac Rhythm Management devices in China will enable LivaNova to establish a local presence in China and accelerate its penetration of the rapidly growing Chinese market. The joint venture is based in Shanghai and became operational in the first half of 2014. MicroPort owns 51 per cent of the joint venture, and

LivaNova owns the remaining 49 per cent.

New Ventures – Heart Failure, Sleep Apnoea and Mitral Regurgitation

The New Ventures group was created to evaluate growth opportunities and new potential areas of investment for the Company to expand LivaNova's product portfolio to meet emerging patient needs. In particular, New Ventures focuses on innovative technologies to treat three main pathologies: heart failure, sleep apnoea and mitral valve regurgitation, areas of unmet clinical need where there is no optimal therapeutic solution for the majority of patients. New Ventures partners with public and private institutions and medical start-ups to develop future therapeutic solutions in these areas.

Heart failure

New Ventures is currently focused on the development and clinical testing of the VITARIA®™ System for treating heart failure through vagus nerve stimulation.

The Company received CE Mark approval of the VITARIA®™ System in February 2015 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, and it includes the same elements as the VNS Therapy System - pulse generator, lead, programming wand and software, programming computer, tunnelling tool and accessory pack - without the patient kit with magnets. LivaNova conducted a pilot study, ANTHEM-HF, outside the United States, which concluded during 2014. The study results support the safety and efficacy of ART delivered by the VITARIA®™ System. LivaNova submitted the results to LivaNova's European Notified Body, DEKRA, and on 20 February 2015, LivaNova received CE Mark approval. The VITARIA®™ System is not available in the U.S. During 2014, LivaNova 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 United States.

Sleep Apnoea

In October 2014, Sorin invested $20.0 million in Respicardia Inc. (Respicardia), a U.S.-based developer of implantable therapies designed to improve Respiratory Rhythm Management and cardiovascular health. Respicardia's remedé System is an implantable device system designed to restore a more natural breathing pattern during sleep in patients with central sleep apnoea (CSA) by transvenously stimulating the phrenic nerve. The remedé System received CE Mark certification in 2010 and is currently available in certain countries in Europe. Results from a randomized, controlled pivotal trial were reported at the European Society of Cardiology - Heart Failure meeting in May 2016. Investigators reported that patients in the treatment group were significantly more likely to have a reduction in AHI of ≥50 per cent between baseline and 6 months ($p<0.001$) compared to patients in the control group. This result was matched by significant improvements in other apnoea-related parameters and quality of life measures. The device was well-tolerated, with 91 per cent of patients free from serious adverse events associated with implantation. In September 2016, Respicardia applied for U.S. FDA market approval and in September 2016 LivaNova elected not to exercise LivaNova's option to purchase the outstanding shares of Respicardia as the investment no longer met LivaNova's objective for substantial on-going involvement taken into consideration with LivaNova's overall portfolio management program. As a result, LivaNova recorded an impairment of $9.2 million equal to the amount of the carrying value of the option. In addition, LivaNova terminated LivaNova's exclusive distribution agreement with Respicardia in November 2016.

LivaNova has also invested $12.0 million in ImThera Medical, Inc. (ImThera), a privately held, emerging-growth, company developing an implantable neurostimulation device system for the treatment of obstructive sleep apnoea. In November 2014, ImThera announced that the FDA approved an IDE for their targeted hypoglossal neurostimulation pivotal clinical study and patient enrolment is proceeding.

Mitral valve regurgitation

Mitral regurgitation occurs when the heart's mitral valve does not close tightly, which allows blood to flow backwards in the heart. This reduces the amount of blood that flows to the rest of the body, making the patient feel tired or out of breath. Treatment depends on the nature and the severity of mitral regurgitation. In certain cases, heart surgery may be needed to repair or replace the valve. Left untreated, severe mitral valve regurgitation can cause heart failure or heart rhythm problems (arrhythmias). LivaNova is invested in three mitral valve start-ups. Cardiosolutions Inc., a start-up headquartered in the U.S. in which LivaNova has held an interest since 2012, 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 companies focused on developing devices for treating mitral regurgitation through percutaneous replacement of the native mitral valve. Although both companies are focused on mitral valve replacement, their devices differ significantly in both the delivery system (transapical versus transfemoral) and the anchoring system. In 2016, both Caisson and Highlife completed their first human implants in feasibility clinical studies. LivaNova invested $8.5 million in Caisson and $5.3 million in Highlife in 2016 to fund product development and clinical studies.

C. Research and Development

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

Approximately 16 per cent of LivaNova's employees work in research and development. LivaNova's research and development activities include improving existing products and therapies, expanding their uses and applications and developing new products. LivaNova continue to focus on optimizing innovation and continue to assess LivaNova's research and development programs based on their ability to deliver economic value to the customer.

During each of the year ended 31 December 2016, the transitional period 25 April 2015 to 31 December 2015, LivaNova spent $134.1 million, $50.7 million.

Research and Development Updates

Neuromodulation Business Franchise: LivaNova's epilepsy product development efforts are directed toward improving the VNS Therapy System, improving its efficacy, and developing new products that provide additional features and functionality. LivaNova is conducting on-going product development activities to enhance the VNS Therapy System pulse generator, lead and programming software and to introduce new products. LivaNova support studies for LivaNova's product development efforts and to build clinical evidence for the VNS Therapy System. LivaNova will be required to obtain appropriate U.S. and international regulatory approvals, and clinical studies may be a prerequisite to regulatory approvals for some products. LivaNova's research and development efforts will require significant funding to complete and may not be successful. Even if successful, additional clinical studies may be needed to achieve regulatory approval and to commercialize any or all new or improved products.

Several development projects were either terminated or halted during the transitional period 25 April 2015 to 31 December 2015, including the planned development of a wirelessly enabled generator, and an external device planned to be used to warn or notify patients of impending or actual seizures. During 2016, LivaNova made the decision to focus LivaNova's efforts on projects LivaNova believe have a strong likelihood of meeting both patient and physician needs in the near term.

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

In January 2017, the independent study, "Aortic Valve Replacement With Sutureless Perceval Bioprosthesis: Single-Center Experience With 617 Implants," was presented to The Society of Thoracic Surgeons. The study found that AVR procedures conducted with Perceval resulted in low mortality and excellent hemodynamic performance for patients.

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

D. Acquisitions and Investments

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

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

E. Patents and Licenses

LivaNova relies on a combination of patents, trademarks, copyrights, trade secrets, and non-disclosure and non-competition agreements to protect LivaNova's intellectual property. LivaNova generally files patent applications in the U.S. and countries where patent protection for LivaNova's technology is appropriate and available. As of 31 December 2016, LivaNova held more than 2,100 issued patents worldwide, with approximately 640 patent applications pending that cover various aspects of LivaNova's technology. U.S. patents typically have a 20-year term from the application date and patent protection outside the United States varies by country. In addition, LivaNova holds exclusive and non-exclusive licenses to a variety of third-party technologies covered by patents and patent applications. There can be no assurance that pending patent applications will result in the issuance of patents, that patents issued to or licensed by LivaNova will not be challenged or circumvented by competitors, or that these patents will be found to be valid or sufficiently broad to protect LivaNova's technology or to provide LivaNova with a competitive advantage. LivaNova has also obtained certain trademarks and trade names for LivaNova's products, and maintain certain details about LivaNova's processes, products and strategies as trade secrets. In the aggregate, these intellectual property assets and licenses are considered to be of material importance to LivaNova's business segments and operations. LivaNova regularly reviews third-party patents and patent applications in an effort to protect LivaNova's intellectual property and avoid disputes over proprietary rights.

LivaNova relies on non-disclosure and non-competition agreements with employees, consultants and other parties to protect, in part, trade secrets and other proprietary technology. There can be no assurance that these agreements will not be breached, that LivaNova will have adequate remedies for any breach that others will not independently develop equivalent proprietary information or that third parties will not otherwise gain access to LivaNova's trade secrets and proprietary knowledge.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry, particularly in the areas in which LivaNova compete. LivaNova continues to defend ourselves against claims and legal actions alleging infringement of the patent rights of others. Adverse determinations in any patent litigation could subject LivaNova to significant liabilities to third parties, require LivaNova to seek licenses from third parties, and, if licenses are not available, prevent LivaNova from manufacturing, selling or using certain of LivaNova's products, which could have a material adverse effect on LivaNova's business. Additionally, LivaNova may find it necessary to initiate litigation to enforce LivaNova's patent rights, to protect LivaNova's trade secrets or know-how and to determine the scope and validity of the proprietary rights of others. Patent litigation can be costly and time-consuming, and there can be no assurance that LivaNova's litigation expenses will not be significant in the future or that the outcome of litigation will be favourable to LivaNova. Accordingly, LivaNova may seek to settle some or all of LivaNova's pending litigation, particularly to manage risk over time. Settlement may include cross licensing of the patents that are the subject of the litigation as well as LivaNova's other intellectual property and may involve monetary payments to or from third parties.

F. Markets and Distribution Methods

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

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

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

G. Customers, Competition and Industry

LivaNova compete in the medical device market in over 5,000 hospitals in more than 100 countries. This market is characterized by rapid change resulting from technological advances and scientific discoveries. LivaNova's competitors, across LivaNova's product portfolio, range from large manufacturers with multiple business lines to small manufacturers offering a limited selection of specialized products. In addition, LivaNova face competition from providers of alternative medical therapies.

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

Cardiac Surgery

The primary medical professionals who use LivaNova's Cardiopulmonary products are perfusionists and cardiac surgeons. All Cardiopulmonary products are sold in a competitive market where pricing can be a relevant factor. LivaNova's competitors include Terumo Medical Corporation, Maquet Medical Systems, Medtronic Global, Haemonetics Corporation, Edwards Lifesciences and St. Jude Medical (now Abbott), although not all competitors are present in all product lines.

Neuromodulation

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

Cardiac Rhythm Management

The primary medical specialists who use LivaNova's Cardiac Rhythm Management products include electrophysiologists, implanting cardiologists, heart failure specialists and cardiac surgeons. All Cardiac Rhythm Management products are sold in a competitive market where features offered and pricing can be significant competitive factors. Primary competitors in the Cardiac Rhythm Management business are Medtronic Global, St. Jude Medical (now Abbott), Boston Scientific and Biotronik.

H. Financial Information about the Company, the Business Franchises and Geographic Areas

LivaNova operates its business as three segments which it calls Business Franchises (formerly Business Units). These Business Franchises correspond to LivaNova's three main therapeutic areas: Neuromodulation, Cardiac Surgery and Cardiac Rhythm Management.

I. Production Quality Systems and Availability of Raw Materials

LivaNova manufactures a majority of its products at 11 manufacturing facilities located in Italy, France, Germany, the US, Canada, Brazil and the Dominican Republic. During the fourth quarter of 2016, LivaNova initiated a plan to exit the Costa Rica manufacturing operation, and LivaNova expects to complete the exit plan in the first half of 2017. In March 2017, we committed to a plan to sell our Suzhou Industrial Park facility in Shanghai, China, an emerging market greenfield project for the local manufacture of Cardiopulmonary disposable products in Suzhou Industrial Park in China. For further information, see *Note 32 — Events after the Reporting Period* of the LivaNova consolidated financial statements. LivaNova purchases raw materials and many of the components used in these manufacturing facilities from numerous suppliers in various countries. For quality assurance, sole source availability or cost effectiveness purposes, LivaNova may procure certain components and raw materials from a sole supplier. LivaNova works closely with its suppliers to ensure continuity of supply while maintaining high quality and reliability.

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

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

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

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

J. Government Regulation and Other Considerations

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

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

US

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

510(k) Clearance Process

To obtain 510(k) clearance, LivaNova must submit a pre-market notification to the US FDA demonstrating that the proposed device is substantially equivalent to a previously-cleared 510(k) device, a device that was in commercial distribution before 28 May 1976 for which the US FDA has not yet called for the submission of approval PMA application, or a device that has been reclassified from Class III to either Class II or I. In rare cases, Class III devices may be cleared through the 510(k) process. The US FDA's 510(k) clearance process usually takes three to twelve months from the date the application is submitted and filed with the US FDA, but may take significantly longer and clearance is never assured.

Although many 510(k) pre-market notifications are cleared without clinical data, in some cases, the US FDA requires significant clinical data to support substantial equivalence. In reviewing a pre-market notification submission, the US FDA may request additional information, including clinical data, which may significantly prolong the review process.

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

Pre-market Approval Process

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

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

Clinical Studies

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

Continuing Regulation

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

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

The US FDA enforces these requirements by inspection and market surveillance. The US FDA periodically inspects LivaNova's manufacturing facilities, which potentially includes LivaNova's suppliers. If the US FDA observes conditions that may constitute violations, LivaNova must correct the conditions or satisfactorily demonstrate the absence of the violations. The US FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed by LivaNova.

LivaNova continues to expend resources to maintain compliance with LivaNova's obligations under the US FDA's regulations. Failure to comply with applicable regulatory requirements may result in enforcement action by the US FDA, which may include one or more of the following sanctions:

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

Other than the United States

Outside the US, LivaNova is subject to government regulation in the countries in which it operates. Although many of the regulations applicable to LivaNova's products in these countries are similar to those of the US FDA, these regulations vary significantly from country to country and with respect to the nature of the particular medical device. The time required to obtain foreign approvals to market LivaNova's products may be longer or shorter than the time required in the US, and requirements for such approvals may differ from US FDA requirements. In the EEA, a single regulatory approval process exists, and conformity with the legal requirements is represented by the CE Mark. To obtain CE Mark certification, defined products must meet minimum standards of performance, safety and quality (i.e., the essential requirements) set out in the EU Medical Devices Directives (Council Directive 93/42/EEC on Medical Devices and Council Directive 90/385/EEC on Active Implantable Medical Devices). To demonstrate compliance with the essential requirements LivaNova must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Except for low-risk medical devices where the manufacturer can issue an EC Declaration of Conformity based on a self-assessment of the conformity of its products with the essential requirements of the EU Medical Devices Directives, a conformity assessment procedure requires the intervention of an organisation accredited by a Member State of the EU or an EEA competent authority to conduct conformity assessments, or a Notified Body. Depending on the relevant conformity assessment procedure, the Notified Body would typically audit and examine the technical file and the quality system for the manufacture, design and final inspection of LivaNova's devices. Following successful completion of a conformity assessment procedure the Notified Body issues a certificate that entitles the manufacturer to affix the CE Mark to its medical devices after having prepared and signed a related EC Declaration of Conformity. Manufacturers with CE Marked devices are subject to regular inspections by Notified Bodies to monitor continued compliance with the applicable directives and essential requirements.

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

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

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

In October 2013, the European Parliament approved a package of reforms to the European Commission's proposals. Under the revised proposals, only designated "special notified bodies" would be entitled to conduct conformity assessments of high-risk devices, such as active implantable devices. These special notified bodies will need to notify the European Commission when they receive an application for a conformity assessment for a new high-risk device. The European Commission will then forward the notification and the accompanying documents on the device to the MDCG (a new, yet to be created, body chaired by the European Commission, and representatives of Member States) for an opinion. These new procedures may result in the re-assessment of LivaNova's existing medical devices, or a longer or more burdensome assessment of LivaNova's new products. In May 2016, a political agreement was reached and the tentatively agreed upon text was published in June 2016.

Once the legislative process is complete, the Medical Devices Regulation is expected to enter into force during 2017 and become effective three years thereafter. In its current form it would, among other things, also impose additional reporting requirements on manufacturers of high risk medical devices, impose an obligation on manufacturers to appoint a "qualified person" responsible for regulatory compliance, and provide for more strict clinical evidence requirements.

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

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

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

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

Promotional Restrictions

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

Governmental Trade Regulations

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

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

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

Patient Privacy and Security Laws

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

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

Cost Containment Initiatives

Government and private sector initiatives to limit the growth of healthcare costs, including price regulation, competitive pricing, bidding and tender mechanics, coverage and payment policies, comparative effectiveness of therapies, technology assessments, and managed-care arrangements, are continuing in many countries where LivaNova does business. These changes are causing the marketplace to put increased emphasis on the delivery of more cost-effective medical devices and therapies. Government programmes, private healthcare insurance and managed-care plans have attempted to control costs by limiting the extent of coverage or amount of reimbursement available for particular procedures or treatments, tying reimbursement to outcomes, shifting to population health management, and other mechanisms designed to constrain utilisation and contain costs. Hospitals, which purchase implants, are also seeking to reduce costs through a variety of

mechanisms, including, for example, creating centralised purchasing functions that set pricing and in some cases limit the number of vendors that can participate in the purchasing program. Hospitals are also aligning their interests with physicians' through employment and other arrangements, such as gainsharing, whereby a hospital agrees with physicians to share certain realised cost savings resulting from the physicians' collective change in practice patterns, such as standardisation of devices where medically appropriate, and participation in affordable care organisations. Such alignment has created increasing levels of price sensitivity among customers for LivaNova's products.

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

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

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

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

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

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

Applicability of Anti-Corruption Laws and Regulations

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

Health Care Fraud and Abuse Laws

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

The US federal Anti-Kickback Statute prohibits, among other things, any person from knowingly and wilfully offering, soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programmes such as Medicare and Medicaid. The US Anti-Kickback Statute is subject to evolving interpretations. In the past, the government has enforced the US Anti-Kickback Statute to reach large settlements with healthcare companies based on sham consulting and other financial arrangements with physicians. The majority of states also have anti-kickback laws which establish similar prohibitions, and in some cases may apply to items or services reimbursed by any third-party payer, including commercial insurers.

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

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

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

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

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

Environmental Health and Safety Laws

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

Product Liability and Insurance

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

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

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

K. Working Capital Practices

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

L. Employees

As of 31 December 2016, LivaNova employed approximately 4,700 employees worldwide. LivaNova's employees are vital to LivaNova's success, and LivaNova is engaged in an on-going effort to identify, hire, manage, and maintain the talent necessary to meet LivaNova's business objectives. The Company believes that LivaNova has thus far been successful in attracting and retaining qualified personnel in a highly competitive labour market due, in large part, to LivaNova's competitive compensation and benefits, and LivaNova's rewarding work environment, fostering employee professional training and development and providing employees with opportunities to contribute to LivaNova's continued growth and success.

As at 31 December 2016:

- LivaNova had 9 members of its Board of Directors, of whom 7 (78 per cent) were male and 2 (22 per cent) were female
- LivaNova had 83 senior managers (consisting of the executive leadership team and vice-presidents), of whom 69 (83 per cent) were male and 14 (17 per cent) were female; and
- LivaNova had 4,655 employees, of whom 1,992 (43 per cent) were male and 2,663 (57 per cent) were female.

M. Environment and Other Social Matters

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

N. Seasonality

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

O. Properties

LivaNova's principal executive office is located in the United Kingdom and is leased by LivaNova. LivaNova's three Business Franchises (formerly Business Units) corresponding to LivaNova's three main therapeutic areas: Cardiac Rhythm Management, Neuromodulation and Cardiac Surgery have headquarters located in France, United States and Italy, respectively. The location in France is leased by LivaNova and the locations in Italy and United States are owned by LivaNova. Manufacturing and research facilities are located in Brazil, Canada, Dominican Republic, France, Germany, Italy, Australia, China and the United States. Total facilities are approximately 1.7 million square feet of which manufacturing and research facilities represent approximately 1.5 million square feet. Approximately 20 per cent of the manufacturing facilities are located within the United States and approximately 70 per cent of are owned by LivaNova and the balance is leased.

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

III. Business Review

A. Introduction

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

LivaNova is reporting in its consolidated financial statements in this UK Annual Report the results from operations for the year ended 31 December 2016 and for the Transitional Period from 25 April 2015 to 31 December 2015. The Transitional Period includes the results of operations for Cyberonics for the period 25 April 2015 to 31 December 2015 and the results of operations for Sorin for the period 19 October 2015 to 31 December 2015.

Historically, Sorin and Cyberonics prepared their financial statements in accordance with IFRS, as adopted by the European Union, and US GAAP, respectively. Following completion of the Mergers, LivaNova is preparing its consolidated financial statements in accordance with both (i) US GAAP in accordance with US securities law and reporting requirements, and (ii) IFRS in accordance with the requirements of the Companies Act and the UK Disclosure Guidance and Transparency Rules. The US GAAP financial statements for the year ended 31 December 2016 and the Transitional Period were contained in the Annual Report on Form 10-K filed with the SEC on 1 March 2017 and the IFRS financial statements are contained in this UK Annual Report.

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

LivaNova reported an operating loss of $93.6 million on net sales of $1,213.9 million for the year ended 31 December 2016 and an operating loss of $19.1 million on net sales of $415.7 million for the Transitional Period. In the year ended 31 December 2016, LivaNova incurred $55.9 million of restructuring expenses, $20.5 million of merger and integration expenses, and recorded a $72.3 million impairment related to the CRM franchise. These items totalled $148.8 million and are included in exceptional items in the consolidated statement of income. The Transitional Period included $72.2 million in exceptional items, including merger, integration and restructuring expenses, and an impairment of a cost method investment. The results for the year ended 31 December 2016 are not comparable to the transitional period from 25 April 2015 to 31 December 2015.

B. Key Performance Indicators

The directors of LivaNova consider that the most important KPIs for 2016 are those set out below. LivaNova does not currently have full year comparisons for 2016 as LivaNova's own reporting only commenced in the fourth quarter of 2015.

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

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

- **Adjusted income from operations**

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

- **Adjusted net profit**

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

- **Adjusted earnings per share**

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

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

C. Results of Operations

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

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

In this Annual Report, LivaNova is reporting the results for:

- LivaNova and its consolidated subsidiaries for the year ended 31 December 2016;
- A transitional period, 25 April 2015 to 31 December 2015. This transitional report is the result of the change from Cyberonics' fiscal year ending the last Friday in April before the Mergers to a calendar year ending December 31st after the Mergers. The transitional period included the business activities of Cyberonics and its consolidated subsidiaries for the period 25 April 2015 to 18 October 2015, and the consolidated results of the combined businesses of LivaNova (Cyberonics and Sorin) for the period 19 October 2015 to 31 December 2015.

(In thousands, except per share amounts)	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Net sales	$ 1,213,925	$ 415,707
Cost of sales	(480,772)	(148,889)
Exceptional items – product remediation	(37,534)	—
Gross profit	695,619	266,818
Operating expenses:		
Selling, general and administrative	(506,394)	(163,021)
Research and development	(134,067)	(50,740)
Operating profit before exceptional items	55,158	53,057
Exceptional items	(148,794)	(72,172)
Operating loss	(93,636)	(19,115)
Finance income	1,698	392
Finance expense	(10,616)	(1,509)
Foreign exchange and other – gain (loss)	3,491	(7,522)
Share of losses from equity method investments	(22,612)	(3,308)
Loss before taxes	(121,675)	(31,062)
Income tax expense (benefit)	72,931	(2,784)
Loss attributable to owners of the parent	$ (194,606)	$ (28,278)

Net Sales

The table below illustrates net sales by operating segment for the year ended 31 December 2016 as compared to the Transitional Period (in thousands):

Revenues	Year ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Cardiac Surgery	$ 611,715	$ 147,635
Neuromodulation	351,406	214,761
Cardiac Rhythm Management	249,067	52,470
Other	1,737	841
Total	$ 1,213,925	$ 415,707

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

Net sales for the year ended 31 December 2016 include sales for Sorin for the full year whereas for the Transitional Period 25 April 2015 to 31 December 2015, Sorin's sales were included from 19 October 2015 (acquisition date) through 31 December 2015. Net sales attributable to Sorin during this period were $200.1 million. Neuromodulation net sales for the year ended 31 December 2016 as compared to the Transitional Period 25 April 2015 to 31 December 2015 increased 63.6 per cent due primarily to a full year of sales compared to the Transitional period 25 April 2015 to 31 December 2015 and pricing increases in the US.

The table below illustrates net sales by market geography for the year ended 31 December 2016 as compared to the Transitional Period 25 April 2015 to 31 December 2015 (in thousands):

	Year Ended 31 December 2016			
	Cardiac Surgery	Neuromodulation	Cardiac Rhythm Management	Other
United States	$ 182,105	$ 298,454	$ 9,947	$
Europe[1]	172,772	31,942	197,220	132
Rest of World	256,838	21,010	41,900	1,605
Total	$ 611,715	$ 351,406	$ 249,067	$ 1,737

	Transitional Period 25 April 2015 to 31 December 2015			
	Cardiac Surgery	Neuromodulation	Cardiac Rhythm Management	Other
United States	$ 48,960	$ 180,764	$ 2,537	$
Europe[1]	40,272	21,620	43,188	242
Rest of World	58,403	12,377	6,745	599
Total	$ 147,635	$ 214,761	$ 52,470	$ 841

(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 cost of sales and major expenses as a percentage of net sales:

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Cost of sales	39.6%	35.8%
Product remediation	3.1%	—%
Gross profit	57.3%	64.2%
Selling, general and administrative	41.7%	39.2%
Research and development	11.0%	12.2%
Exceptional items	12.3%	17.4%

Cost of Sales

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

Cost of sales as a percentage of net sales was 39.6 per cent for the year ended 31 December 2016; an increase of 3.8 per cent as compared to the Transitional Period ended 31 December 2015. This increase was primarily due to the inclusion of Sorin's business activities for the full year and the amortization of inventory written-up in the Mergers, which accounted for 2.9 per cent of the increase.

Product Remediation

During 2016, we recognized expense of $37.5 million for a product remediation plan related to our 3T Heater Cooler device, representing 3.1 per cent net sales. Refer to *Note 18 — Provisions* in our consolidated financial statements included in this Annual Report for additional information.

SG&A Expenses

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

SG&A expenses as a percentage of net sales for the year ended 31 December 2016 increased 2.5 per cent to 41.7 per cent as compared to the Transitional Period ended 31 December 2015. This increase was due to LivaNova's share based compensation. In addition, in May 2016 LivaNova 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 reduced LivaNova's SG&A expenses, as a per cent of net sales by 0.4 per cent.

R&D Expenses

R&D expenses consist of product design and development efforts, clinical trial programmes and regulatory activities. R&D expenses as a percentage of net sales were 11.0 per cent for the year ended 31 December 2016 and 12.2 per cent for the Transitional Period. R&D expenses, as a percentage of net sales, decreased due to changes in the R&D programmes within Neuromodulation, the initial impact of cost savings as well as lower R&D costs for Cardiac Surgery and Cardiac Rhythm Management from the date of the Mergers. These decreases were primarily due to completion of work, adaptation to longer developmental schedules or cancellation of work.

Exceptional Items

Items that are material either by size or incidence are classified as exceptional items. Further details on these items are included below.

Merger and Integration Expenses

In the year ended 31 December 2016, LivaNova incurred $20.5 million in expenses related to the Merger and integration expenses. These expenses decreased 63.2 per cent from the Transitional Period, where LivaNova incurred $55.8 million. These expenses consisted of professional fees for legal services, accounting services, due diligence, a fairness opinion and the preparation of registration and regulatory filings in the US and Europe, as well as investment banking fees.

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

Restructuring Expenses

LivaNova initiates restructuring plans to leverage economies of scale, streamline distribution and logistics and strengthen operational and administrative effectiveness in order to reduce overall costs. Restructuring expenses consist primarily of termination payments triggered by the Mergers or by the 2015 and 2016 Reorganization Plans as detailed in *Note 7 — 2015 and 2016 Restructuring Plans* in the consolidated financial statements in this Annual Report. LivaNova estimates that these Plans will result in a net reduction of approximately 317 personnel of which 205 have occurred as of 31 December 2016.

LivaNova's 2015 and 2016 Reorganization Plans (the "Plans") were initiated in October 2015 and March 2016, respectively, in conjunction with the completion of the Mergers. The Plans include the closure of LivaNova's R&D facility in Meylan, France and consolidation of its research and development capabilities into LivaNova's Clamart, France facility. In addition, during the fourth quarter of the year ended 31 December 2016, LivaNova initiated a plan to exit the Costa Rica manufacturing operation and transfer its operations to Houston, Texas, USA.

LivaNova incurred restructuring charges of $55.9 million, including $5.7 million in impairment charges to LivaNova's building and equipment in Costa Rica. LivaNova expects to complete the exit of Costa Rica in the first half of 2017 and LivaNova expects to complete the 2015 and 2016 Reorganization Plans in the first half of 2018. The Plans are intended to leverage economies of scale and streamline distributions, logistics and office functions in order to reduce overall costs.

The carrying value of the land and building in Costa Rica, after impairment, of $4.5 million, were reclassified to Assets Held for Sale in the consolidated balance sheet as at 31 December 2016.

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

Impairment of Goodwill and Other Assets

LivaNova's business consists of three operating Segments (which are LivaNova's cash generating units for goodwill impairment testing): LivaNova's historical Cyberonics segment, Neuromodulation and the two historical Sorin segments, Cardiac Surgery and Cardiac Rhythm Management.

LivaNova tests goodwill for impairment on an annual basis or when events or changes in circumstances indicate that a potential impairment exists. As part of LivaNova's annual goodwill impairment test, LivaNova considered that certain sales targets were not achieved during the third quarter of 2016 and the reduction to LivaNova's fourth quarter 2016 sales projections.

LivaNova's stock price also declined significantly during the fourth quarter, reaching a low following the Mergers of $40.84 on 15 November 2016. LivaNova's stock price traded between $40.84 and $60.99 during the fourth quarter of 2016 and averaged $49.31 during this period.

Management considered the reduction in third quarter sales and fourth quarter sales projections, in addition to a decline in LivaNova's stock price, and based on a qualitative assessment concluded that the goodwill of the Cardiac Rhythm Management and Cardiac Surgery reporting units may be impaired. As a result, LivaNova performed the impairment analysis by estimating the greater the fair value or value in use of the cash generating units using an income approach.

Based on the valuation performed, the Cardiac Rhythm Management reporting unit estimated fair value was less than its recoverable amount; therefore, LivaNova concluded that the Cardiac Rhythm Management goodwill balance was impaired. For the impairment analysis, we compared the estimated fair value of the CGU to the fair value of all assets and liabilities of the CGU to calculate the implied fair value of goodwill. As a result, we recorded a non-cash loss on impairment totalling $18.3 million. In addition, we recorded impairments in Developed Technology, Customer Relationships and Other Intangible assets of $10.5 million, $37.0 million and $0.9 million respectively. The total impairment related to CRM was $72.3 million (including $5.5 million in equipment) and was recorded in Exceptional Items in our consolidated statement of income for the year ended December 31, 2016.

Impairment of Investments

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

Interest Expense

LivaNova incurred interest expense of $10.6 million for the year ended 31 December 2016 as compared to $1.5 million for the Transitional Period. The increase was partially due to a full year of interest expense for the year ended 31 December 2016 as compared to interest expense for debt acquired in the Mergers on 19 October 2015 through 31 December 2015. In addition, LivaNova accrued $5.7 million of income tax related interest expense for LivaNova's inter-company sale of intellectual property, primarily during the second half of 2016.

Foreign Exchange and Other Income (Expense), Net

Due to the global nature of LivaNova's operations, LivaNova is exposed to foreign currency exchange rate fluctuations. Foreign Exchange and Other consisted of net FX gains of $3.5 million for the year ended 31 December 2016, primarily the result of LivaNova's inter-company financing arrangements, net of the impact of foreign currency derivative contracts established to hedge against exchange rate movements.

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

Income Taxes

LivaNova's effective tax rate for the year ended 31 December 2016 was (73.6) per cent and for the Transitional Period it was 10.0 per cent. The year ended 31 December 2016 includes the sale of intellectual property effect of (81.1) per cent.

LivaNova files federal and local tax returns in many jurisdictions throughout the world and are subject to income tax examinations for our fiscal year 1992 and subsequent years, with certain exceptions. Tax authorities may disagree with certain positions LivaNova has taken and assess additional taxes and as a result, LivaNova establishes reserves for uncertain tax positions, which require a significant degree of management judgment. LivaNova regularly assess the likely outcomes of LivaNova's tax positions in order to determine the appropriateness of LivaNova's reserves for uncertain tax positions; however, the actual outcome of an audit can be significantly different than our expectations, which could have a material impact on our tax provision. The total amount of unrecognized tax benefit, as of 31 December 2016, if recognized, would reduce LivaNova's income tax expense by approximately $22.4 million.

No provision has been made for income taxes on undistributed earnings of foreign subsidiaries as of 31 December 2016 because it is LivaNova's intention to indefinitely reinvest undistributed earnings of our foreign subsidiaries. In the event of the distribution of those earnings in the form of dividends, a sale of the subsidiaries, or certain other transactions, LivaNova may be liable for income taxes. There should be no material tax liability on future distributions as most jurisdictions with undistributed earnings have various participation exemptions / no withholding tax. As of 31 December 2016, it was not practicable to determine the amount of the deferred income tax liability related to those investments.

Losses from and Impairment of Equity Method Investments

LivaNova recognised a loss of $22.6 million in the year ended 31 December 2016 principally as a result of the impairment of Respicardia and LivaNova's share of investee losses at HighLife, Caisson, Respicardia and MicroPort Sorin Cardiac Rhythm Management CRM.

In 2016, LivaNova declined to exercise or extend LivaNova's option to purchase all of the issued and outstanding shares of Respicardia held by other investors. In addition, LivaNova's analysis indicated that LivaNova's carrying value in Respicardia might not be recoverable and the impairment was other than temporary. LivaNova estimated the fair value of LivaNova's investment in Respicardia using information about past events, current conditions, and forecasts, including an estimate of future cash flows. As a result, LivaNova impaired LivaNova's investment in Respicardia by $ 9.2 million. In November 2016, LivaNova terminated LivaNova's distributor agreement with Respicardia; the distributor agreement had been a key component in the determination of whether LivaNova's influence over Respicardia was significant, and as a result, LivaNova determined that LivaNova no longer had significant influence over Respicardia and transferred the investment to LivaNova's cost method investments. See *Note 10 — Investments in Associates, Joint ventures and Subsidiaries* in the consolidated financial statements in this Annual Report for additional information.

LivaNova recognised a loss of $3.3 million from LivaNova's share of the losses at LivaNova's equity method investments during the Transitional Period ended 31 December 2015, primarily due to losses at Highlife, Caisson, Respicardia and MicroPort Sorin Cardiac Rhythm Management CRM.

D. Liquidity and Capital Resources

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

Cash Flows

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

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Operating activities	$ 90,152	$ (9,288)
Investing activities	(38,246)	16,182
Financing activities	(124,310)	(18,127)
Effect of exchange rate changes on cash and cash equivalents	(420)	(341)
Net decreases	$ (72,824)	$ (11,574)

Operating Activities

Cash provided by LivaNova's consolidated operating activities in the year ended 31 December 2016 was $90.2 million and during the Transitional Period it utilised $9.3 million.

Investing Activities

Cash used in investment activities was $38.2 million in the year ended 31 December 2016. LivaNova invested $35.4 million in property, plant and equipment. LivaNova also invested an additional $7.5 million in Caisson Series B Preferred Units, partially offset by the transfer of $7.0 million to cash and cash equivalents form short-term investments.

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

Financing Activities

Cash used in financing activities during the year ended 31 December 2016 was $124.3 million, which includes $54.5 million to repurchase shares, a $33.7 million reduction in revolving credit facilities, repayment of advances on customer receivables of $23.8 million and repayment of long-term debt of $21.1 million. LivaNova also borrowed $7.2 million in additional long-term debt.

LivaNova utilised cash of $18.1 million for financing activities during the Transitional Period, which included the repayment of long-term debt of $32.0 million, and the purchase of treasury shares for $7.4 million, partially offset by cash proceeds from net short-term debt borrowing of $11.1 million and stock based compensation activities of $8.8 million.

Debt and Capital

LivaNova's capital structure consists of debt and equity. As of 31 December 2016 total debt of $122.9 million was 7.8 per cent of total equity of $1,578.6 million.

Debt Acquired in the Mergers

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

Debt – Post Mergers

During the year ended 31 December 2016, LivaNova reduced outstanding revolving credit facilities by $33.7 million, repaid $21.1 million of long-term debt obligations and borrowed $7.2 million in additional long-term debt.

Factoring

During the year ended 31 December 2016, LivaNova reduced the obligation for advances on customer receivables by $24.5 million, thereby eliminating this form of financing.

Contractual Obligations

LivaNova has various contractual commitments that it expects to fund from existing cash, future operating cash flows and borrowings under LivaNova's revolving credit facilities. The actual timing of the clinical commitment payments may vary based on the completion of milestones which are beyond LivaNova's control. The following table summarizes LivaNova's significant contractual obligations as of 31 December 2016 and the periods in which such obligations are due (in thousands):

	Less Than One Year	One to Three Years	Four to Five Years	Thereafter	Total Contractual Obligations
Principle payments on long-term debt	$ 21,327	$ 43,543	$ 28,876	$ 2,770	$ 96,516
Interest payments on long-term debt	887	1,140	338	38	2,403
Other commitments	1,191	1,500	1,500	750	4,941
Inventory supply contract obligations	17,285	7,031	110	202	24,628
Operating leases	18,839	32,230	22,680	22,891	96,640
Derivative instruments	942	1,140	252	—	2,334
Total contractual obligations[1]	$ 60,471	$ 86,584	$ 53,756	$ 26,651	$ 227,462

1) Contractual obligations do not include $22.4 million of unrecognized tax benefits, inclusive of interest and penalties, included on LivaNova's consolidated balance sheet as of 31 December 2016. LivaNova is unable to specify with certainty the future periods in which it may be obligated to settle such amounts.

LivaNova has other commitments that it is contractually obligated to fulfil with cash under certain circumstances. These commitments include letters of credit to guarantee LivaNova's performance as it relates to its contract bidding, VAT tax, tax appeals, and other obligations in various jurisdictions. Obligations under these guarantees are not normally called, as LivaNova typically complies with underlying performance requirements. As of 31 December 2016, LivaNova has collateral deposits of $0.4 million with respect to these agreements.

The following table summarizes LivaNova's guarantees as of 31 December 2016 (in thousands):

	Less Than One Year	One to Three Years	Four to Five Years	Thereafter	Total Contractual Obligations
Guarantees on governmental bids[1]	$ 14,415	$ 6,468	$ 4,779	$ 1,833	$ 27,495
Guarantees - commercial[2]	6,073	2,440	820	139	9,472
Guarantees to tax authorities[3]	3,918	1,348	—	6,706	11,972
Total guarantees	$ 24,406	$ 10,256	$ 5,599	$ 8,678	$ 48,939

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

2) Commercial guarantees include LivaNova's lease and tenancy guarantees.

3) The guarantees to the governmental tax authorities consist primarily of the guarantee issued to the Italian VAT Authority.

E. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exchange Rate Risk

Due to the global nature of LivaNova's operations, it is exposed to foreign currency exchange rate fluctuations. LivaNova maintains a foreign currency exchange rate risk management strategy that utilizes derivatives to reduce LivaNova's exposure to unanticipated fluctuations in forecast revenue and costs and fair values of debt, inter-company debt and accounts receivables caused by changes in foreign currency exchange rates.

LivaNova mitigates its credit risk relating to counter-parties of LivaNova's derivatives through a variety of techniques, including transacting with multiple, high-quality financial institutions, thereby limiting LivaNova's exposure to individual counter-parties and by entering into International Swaps and Derivatives Association, Inc. Master Agreements, which include provisions for a legally enforceable master netting agreement, with almost all of LivaNova's derivative counter-parties. The terms of the ISDA agreements may also include credit support requirements, cross default provisions, termination events, or set-off provisions. Legally enforceable master netting agreements reduce credit risk by providing protection in bankruptcy in certain circumstances and generally permitting the closeout and netting of transactions with the same counter-party upon the occurrence of certain events.

Based on our exposure to foreign currency exchange rate risk, a sensitivity analysis indicates that if the U.S. dollar had uniformly strengthened by 10% against the Pound Sterling and the Japanese Yen, in the year ended 31 December 2016, the effect on our unrealised income, for our derivatives outstanding at 31 December 2016, would have been approximately $ 5.4 million; if the U.S. Dollar had uniformly weakened by 10% against same currencies, the effect on our unrealized expenses, for our derivatives outstanding at 31 December 2016, would have been approximately $ 6.6 million. We did not engage in derivative contracts prior to the Mergers.

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

If LivaNova was to incur a hypothetical 10 per cent adverse change in foreign currency exchange rates, net unrealized losses associated with LivaNova's foreign currency denominated assets and liabilities as of 31 December 2016, net of LivaNova's hedging would not be material to LivaNova's consolidated statement of financial position or results of operations.

Interest Rate Risk

LivaNova is subject to interest rate risk on its investments and debt. LivaNova manages a portion of its interest rate risk with contracts that swap floating-rate interest payments for fixed rate interest payments. If interest rates were to increase or decrease by 0.5 per cent, the effects on LivaNova's consolidated income statement would not be material.

Concentration of Credit Risk

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

IV. Principal Risks and Uncertainties

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

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

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

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

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

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

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

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

Outside of the US, reimbursement systems vary significantly by country. Many foreign markets have government-managed healthcare systems that govern reimbursement for medical devices and procedures. Additionally, some foreign reimbursement systems provide for limited payments in a given period and therefore result in extended payment periods. If adequate levels of reimbursement from third-party payers outside of the US are not obtained, international sales of LivaNova's products may decline. In addition, in the US, certain state governments and the federal government have enacted legislation aimed at increasing transparency of LivaNova's interactions with healthcare providers, for example, federal "sunshine" requirements imposed by the Affordable Care Act on certain manufacturers of devices for which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program regarding any "transfer of value" made or distributed to physicians and teaching hospitals. Failure to submit required information may result in civil monetary penalties of up to an aggregate of $150,000 per year (or up to an aggregate of $1 million per year for "knowing failures"), for all payments, transfers of value or ownership or investment interests that are not timely, accurately, and completely reported in an annual submission. Manufacturers must submit reports by the 90th day of each calendar year.

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

The success and continuing development of LivaNova's products depend upon maintaining strong relationships with doctors and healthcare professionals.

If LivaNova fails to maintain LivaNova's working relationships with doctors, LivaNova's products may not be developed and marketed in line with the needs and expectations of the professionals who use and support LivaNova's products. Physicians assist LivaNova as researchers, marketing consultants, product consultants, inventors and public speakers, and LivaNova rely on these professionals to provide LivaNova with considerable knowledge and experience. If LivaNova is unable to maintain these strong relationships, the development and marketing of LivaNova's products could suffer, which could have a material adverse effect on LivaNova's consolidated financial condition and results of operations.

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

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

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

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

HIPAA establishes federal rules protecting the privacy and security of personal health information. The privacy and security rules address the use and disclosure of individual healthcare information and the rights of patients to understand and control how such information is used and disclosed. HIPAA provides both criminal and civil fines and penalties for covered entities

or business associates that fail to comply. If LivaNova fails to comply with the applicable regulations, it could suffer civil penalties up to or exceeding $50,000 per violation, with a maximum of $1.5 million for multiple violations of an identical requirement during a calendar year and criminal penalties with fines up to $250,000 and potential imprisonment.

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

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

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

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

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

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

Modifications to LivaNova's marketed products may require new clearances or approvals, and may require LivaNova to cease marketing or recall the modified products until required clearances or approvals are obtained.

An element of LivaNova's strategy is to continue to upgrade LivaNova's products, add new features and expand clearance or approval of LivaNova's current products to new indications. In the United States, any modification to a PMA-approved device generally requires additional approval by the FDA. Similarly, any modification to a 510(k)-cleared device that could significantly affect its safety or efficacy, or that would constitute a major change in its intended use, technology, materials, packaging and certain manufacturing processes, may require a new 510(k) clearance or, possibly, PMA approval. The FDA requires every manufacturer to make the determination regarding the need for a new 510(k) clearance or PMA approval in the first instance; but the FDA may (and often does) review the manufacturer's decision, and, where the FDA does not agree, may retroactively require the manufacturer to submit a 510(k) or PMA, and may require recall of the affected device until clearance or approval is obtained. LivaNova and its subsidiaries have made modifications to LivaNova's products in the past and may make additional modifications in the future that LivaNova believe do not or will not require additional clearances or approvals. No assurance can be given that the FDA would agree with any of LivaNova's decisions not to seek 510(k) clearance or PMA approval.

If the FDA requires LivaNova to cease marketing and recall a modified device until it obtains a new 510(k) clearance or PMA approval, LivaNova's business, financial condition, operating results and future growth prospects could be materially adversely affected. Any recall or FDA requirement that LivaNova seeks additional approvals or clearances could result in significant delays, fines, increased costs associated with modification of a product, loss of revenue and potential operating restrictions imposed by the FDA.

Furthermore, the FDA's on-going review of the 510(k) clearance process may make it more difficult for LivaNova to make modifications to LivaNova's previously cleared products, either by imposing more strict requirements on when a new 510(k) notification for a modification to a previously cleared product must be submitted, or applying more onerous review criteria to such submissions.

Outside of the United States, LivaNova's medical devices must comply with the laws and regulations of the foreign countries in which they are marketed, and compliance may be costly and time-consuming. Failure to obtain and maintain regulatory approvals in jurisdictions outside the United States will prevent LivaNova from marketing LivaNova's products in such jurisdictions.

LivaNova currently markets, and intends to continue to market, LivaNova's products outside the United States. To market and sell products in countries outside the United States, LivaNova must seek and obtain regulatory approvals, certifications or registrations and comply with the laws and regulations of those countries. These laws and regulations, including the requirements for approvals, certifications or registrations and the time required for regulatory review, vary from country to country. Obtaining and maintaining foreign regulatory approvals, certifications or registrations are expensive, and LivaNova cannot be certain that LivaNova will receive regulatory approvals, certifications or registrations in any foreign country in which LivaNova plans to market LivaNova's products. The regulatory approval process outside the United States may include all of the risks associated with obtaining FDA clearance or approval in addition to other risks.

In order for LivaNova to market its products in the Member States of the EEA, LivaNova's devices are required to comply with the essential requirements of the EU Medical Devices Directives (Council Directive 93/42/EEC of 14 June 1993 concerning medical devices, as amended, and Council Directive 90/385/EEC of 20 June 2009 relating to active implantable medical devices, as amended). Compliance with these requirements entitles LivaNova to affix the CE conformity mark to LivaNova's medical devices, without which they cannot be commercialized in the EEA. In order to demonstrate compliance with the essential requirements and obtain the right to affix the CE conformity mark, an applicant must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Except for low risk medical devices where the manufacturer can issue an EC Declaration of Conformity based on a self-assessment of the conformity of its products with the essential requirements of the Medical Devices Directives, a conformity assessment procedure requires the intervention of a Notified Body, which is an organization accredited by a Member State of the EEA, to conduct conformity assessments. The Notified Body would typically audit and examine the quality system for the manufacture, design and final inspection of the device a certification demonstrating compliance with the applicable directives and essential requirements. Based on this certification, LivaNova can draw up an EC Declaration of Conformity, which allows LivaNova to affix the CE mark to LivaNova's products.

In September 2012, the European Commission published proposals for the revision of the EU regulatory framework for medical devices. The proposal would replace the Medical Devices Directive with a new regulation (the "Medical Devices Regulation"). Unlike the Directives that must be implemented into national laws, the Medical Devices Regulation would be directly applicable in all EEA Member States and so is intended to eliminate current national differences in regulation of medical devices. In October 2013, the European Parliament approved a package of reforms to the European Commission's proposals. Under the revised proposals, only designated "special notified bodies" would be entitled to conduct conformity assessments of high-risk devices. These special notified bodies will need to notify the European Commission when they receive an application for a conformity assessment for a new high-risk device. The European Commission will then forward the notification and the accompanying documents on the device to the MDCG for an opinion. These new procedures may result in the re-assessment of LivaNova's existing medical devices, or a longer or more burdensome assessment of LivaNova's new products. In May 2016, a political agreement was reached, and the tentatively agreed upon text was published in June 2016.

Once the legislative process is complete, the Medical Devices Regulation is expected to enter into force in 2017 and become applicable three years thereafter. In its current form it would, among other things, also impose additional reporting requirements on manufacturers of high risk medical devices, impose an obligation on manufacturers to appoint a "qualified person" responsible for regulatory compliance, and provide for more strict clinical evidence requirements. These new rules and procedures may result in increased regulatory oversight of LivaNova's devices and this may, in turn, increase the costs, time and requirements that need to be met in order to maintain or place such devices on the EEA market.

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

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

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

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

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

the use of a medical device that is already placed on the market. An FSCA may include the recall, modification, exchange, destruction or retrofitting of the device. FSCAs must be communicated by the manufacturer or its legal representative to its customers and/or to the end users of the device through Field Safety Notices.

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

If LivaNova's products cause or contribute to a death or a serious injury, or malfunction in certain ways, LivaNova will be subject to medical device reporting regulations, which can result in voluntary corrective actions or agency enforcement actions.

Under the FDA MDR regulations, LivaNova is required to report to the FDA any incident in which LivaNova's products have or may have caused or contributed to a death or serious injury or in which LivaNova's product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. If LivaNova fails to report these events to the FDA within the required timeframes, or at all, the FDA could take enforcement action against LivaNova. Any adverse event involving LivaNova's products could result in future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection, mandatory recall or other enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending against any potential lawsuits, will require the dedication of LivaNova's time and capital, distract management from operating the business, and may harm LivaNova's reputation and financial results.

Regulatory action or concern over Bovine Spongiform Encephalopathy may limit LivaNova's ability to market products containing bovine material.

Certain of LivaNova's products, including LivaNova's Perceval, Crown PRT, Solo Smart and Mitroflow tissue valves, are manufactured using bovine tissue. Concerns relating to the potential transmission of BSE, commonly known as "mad cow disease," from cows to humans may result in reduced acceptance of products containing bovine materials. Some medical device regulatory agencies have considered and are considering whether to continue to permit the sale of medical devices that incorporate certain animal material. While LivaNova is not aware of any reported cases of transmission of BSE through medical products, the suspension or revocation of authority to manufacture, market or distribute products containing bovine material, or the imposition of a regulatory requirement that LivaNova procures material for these products from alternate sources, could result in lost market opportunities, harm the continued commercialization and distribution of such products and impose additional costs on LivaNova. LivaNova has not experienced any significant adverse impact on LivaNova's sales as a result of concerns regarding BSE, but no assurance can be given that such an impact may not occur in the future.

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

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

- untitled letters, warning letters, fines, injunctions or consent decrees;
- customer notifications or repair, replacement, refund, recall, detention or seizure of products;
- operating restrictions or partial suspension or total shutdown of production;
- refusal to grant or delay in granting 510(k) clearance or PMA approval of new products or modified products;

- withdrawing 510(k) clearances or PMA approvals that have already been granted;
- refusal to grant export approval for LivaNova's products; or
- civil penalties or criminal prosecution.

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

LivaNova is subject to substantial post-market government regulation and any adverse regulatory action may materially adversely affect LivaNova's financial condition and business operations.

LivaNova's medical devices remain subject to regulation by numerous government agencies following clearance or approval, including the global device regulatory bodies. To varying degrees, each of these agencies requires LivaNova to comply with laws and regulations governing manufacturing, labelling, marketing, distribution, reporting, importing and exporting of LivaNova's medical devices. In recent years, the FDA in particular has significantly increased its oversight of companies subject to its regulations, including medical device companies, by hiring new investigators and stepping up inspections of manufacturing facilities. The FDA has recently also significantly increased the number of warning letters issued to companies.

Device manufacturers are permitted to promote products solely for the uses and indications set forth in the approved product labelling. A number of enforcement actions have been taken against manufacturers that promote products for "off-label" uses, including actions alleging that federal healthcare program reimbursement of products promoted for "off-label" uses are false and fraudulent claims to the government. The failure to comply with "off-label" promotion restrictions can result in significant administrative obligations and costs, and potential penalties from, and/or agreements with, the federal government.

LivaNova uses many distributors, agents and independent sales representatives in certain territories and thus rely upon their compliance with applicable laws and regulations, such as the U.S. Foreign Corrupt Practices Act, the U.S. Anti-Kickback Statute, the U.S. False Claims Act, the U.S. Sunshine Act, similar laws under countries located outside the United States and other applicable federal, state or applicable international laws. If a global regulatory body were to conclude that LivaNova is not in compliance with applicable laws or regulations, or that any of LivaNova's medical devices are ineffective or pose an unreasonable health risk, it could ban such medical devices, detain or seize adulterated or misbranded medical devices, order a recall, repair, replacement, or refund of such devices, refuse to grant pending pre-market approval applications or require certificates of foreign governments for exports, and/or require LivaNova to notify healthcare professionals and others that the devices present unreasonable risks of substantial harm to the public health. The global device regulatory bodies may also impose operating restrictions on a company-wide basis, enjoin and/or restrain certain conduct resulting in violations of applicable law pertaining to medical devices, and assess civil or criminal penalties against, or recommend prosecution of, LivaNova's officers, employees, or LivaNova's company itself. Any adverse regulatory action, depending on its magnitude, may restrict LivaNova from effectively marketing and selling its products.

LivaNova is also subject to various environmental laws and regulations worldwide. LivaNova's operations involve the use of substances regulated under environmental laws, primarily those used in manufacturing and sterilization processes. LivaNova cannot guarantee that compliance with environmental protection laws and regulations will not have a material impact on LivaNova's consolidated earnings, financial condition, and/or cash flows.

Finally, any governmental law or regulation imposed in the future may have a material adverse effect on LivaNova. From time to time, legislation is drafted and introduced that could significantly change the statutory provisions governing the clearance or approval, manufacture and marketing of medical devices. In addition, global regulatory bodies' regulations and guidance can be revised or reinterpreted in ways that may significantly affect LivaNova's business and products. It is impossible to predict whether legislative changes will be enacted or regulations, guidance or interpretations changed, and what the impact of such changes, if any, may be.

Quality problems with LivaNova's processes, goods, and services could harm LivaNova's reputation for producing high-quality products and erode LivaNova's competitive advantage, sales, and market share.

Quality is extremely important to LivaNova and LivaNova's customers due to the serious and costly consequences of product failure. LivaNova's quality certifications are critical to the marketing success of LivaNova's goods and services. If LivaNova fails to meet these standards, LivaNova's reputation could be damaged, LivaNova could lose customers, and LivaNova's revenue and results of operations could decline. Aside from specific customer standards, LivaNova's success depends generally on LivaNova's ability to manufacture to exact tolerances precision-engineered components, subassemblies, and finished devices from multiple materials. If LivaNova's components fail to meet these standards or fail to adapt to evolving standards, LivaNova's reputation as a manufacturer of high-quality components will be harmed, LivaNova's competitive advantage could be damaged, and LivaNova could lose customers and market share.

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

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

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

LivaNova is subject to lawsuits.

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

LivaNova operates in an industry that is susceptible to significant intellectual property litigation and, in recent years, it has been common for companies in the medical device field to aggressively challenge the patent rights of other companies. Intellectual property litigation is expensive, complex and lengthy, and its outcome is difficult to predict. Adverse outcomes in one or more of these matters could have a material adverse effect on LivaNova's ability to sell certain products and on LivaNova's operating margins, financial condition, results of operation or liquidity. Pending or future patent litigation may result in significant royalty or other payments or injunctions that can prevent the sale of products and may significantly divert the attention of LivaNova's technical and management personnel. In the event that LivaNova's right to market any of LivaNova's products is successfully challenged, LivaNova may be required to obtain a license on terms which may not be favourable to LivaNova, if at all. If LivaNova fails to obtain a required license or are unable to design around a patent, LivaNova's business, financial condition or results of operations could be materially adversely affected.

Laws and/or collective bargaining agreements relating to employees may impact LivaNova's flexibility to redefine and/or strategically reposition LivaNova's activities.

In many of the countries where LivaNova operates, employees are covered by various laws and/or collective bargaining agreements that endow them, through their local or national representatives, with the right to be consulted in relation to specific issues, including the downsizing or closing of departments and staff reductions. The laws and/or collective bargaining agreements that are applicable to these agreements could have an impact on LivaNova's flexibility, as they apply to programs to redefine and/or strategically reposition LivaNova's activities. LivaNova's ability to implement staff downsizing programs or even temporary interruptions of employment relationships is predicated on the approval of government entities and the consent of labour unions. Union-organised work stoppages by employees could have a negative impact on LivaNova's business.

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

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

- the US Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and wilfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programmes, such as the Medicare and Medicaid programmes. A person or entity does not need to have actual knowledge of the US Anti-Kickback Statute or specific intent to violate it to have committed a violation; in addition, the government may assert that a claim including items or services resulting from a violation of the US Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the US False Claims Act;

- federal civil and criminal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid or other federal third-party payers that are false or fraudulent. Actions under the US False Claims Act can be brought by the US Attorney – General or as "qui tam" actions by private individuals in the name of the government. Such private individuals, commonly known as "whistleblowers" may share in any amounts paid by the entity to the government in fines or settlement. When an entity is determined to have violated the US False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim;

- the federal US Civil Monetary Penalties Law, which prohibits, among other things, offering or transferring remuneration to a federal healthcare beneficiary that a person knows or should know is likely to influence the beneficiary's decision to order or receive items or services reimbursable by the government from a particular provider or supplier;

- federal criminal laws that prohibit executing a scheme to defraud any federal healthcare benefit programme or making false statements relating to healthcare matters. Similar to the federal US Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;

- HIPAA, as amended by the HITECH, which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information;

- the Physician Payment Sunshine Act, which requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to the CMS information related to payments or other "transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and requires applicable manufacturers and group purchasing organisations to report annually to the government ownership and investment interests held by the physicians described above and their immediate family members and payments or other "transfers of value" to such physician owners. Manufacturers are required to submit reports to CMS by the 90th day of each calendar year;

- the FCPA, which prohibits corporations and individuals from paying, offering to pay or authorising the payment of anything of value to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official separate bullet; the UK Bribery Act, which prohibits both domestic and international bribery, as well as bribery across both public and private sectors; and bribery provisions contained in the German Criminal Code, which, pursuant to draft legislation being prepared by the German government, may make the corruption and corruptibility of physicians in private practice and other healthcare professionals a criminal offence; and

- analogous state and foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payer, including commercial insurers; state laws that require device companies to comply with the industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require device manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

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

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

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

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

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

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

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

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

LivaNova operates in an industry characterised by extensive patent litigation. Physician customers have historically moved quickly to new products and new technologies. As a result, intellectual property rights, particularly patents and trade secrets, play a significant role in product development and differentiation. However, intellectual property litigation is inherently complex and unpredictable and appellate courts can overturn lower court decisions. Furthermore, as LivaNova's business increasingly relies on technology systems and infrastructure, LivaNova's intellectual property, other proprietary technology and other sensitive data are potentially vulnerable to loss, damage or misappropriation.

Competing parties in LivaNova's industry frequently file multiple suits to leverage patent portfolios across product lines, technologies and geographies and to balance risk and exposure between the parties. In some cases, several competitors are parties in the same proceeding, or in a series of related proceedings, or litigate multiple features of a single class of devices. These forces frequently drive settlement not only of individual cases, but also of a series of pending and potentially related and unrelated cases. In addition, although monetary and injunctive relief is typically sought, remedies and restitution are generally not determined until the conclusion of the proceedings. Accordingly, the outcomes of individual cases are difficult to time, predict or quantify.

Third parties have asserted, and may in the future assert, that LivaNova's current and former product offerings infringe patents owned or licensed by them. LivaNova has similarly asserted, and may in the future assert, that products sold by LivaNova's competitors infringe patents owned or licensed by LivaNova. Adverse outcomes in one or more of the proceedings against LivaNova could limit LivaNova's ability to sell certain products in certain jurisdictions, or reduce LivaNova's operating margin on the sale of these products and could have a material adverse effect on LivaNova's financial condition, results of operations or liquidity.

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

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

Furthermore, LivaNova's intellectual property, other proprietary technology and other sensitive data are potentially vulnerable to loss, damage or misappropriation from system malfunction, computer viruses, unauthorised access to LivaNova's data or misappropriation or misuse thereof by those with permitted access, and other events. While LivaNova has invested to protect

LivaNova's intellectual property and other data, and continue to work diligently in this area, there can be no assurance that LivaNova's precautionary measures will prevent breakdowns, breaches, cyber-attacks or other events. Such events could have a material adverse effect on LivaNova's reputation, business, financial condition or results of operations.

LivaNova's research and development efforts rely upon investments and investment collaborations, and LivaNova cannot guarantee that any previous or future investments or investment collaborations will be successful.

LivaNova's strategy to provide a broad range of therapies to restore patients to fuller, healthier lives requires a wide variety of technologies, products, and capabilities. The rapid pace of technological development in the medical industry and the specialized expertise required in different areas of medicine make it difficult for one company alone to develop a broad portfolio of technological solutions. As a result, LivaNova also relies upon investments and investment collaborations to provide LivaNova access to new technologies both in areas served by LivaNova's existing or legacy businesses as well as in new areas.

LivaNova expects to make future investments where LivaNova believes that it can stimulate the development of, or acquire new technologies and products to further LivaNova's strategic objectives and strengthen LivaNova's existing businesses. Investments and investment collaborations in and with medical technology companies are inherently risky, and LivaNova cannot guarantee that any of LivaNova's previous or future investments or investment collaborations will be successful or will not materially adversely affect LivaNova's consolidated earnings, financial condition and/or cash flows.

LivaNova's products are the subject of clinical trials conducted by LivaNova, LivaNova's competitors, or other third parties, the results of which may be unfavourable, or perceived as unfavourable, and could have a material adverse effect on LivaNova's business, financial condition, and results of operations.

As a part of the regulatory process of obtaining marketing clearance or approval for new products and modifications to or new indications for existing products, LivaNova conducts and participate in numerous clinical trials with a variety of study designs, patient populations, and trial endpoints. Unfavourable or inconsistent clinical data from existing or future clinical trials conducted by LivaNova, by LivaNova's competitors, or by third parties, or the market's or global regulatory bodies' perception of this clinical data, may adversely impact LivaNova's ability to obtain product clearances or approvals, LivaNova's position in, and share of, the markets in which LivaNova participates, and LivaNova's business, financial condition, and results of operations. Success in pre-clinical testing and early clinical trials does not always ensure that later clinical trials will be successful, and LivaNova cannot be sure that later trials will replicate the results of prior trials and studies. Clinical studies must also be conducted in compliance with Good Clinical Practice requirements administered by the FDA and other foreign regulatory authorities, and global regulatory bodies may undertake enforcement action against LivaNova based on a failure to adhere to these requirements. Any delay or termination of LivaNova's clinical trials will delay the filing of product submissions and, ultimately, LivaNova's ability to commercialize new products or product modifications. It is also possible that patients enrolled in clinical trials will experience adverse side effects that are not currently part of the product's profile, which could inhibit further marketing and development of such products.

The global medical device industry is highly competitive and LivaNova may be unable to compete effectively.

In the product lines in which LivaNova competes, LivaNova faces a mixture of competitors ranging from large manufacturers with multiple business lines to small manufacturers that offer a limited selection of specialized products. Development by other companies of new or improved products, processes, or technologies, as discussed above, may make LivaNova's products or proposed products less competitive. In addition, LivaNova faces competition from providers of alternative medical therapies such as pharmaceutical companies. LivaNova faces increasing competition for LivaNova's indication specific patents for certain products. Competitive factors include:

- product quality, reliability and performance;
- product technology;
- breadth of product lines and product services;
- ability to identify new market trends;
- customer support;

- price;
- capacity to recruit engineers, scientists and other qualified employees; and
- reimbursement approval from governmental payors and private healthcare insurance providers.

Shifts in industry market share can occur in connection with product issues, physician advisories, safety alerts, and publications about LivaNova's products reflecting the importance of product quality, product efficacy, and quality systems in the medical device industry. In the current environment of managed care, consolidation among healthcare providers, increased competition, and declining reimbursement rates, LivaNova is increasingly required to compete on the basis of price. In order to continue to compete effectively, LivaNova must continue to create, invest in, or acquire advanced technology, incorporate this technology into LivaNova's proprietary products, obtain regulatory approvals in a timely manner, and manufacture and successfully market LivaNova's products. Additionally, LivaNova may experience design, manufacturing, marketing or other difficulties that could delay or prevent LivaNova's development, introduction or marketing of new products or new versions of LivaNova's existing products. As a result of such difficulties and delays, LivaNova's development expenses may increase and, as a consequence, LivaNova's results of operations could suffer.

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

LivaNova maintains manufacturing operations in 8 countries located throughout the world and purchases many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. Any problem affecting a supplier (whether due to external or internal causes) could have a negative impact on LivaNova.

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

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

Natural disasters, war, acts of terrorism and other events could adversely affect LivaNova's future revenue and operating income.

Natural disasters (including pandemics), war, terrorism, labour disruptions and international conflicts, and actions taken by governmental entities or by LivaNova's customers or suppliers in response to such events, could cause significant economic disruption and political and social instability in the areas in which LivaNova operates. These events could result in decreased demand for LivaNova's products, adversely affect LivaNova's manufacturing and distribution capabilities, or increase the costs for or cause interruptions in the supply of materials from LivaNova's suppliers.

LivaNova is subject to the risks of international economic and political conditions.

LivaNova's international operations are subject to risks that are inherent in conducting business overseas and under foreign laws, regulations and customs. These risks include possible nationalization, exit from the European Union, expropriation, importation limitations, violations of U.S. or local laws, including, but not limited to, the U.S. FCPA, pricing restrictions, and other restrictive governmental actions. Any significant changes in the competitive, political, legal, regulatory, reimbursement or economic environment where LivaNova conducts international operations may have a material impact on LivaNova's business and LivaNova's consolidated financial condition or results of operations.

Since 2008, the global economy has been impacted by the sequential effects of an on-going global financial crisis, and there can be no assurance that there will not be further deterioration in the global economy. Customers and vendors may experience financial difficulties or be unable to borrow money to fund their operations, which may adversely impact their

ability to purchase LivaNova's products or to pay for LivaNova's products on a timely basis, if at all. As with LivaNova's customers and vendors, these economic conditions make it more difficult for LivaNova to accurately forecast and plan future business activities. In addition, a significant amount of LivaNova's trade receivables are either with third party intermediaries marketing, selling and distributing LivaNova's products or with national healthcare systems in many countries, and repayment of these receivables is dependent upon the financial stability of the economies of those countries.

In light of these global economic fluctuations, LivaNova continues to monitor the creditworthiness of all of LivaNova's customers worldwide. Failure to receive payment of all or a significant portion of receivables could adversely affect results of operations and cash flows. Deterioration in the creditworthiness of the Eurozone countries, the withdrawal of one or more member countries from the EU or the failure of the euro as a common European currency could adversely affect LivaNova's revenue, financial condition or results of operations.

LivaNova intends to continue to pursue growth opportunities in sales worldwide, including in emerging markets outside Europe and the United States, which could expose LivaNova to greater risks associated with sales and operations in these regions. Emerging economies have less mature product regulatory systems and can have more volatile financial markets. LivaNova's profitability and operations are, and will continue to be, subject to a number of risks and potential costs, including:

- local product preferences and product requirements;
- longer-term receivables than are typical in the EU or the United States;
- fluctuations in foreign currency exchange rates;
- less intellectual property protection in some countries outside the EU or the United States;
- trade protection measures and import and export licensing requirements;
- workforce instability;
- political and economic instability;
- Same significant risk further described in the Annual Report Form 10-K, Item 1A, under the heading "Risk Factors: 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 LivaNova's reputation and business operations."

LivaNova is exposed to foreign currency exchange risk.

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

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

Brexit could have a material adverse effect on LivaNova

On 23 June 2016, the United Kingdom (the "UK") held a referendum in which voters approved an exit from the European Union (the "EU"), commonly referred to as "Brexit." On 29 March 2017, the UK Government gave formal notice of its intention to leave the EU, formally commencing the negotiations regarding the terms of withdrawal between the UK and the EU. The withdrawal must occur within two years, unless the deadline is extended or a withdrawal agreement is negotiated sooner. The negotiation process will determine the future terms of the UK's relationship with the EU. The notification does not change the application of existing tax laws, and does not establish a clear framework for what the ultimate outcome of the negotiations and legislative process will be.

Various tax reliefs and exemptions that apply to transactions between EU Member States under existing tax laws may cease to apply to transactions between the UK and EU Member States when the UK ultimately withdraws from the EU. It is unclear at this stage if or when any new tax treaties between the UK and the EU or individual EU Member States will replace those reliefs and exemptions. It is also unclear at this stage what financial, trade and legal implications the withdrawal of the U.K. from the EU will have and how Brexit may affect us, our customers, suppliers, vendors, or our industry.

Several of our wholly owned subsidiaries that are domiciled either in the UK, various EU Member States, or in the United Sates, and our holding company, LivaNova PLC, are party to intercompany transactions and agreements under which LivaNova receives various tax reliefs and exemptions. If certain treaties applicable to our transactions and agreements are not renegotiated or replaced with new treaties containing terms, conditions and attributes similar to those of the existing treaties, the departure of the UK from the EU may have a material adverse impact on our future financial results and results of operations. During the two-year negotiation period, LivaNova will monitor and assess the potential impact of this event and explore possible tax planning strategies that may mitigate or eliminate any such potential adverse impact. LivaNova will not account for the impact of Brexit in our income tax provisions until changes in tax laws or treaties between the UK and the EU or individual EU Member States are enacted or the withdrawal becomes effective.

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

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

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

The Trump Administration has included as part of its agenda a potential reform of U.S. tax laws. In addition, the "Tax Reform Blueprint" published by the House of Representatives includes a framework of various issues that may affect our future tax position including, but not limited to, a reduction in the corporate tax rate, elimination of the interest deduction and border adjustability. The content of any final legislation, the timing for enactment, and the reporting periods that would be impacted cannot be determined at this time.

LivaNova is exposed to significant risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.

LivaNova does business on a worldwide basis, which requires LivaNova to comply with the laws and regulations of various jurisdictions. LivaNova's international operations are subject to anti-corruption laws and regulations, such as the FCPA, the U.K. Bribery Act and economic sanctions programs, including those administered by the United Nations, the EU and the Office of Foreign Assets Control of the U.S. Department of the Treasury and regulations set forth under the Comprehensive Iran Accountability Divestment Act.

As a result of doing business in foreign countries, LivaNova is exposed to a risk of violating anti-corruption laws and sanctions regulations applicable in those countries where LivaNova, its partners or agents operate. Some of the international locations in which LivaNova operates, often in emerging markets, lack a developed legal system and have high levels of corruption. Violations of anti-corruption laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licenses, as well as criminal fines and imprisonment. In addition, any major violations could have a significant impact on LivaNova's reputation and consequently on LivaNova's ability to win future business.

While LivaNova believes it has a strong culture of compliance and adequate systems of control, LivaNova will seek to continuously improve LivaNova's systems of internal controls and to remedy any weaknesses identified. There can be no assurance, however, that the policies and procedures will be followed at all times or effectively detect and prevent violations of the applicable laws by one or more of LivaNova's employees, consultants, agents or partners and, as a result, LivaNova may be subject to penalties and material adverse consequences on LivaNova's business, financial condition or results of operations.

In many of the international markets in which LivaNova does business, including certain parts of Europe, Asia and Latin America, LivaNova sells its products through distributors who may misrepresent LivaNova's products.

Selling LivaNova's products through distributors, particularly in public tenders, may expose LivaNova to a higher degree of risk. LivaNova's agents and distributors are independent contractor third parties retained by LivaNova to sell LivaNova's products in different markets. If they misrepresent LivaNova's products, do not provide appropriate service and delivery, or commit a violation of local or U.S. law, LivaNova's reputation could be harmed, and LivaNova could be subject to fines, sanctions or both.

Risks related to access to financial resources.

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

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

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

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

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 on-going business.

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

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

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

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

LivaNova has incurred and expects to incur a number of non-recurring direct and indirect costs associated with the Mergers. These costs and expenses include fees paid to financial, legal and accounting advisors, filing fees, printing expenses and other related charges as well as on-going expenses related to facilities and systems consolidation costs, severance payments and other potential employment-related costs, including payments remaining to be made to certain Sorin and Cyberonics executives In the year ended 31 December 2016, LivaNova incurred $20.5 million in expenses related to the mergers. The merger and integration costs were related primarily to advisory, legal and accounting fees and are included in the Exceptional Items line in the consolidated statement of income. In the Transitional Period, LivaNova incurred $55.8 million in expenses related to the Mergers and expects additional expenses in future for the integration of the two merged businesses. In addition, LivaNova incurred $55.9 million and $11.3 million in restructuring expenses, respectively, during the year ended 31 December 2016 and the Transitional Period, of which integration expenses related to systems integration, organisation structure integration, finance, synergy and tax planning, transitioning of accounting methodologies, the Company's listing in London and certain re-branding efforts, and restructuring efforts related to LivaNova's intent to leverage economies of scale, eliminate overlapping corporate expenses and streamline distributions, logistics and office functions in order to reduce overall costs. While the Company has assumed a certain level of expenses in connection with the terms of the Merger Agreement, there are many factors beyond the Company's control, including unanticipated costs that could affect the total amount or the timing of these expenses. Although the Company expects that the benefits of the Mergers will offset the transaction expenses and implementation costs over time, this net benefit may not be achieved in the near term or at all.

LivaNova may incur impairments for goodwill and other assets recorded at the Mergers.

During the year ended 31 December 2016, LivaNova recorded a pre-tax, non-cash loss on impairment of LivaNova's Cardiac Rhythm Management reporting unit goodwill of $18.3 million, which was included in the consolidated statement of net income. Refer to *Note 9 — Goodwill and Intangible Assets* in LivaNova's consolidated financial statements for additional information on goodwill impairment and goodwill which could be at risk of future impairment. As of 31 December 2016, the carrying value of LivaNova's goodwill totalled $693.2 million which represented 31.3 per cent of LivaNova's total assets.

LivaNova tests goodwill for impairment on an annual basis or when events or changes in circumstances indicate that a potential impairment exists. The goodwill impairment test requires LivaNova to identify reporting units, perform a qualitative assessment of the likelihood that a reporting unit's carrying value exceeds its estimated fair value, and in certain circumstances estimate each reporting unit's fair value as of the testing date. LivaNova's calculation of the fair value of LivaNova's reporting units is based on estimates of future discounted cash flows, which reflect management's judgments and assumptions regarding the appropriate risk-adjusted discount rate, as well as future operating performance and LivaNova's business outlook, including expected sales, operating costs, capital requirements, growth rates and terminal values for each of LivaNova's reporting units. If the aggregate fair value of LivaNova's reporting units exceeds LivaNova's market capitalization, LivaNova evaluates the reasonableness of the implied control premium.

The estimates used to determine the fair value of LivaNova's reporting units reflect management's best estimates of inputs and assumptions that a market participant would use. Future declines in any one of LivaNova's reporting units' operating performance or LivaNova's anticipated business outlook may reduce the estimated fair value of a reporting unit and result in an impairment of goodwill. Factors that could have a negative impact on the fair value of LivaNova's reporting units include, but are not limited to:

- The ability of LivaNova's sales force to effectively market and promote LivaNova's products, and the extent to which those products gain market acceptance;
- the existence and timing of any approvals, changes, or non-coverage determinations for reimbursement by third-party payors;
- the rate and size of expenditures incurred on LivaNova's clinical, manufacturing, sales, marketing and product development efforts;
- LivaNova's ability to obtain and retain personnel;
- the availability of key components, materials and contract services, which depends on LivaNova's ability to forecast sales, among other things;
- investigations of LivaNova's business and business-related activities by regulatory or other governmental authorities;
- variations in timing and quantity of product orders;
- temporary manufacturing interruptions or disruptions;
- the timing and success of new product and new market introductions, as well as delays in obtaining domestic or foreign regulatory approvals for such introductions;
- increased competition, patent expirations or new technologies or treatments;
- product recalls or safety alerts;
- litigation, including product liability, patent, employment, securities class action, stockholder derivative, general commercial and other lawsuits;
- the financial health of LivaNova's customers, and their ability to purchase LivaNova's products in the current economic environment; and
- other unusual or non-operating expenses, such as expenses related to mergers or acquisitions, may cause operating result variations;
- increases in the market-participant risk-adjusted WACC;
- declines in anticipated growth rates.

Adverse changes in one or more of these factors could result in a goodwill impairment in future periods.

Once LivaNova's shares are delisted from the London Stock Exchange, the City Code on Takeovers and Mergers will no longer apply to LivaNova and LivaNova will therefore not have the benefit of the protections that that Code affords.

On 23 February 2017, LivaNova announced that it has made applications (i) to the UK Financial Conduct Authority (the "FCA") for the cancellation of the standard listing of LivaNova's ordinary shares of £1 per share (the "Shares") on the Official List of the UK Listing Authority and (ii) to the London Stock Exchange plc (the "LSE") to cancel the admission to trading of the Shares on the main market of the LSE (the "Main Market") (together, the "Cancellation"). In connection with the Cancellation, LivaNova has also decided to terminate its UK domestic depositary interest facility.

Following the Cancellation, as LivaNova will remain a public limited company incorporated in England and Wales but its securities will not be admitted to trading on a regulated market in the United Kingdom (or the Channel Islands or the Isle of Man), the City Code on Takeovers and Mergers (the "Code") will only apply to LivaNova if it is considered by the Panel on Takeovers and Mergers (the "Panel") to have its place of central management and control in the United Kingdom (or the Channel Islands or the Isle of Man). This is known as the "residency test". The way in which the test for central management and control is applied for the purposes of the Code may be different from the way in which it is applied by the United Kingdom tax authorities, HM Revenue & Customs. Under the Code, the Panel will look to where the majority of the directors of LivaNova are themselves resident, amongst other factors, for the purposes of determining where LivaNova has its place of central management and control. Accordingly, following the Cancellation, the Panel has confirmed to LivaNova that the Code will not apply to LivaNova and LivaNova will therefore not have the benefit of the protections the Code affords, including, but not limited to, the requirement that a person who acquires an interest in Shares carrying 30 per cent or more of the voting rights in LivaNova must make a cash offer to all other shareholders at the highest price paid in the 12 months before the offer was announced.

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

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

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

The Company believes that because the former stockholders of Cyberonics own (within the meaning of Section 7874) less than 80 per cent (by both vote and value) of the Ordinary Shares by reason of holding shares of Cyberonics common stock, the test set forth above to treat the Company as a foreign corporation was satisfied in connection with the Mergers completed on 19 October 2015. However, the IRS may disagree with the calculation of the percentage of the Ordinary Shares deemed held by former holders of Cyberonics common stock by reason of being former holders of Cyberonics common stock due to the calculation provisions laid out under Section 7874 and accompanying guidance, or the Section 7874 Percentage. The rules relating to calculating the Section 7874 Percentage are new and subject to uncertainty, and thus it cannot be assured that the IRS will agree that the ownership requirements to treat the Company as a foreign corporation were met. In addition, there have been legislative proposals to expand the scope of US corporate tax residence, including by potentially causing the Company to be treated as a US corporation if the management and control of the Company

and its affiliates were determined to be located primarily in the US. There have also been recent IRS publications expanding the application of Section 7874 and there could be prospective or retroactive changes to Section 7874 or the US Treasury Regulations promulgated thereunder that could result in the Company being treated as a US corporation. For example, the IRS and US Treasury recently issued new rules that (i) make changes to the manner in which the Section 7874 Percentage is calculated, (ii) limit the ability to acquire certain US companies within a 36 month period and (iii) recharacterise certain intercompany indebtedness as equity in certain circumstances. Certain of these changes may affect the Company's ability to undertake future planning and acquisition strategies (see discussion *"The Company's ability to engage in certain acquisition strategies and certain tax planning may be impacted by recent IRS guidance. Status as a foreign corporation for US federal income tax purposes could be affected by a change in law"* below).

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

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

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

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

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

The IRS and US Treasury recently issued new rules that materially change the manner in which the Section 7874 Percentage will be calculated in certain future acquisitions of US businesses in exchange for Company equity, which may impact the Company's ability to engage in particular acquisition strategies. For example, the new temporary regulations would impact certain acquisitions of US companies for stock in the Company in the 36 month period beginning 19 October 2015 by excluding from the Section 7874 Percentage the portion of shares of the Company that are allocable to the legacy Sorin shareholders. This new rule would generally have the effect of increasing the otherwise applicable Section 7874 Percentage with respect to a future acquisition of a US business.

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

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

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

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

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

The US Congress, the UK Government, the Organisation for Economic Co-operation and Development and other government agencies in jurisdictions where the Company and its affiliates do business have had an extended focus on issues related to the taxation of multinational corporations. One example is in the area of "base erosion and profit shifting," where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. In addition, other recent legislative proposals in the US would treat the Company as a US corporation if the management and control of the Company and its affiliates were determined to be located primarily in the US and/or would reduce the Section 7874 Percentage threshold at or above which the Company would be treated as a US corporation. Furthermore, the 2016 US Model Income Tax Convention recently released by the US Treasury Department would reduce potential tax benefits with respect to the Company and its affiliates if the Section 7874 Percentage were calculated to be at least 60 per cent but less than 80 per cent by imposing full withholding taxes on payments pursuant to certain financing structures, distributions from US subsidiaries and payments pursuant to certain licensing arrangements. Lastly, the Trump Administration has included as part of its agenda a potential reform of U.S. tax laws. In addition, the "Tax Reform Blueprint" published by the House of Representatives includes a framework of various issues that may affect LivaNova's future tax position including, but not limited to, a reduction in the corporate tax rate, elimination of the interest deduction and border adjustability. The content of any final legislation, the timing for enactment, and the reporting periods that would be impacted cannot be determined at this time. Thus, the tax laws in the US, the UK and other countries in which the Company and its affiliates do business could change on a prospective or retroactive basis, and any such changes could adversely affect the Company.

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

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

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

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

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

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

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

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

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

Cautionary Statement about Forward-Looking Statements

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

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

compliance costs.These factors are not necessarily all of the important factors that could cause LivaNova's actual financial results, performance, achievements or prospects to differ materially from those expressed in or implied by any of such forward-looking statements.

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

By order of the Board of Directors.

DAMIEN McDONALD
CHIEF EXECUTIVE OFFICER & DIRECTOR

2 May 2017

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the period ended 31 December 2016.

Directors

The directors of the Company, who held office in the year ended 31 December 2016 were as follows:

Chairman
Mr. Daniel J. Moore

Executive Director
Mr. André-Michel Ballester (resigned 31 December 2016)

Non-executive directors
Mr. Francesco Bianchi
Mr. Stefano Gianotti
Mr. Hugh Morrison
Mr. Alfred J. Novak
Dr. Sharon O'Kane
Dr. Arthur L. Rosenthal
Ms. Andrea Saia (from 27 July 2016)

Upon the resignation of Mr. Ballester as Chief Executive Officer and as an executive director with effect from 31 December 2016, Mr. Damien McDonald his successor as Chief Executive Officer was appointed by the Board as an executive director from 1 January 2017.

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

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

Pursuant to the Company's articles of association, the current directors of the Company have been appointed for a term that will expire at the first annual meeting of members of the Company following the completion of the Company's second full financial year in 2017. The Company will thus hold director elections at its 2018 annual meeting. Subject to the articles of association, a director may be appointed by an ordinary resolution at a general meeting or by a decision of the Board of Directors.

Directors' indemnities

Each director is covered by appropriate directors' and officers' liability insurance, and there are also deeds of indemnity in place between the Company and each current and former director. These were executed in 2015 except for the deeds of indemnity in respect of Ms. Andrea Saia, who was appointed by the Board to fill a vacancy on 27 July 2016, and Mr. Damien McDonald, who was appointed by the Board effective 1 January 2017. These deeds were executed in 2016 and 2017, respectively. These deeds of indemnity provide for the Company to indemnify the directors in respect of any proceedings brought by third parties against them personally in their capacity as directors of the Company. The Company would also fund on-going costs in defending a legal action as they are incurred rather than after judgment has been given. In the event of an unsuccessful defence in an action against them in a criminal or civil action, individual directors would be liable to repay defence costs to the extent funded by the Company. In respect of any investigations or actions taken by a regulatory authority, individual directors would be liable to repay defence costs to the extent funded by the Company if that regulatory authority has determined that the relevant director has acted fraudulently, been grossly negligent, or has engaged in wilful misconduct in relation to that claim.

Company details and branches outside the UK

The Company is a public limited company incorporated in England and Wales with registered number 09451374. The Company's registered address is 20 Eastbourne Terrace, London, England W2 6LG.

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

Share capital and the articles of association of the Company

The issued and fully paid share capital of the Company as at the close of business on 20 April 2017, being the latest practicable date prior to the publication of this Directors' Report, was made up as follows:

Class of shares	Number of shares	Nominal value
Ordinary	48,185,995	£48,185,995

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

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

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

The Company operates a long-term incentive plan (LTIP) for which certain employees are eligible. Details are set out in *Note 20 — Shared-Based Incentive Plan*.

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

Share repurchases

On 1 August 2016, the Board of Directors of LivaNova approved a share repurchase programme of up to $150 million. This share repurchase programme authorises the Company to repurchase up to $30 million of the Company's ordinary shares from 1 September 2016 through 31 December 2016 and up to a total of $150 million (inclusive of the foregoing $30 million) between 1 September 2016 and 31 December 2018. On 15 November 2016, the Board of Directors approved an amendment to this programme. The amendment authorises the Company to repurchase up to $50 million of the Company's Ordinary Shares through 31 December 2016 (instead of the originally authorised $30 million.) The share repurchase programme and its amendment are both in accordance with an authority approved by the Company's shareholders at its annual general meeting on 15 June 2016. Purchases of the Ordinary Shares under the programme as amended were carried out on NASDAQ. Ordinary Shares repurchased by the Company through the programme were then cancelled.

The Company established its EBT, an offshore discretionary employee benefit trust in 2015 to enable the EBT to transfer fully paid Ordinary Shares to employees of the Company and its subsidiaries. In December 2016, the EBT made market purchase of 96,535 Ordinary Shares.

The table below presents purchases of equity securities by LivaNova and the EBT from 1 September 2016 through 31 December 2016 (the only period during which repurchases were made):

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programmes	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programmes as at the last date of the relevant month
1 September – 30 September 2016	212,860	$ 60.435	212,860	$ 137,132,000
1 October – 31 October 2016	161,000	$ 57.96	161,000	$ 127,813,000
1 November – 30 November 2016	282,527	$ 44.37	282,527	$ 115,284,000
1 December - 31 December 2016	433,487	$ 45.32	336,952	$ 100,013,000
Total	1,089,874	$ 49.99	993,339[3]	

(1) Includes (i) shares repurchased as part of the publicly announced shareholder-approved share repurchase plan as amended, and (ii) shares repurchased by the EBT on the open market.

(2) Shares are purchased at market price.

(3) The 993,339 Shares repurchased by LivaNova pursuant to the repurchase plan were purchased at an average price of $ 50.32, while the 96,535 Shares purchased by EBT were purchased at an average price of $ 46.61.

Significant shareholdings

LivaNova delisted from the London Stock Exchange effective 5 April 2017. From that date, significant shareholders are no longer required to notify LivaNova of major shareholdings including reaching, exceeding or falling below 3 per cent (and each incremental percentage above 3 per cent) of LivaNova's issued Ordinary Shares. As at 4 April 2017, being the last day of trading on the London Stock Exchange and thus the last date on which shareholders had an obligation to notify the Company of significant shareholdings and thus also the latest practicable date prior to the publication of this Directors' Report, the Company's significant shareholders who had notified the Company in accordance with the DTRs that they are interested in 3 per cent or more of the issued Ordinary Shares with voting rights of the Company are as follows:

	Number of shares held	% in the issued share capital[2]
Bios SpA[1]	4,318,388	8.96%
Templeton Investment Counsel LLC	3,282,784	6.81%
FIL Limited	2,688,950	5.58%
FMR LLC	2,754,679	5.72%
BlackRock Inc.	2,419,948	5.02%

(1) The shares set forth in the table reflect the number of shares beneficially owned as of December 31, 2016, based on a Schedule 13G dated February 7, 2017 jointly filed with the U.S. Security and Exchange Commission by Mittel S.p.A., Bios S.p.A., Equinox Two S.c.a., Tower 6 S. à r.l. and Tower 6 Bis S. à r.l. In such Schedule 13G, each of Bios S.p.A. and Mittel S.p.A. (because of Mittel S.p.A.'s and Tower 6 Bis S. à r.l. 50:50 shared ownership of Bios S.p.A.) reported having sole voting and dispositive power over no shares and shared voting and dispositive power over 3,562,285 shares. Each of Tower 6 S. à r.l. (because of Mittel S.p.A.'s and Tower 6 Bis S. à r.l. 50:50 shared ownership of Bios S.p.A. and Tower 6 S. à r.l.'s indirect ownership of 756,103 shares owned by Tower 6 Bis S. à r.l., a wholly owned subsidiary of Tower 6 S. à r.l.) and Equinox Two S.c.a. (because of Equinox Two S.c.a.'s sole ownership of Tower 6 S. à r.l.) reported having sole voting and dispositive power over no shares and shared voting and dispositive power over 3,562,285 shares.

(2) For the purpose of this table the Company has used a denominator 48, 184,737 shares as under the DTRs that number was provided to shareholders on 3 April 2017 to be used as the denominator in any calculation.

Dividend

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

Change of control

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

The legacy Sorin business entered into a loan agreement with the EIB for €100 million on 6 May 2014. The facility provides that the EIB may require the Company to repay the loan amount in the event of a change of control. On 2 October 2015, prior to the closing of the Mergers, Sorin entered into an amendment and restatement agreement with the EIB where the parties agreed that the Mergers did not constitute a change of control. On 21 October 2016, LivaNova entered into a $ 40 million revolving facility agreement with Barclays Bank Plc. The agreement provides that the lender may cancel the available commitment and demand prepayment of any associated loan.

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

Political donations

The Company has not made any political donations, or incurred any political expenditure, in the period under review. In addition, the Company has not made any contributions to a non-EU political party during the period under review.

Employee Involvement and Disabled Persons

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

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

Employees are consulted regularly about changes that may affect them either through their trade union-appointed or works council representatives or by means of regular meetings with particular groups of employees. The consultations and meetings are used to ensure that employees are kept up to date with LivaNova's business performance and the financial and economic factors affecting that performance. LivaNova also cascades information regularly to all employees, either by means of LivaNova's intranet or through employees' managers, to provide them with important and up-to-date information regarding key events and to obtain feedback from them. LivaNova generally considers the needs of its employees when agreeing to policies which affect them. During the year, LivaNova, continued its training and development scheme covering technical, personal, and management development programmes. Additionally, employees are encouraged to gain professional qualifications with the active support of LivaNova.

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

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

Greenhouse gas emissions

Greenhouse gas emissions for the year ended 31 December 2016 in metric tonnes equivalent ($mtCO_2e$) were:

- From combustion of fuel and operation of facilities (Scope 1): 7,275 (2015: 7,269)
- From electricity, heat, steam and cooling purchased (Scope 2): 24,597 (2015: 24,605)
- From all ISO Scope 3 sources (Scope 3): 59,309 (2015: 59,863)
- Globally (Scopes 1, 2 and 3): 73,078 (2015: 73,531)

LivaNova measures Scope3 sources using the International Standards Organization's standards. Such Scope3 sources include:

- Extraction and production of purchased materials and fuels
- Transport-related activities
    - Transport of purchased materials and goods
    - Transport of purchased fuels
    - Employee business travel
    - Employees commuting to and from work
    - Transportation of sold products
    - Transportation of waste
- Electricity-related activities not included in Scope2
    - Extraction, production, and transportation of fuels consumed in the generation of electricity (either purchased or own generated by the reporting company)
    - Purchase of electricity which is sold to an end user (reported by utility company)
    - Generation of electricity that is consumed in a T&D system (reported by end-user)
- Leased assets, franchises, and outsourced activities – emissions from such contractual arrangements are only classified as Scope3 if the selected consolidation approach (equity or control) does not apply to them
- Use of sold products and services
- Waste disposal
    - Disposal of waste generated in operation
    - Disposal of waste generated in the production of purchased materials and fuels
    - Disposal of sold products at the end of their life

In respect of the year ended 31 December 2016, the Company included its principal European locations listed below:

- Clamart, France (plant)
- Munich, Germany (plant)
- Mirandola, Italy (plant)
- Saluggia, Italy (plant)
- Milan, Italy (office in town centre)
- Cantu, Italy (plant in Milan)

Excluded from the scope in 2015 and 2016 were the following European offices:

- Amsterdam, The Netherlands
- Lausanne, Switzerland
- Alges, Portugal
- Helsinki, Finland
- Sollentuna, Sweden
- Prague, Czech Republic
- Zaventem, Belgium
- Gloucester, England
- Barcelona, Spain
- Vienna, Austria
- Warsaw, Poland
- Oslo, Norway
- London, England (head office)

LivaNova monitors its performance in respect of greenhouse gases notably with reference to three ratios:

- Greenhouse gas emissions in metric tonnes equivalent ($mtCO_2e$) per full time equivalent employee (2016: 23,69; 2015: 23,41)
- Greenhouse gas emissions in metric tonnes equivalent ($mtCO_2e$) per square metre (2016: 644; 2015: 647)
- Greenhouse gas emissions in metric tonnes equivalent ($mtCO_2e$) per tonne of production (2016: 129; 2015: 131)

Also excluded from the scope in 2015 and 2016 were all other worldwide locations. Excluded locations were not included in 2015 and 2016 as the practicalities of a first implementation made this impracticable.

LivaNova has used the methodology for collection and calculation of emissions set out in the French Environment and Energy Management Agency (ADEME). LivaNova reports its greenhouse gas emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard.

Financial risk management objectives/policies and hedging arrangements

Please refer to *Note 3 — Financial Risk Management* in the consolidated Financial Statements for information on LivaNova's financial risk management objectives/policies and hedging arrangements.

Events since 31 December 2016

Certain important events affecting the Company and its subsidiaries that have occurred since 31 December 2016 are set out in the following sections of the Strategic Report:

- The Company announced on 23 February 2017 the voluntary cancellation of its standard listing of Ordinary Shares on the London Stock Exchange. LivaNova has taken this action due to the low volume of its ordinary share trading on the London Stock Exchange. Trading ceased at the close of business on 4 April 2017. As a result of the delisting, shareholders will no longer be able to buy and sell shares on the London Stock Exchange.

  Furthermore, LivaNova will no longer be required to comply with the continuing obligations set out in the UK Listing Rules, the UK Disclosure Guidance and Transparency Rules or the EU Market Abuse Regulation. In addition, LivaNova will no longer benefit from disclosure by shareholders of changes in significant shareholdings in LivaNova.

The City Code on Takeovers and Mergers will no longer apply to LivaNova. Accordingly, LivaNova will therefore not have the benefit of the protections the Code affords, including, but not limited to, the requirement that a person who acquires an interest in shares carrying 30 per cent or more of the voting rights in LivaNova must make a cash offer to all other shareholders at the highest price paid in the 12 months before the offer was announced.

LivaNova will, however, continue to be subject to the rules and regulations of the US Securities and Exchange Commission, the Nasdaq Stock Market rules and all other laws, rules and regulations applicable to a company with shares listed on Nasdaq. In addition, LivaNova will continue to be subject to the UK Companies Act 2006 and all other United Kingdom laws and regulations to the extent applicable to a public company incorporated in England and Wales with shares listed on Nasdaq.

- Following the resignation on 31 December 2016 of Mr. André-Michel Ballester, Mr. Damien McDonald was appointed by the Board as Chief Executive Officer with effect from 1 January 2017.
- On 29 March 2017, Mr. Vivid Sehgal, Chief financial Officer, announced his resignation effective 31 may 2017.
- On 2 May 2017 LivaNova announced that it had acquired Caisson Interventional LLC, a privately held clinical-stage medical device company focused on the design, development and clinical evaluation on a novel transcatheter mitral valve replacement (TMUR) implant with a fully transvenous delivery system.

Future developments

An indication of certain expected future developments of the Company and its subsidiaries are set out in the Strategic Report, Section II (Business), Part C (Research and Development.)

Research and Development

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

Statement of disclosure to the Company's UK statutory auditor

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

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

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

PricewaterhouseCoopers LLP has indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the 2017 Annual General Meeting.

Directors' responsibility statement

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

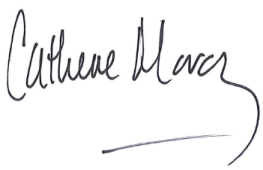
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the LivaNova group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the LivaNova group and the Company and enable them to ensure that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

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

To the best of each director's knowledge:

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

By order of the Board of Directors.



CATHERINE MOROZ
COMPANY SECRETARY

2 May 2017

Letter from the Chairman of the Compensation Committee

Dear Shareholder,

I am pleased to present the 2016 Directors' Remuneration Report of LivaNova, covering the period from 1 January 2016 to 31 December 2016.

2016 was our first full year as a public company. It was a year focused on bringing together a dedicated workforce of more than 4,500 employees and creating a solid foundation from which to drive future growth.

Major decisions on remuneration in 2016

- In February, the Compensation Committee approved the compensation package of the executive officers and the bonus plan for 2016.
- In March, the Compensation Committee approved annual equity awards for the Executive Leadership Team and employee population.
- In April, the Compensation Committee considered and approved the Compensation Discussion & Analysis for the 2015 U.S. Form 10-K/A and approved the 2015 U.K. Remuneration Report. It also approved the 2015 annual bonus payment amounts for the Executive Leadership Team.
- In addition, the Compensation Committee approved the settlement of the Restricted Stock Units for the non-executive directors.
- In July, the Compensation Committee approved the compensation package for the Chief Operating Officer, Damien McDonald.
- In August, the Compensation Committee approved the annual equity awards for the non-executive directors and the exit package of the two Presidents of the legacy Business Units, Cardiac Surgery and Cardiac Rhythm Management.
- In October, the Compensation Committee performed its self-assessment.
- In November and December, following the resignation of Chief Executive Officer André-Michel Ballester and the appointment of Damien McDonald as his successor as of 1 January 2017, the Compensation Committee approved the exit package for André-Michel Ballester and started the negotiation of a new package with Mr. McDonald.

Our remuneration philosophy

During 2016, LivaNova's remuneration philosophy consolidated along the following principles:

- **Reward consistent and high-level performance** - to encourage directors to perform in a consistent, responsible way with the focus on long-term creation of value for LivaNova's shareholders;
- **Reinforce business strategy** – to reward directors for setting the business strategy on a path that enables strong execution by LivaNova's management team to achieve business objectives and strategic goals;
- **Stable fixed compensation** – to insulate director remuneration from business strategy decisions that might otherwise favour short-term strategy over long-term strategy, thereby to ensure that our director remuneration packages do not adversely influence business strategy; and
- **Competitive remuneration** – to recruit and retain the key talent, essential to the successful operation of LivaNova's business by ensuring that our remuneration packages are competitive with our market peers.

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

The addition Andrea Saia to the LivaNova Board of Directors evidences the success of the policy. Ms. Saia has brought considerable board and healthcare credentials to LivaNova.

As Chairman of the Compensation Committee, I am committed to ensuring an open dialogue with our shareholders. If you have any questions about remuneration generally, or the presentation or the content of this report, please contact me via mail sent to the Company Secretary, LivaNova PLC, 20 Eastbourne Terrace, London W2 6LG, United Kingdom.

DR. ARTHUR L. ROSENTHAL
CHAIRMAN OF THE COMPENSATION COMMITTEE

2 May 2017

Introduction and Compliance Statement

The purpose of this Directors' Remuneration Report is to inform shareholders of the remuneration of the Company's directors for the period ended 31 December 2016 and the remuneration policy for subsequent years. This report is divided into two sections:

- the Chairman's letter on pages 63 to 64 above, and
- the Directors' Remuneration Report.

The Director's Remuneration Report will be put to an advisory vote at the 2017 annual general meeting.

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

The Director's Remuneration Report (elements of which are audited) details the directors' and former directors' fixed and variable pay, share awards, benefits and pension arrangements.

Director's Remuneration Report

Introduction

The Compensation Committee presents the Director's Remuneration Report, which will be put to shareholders as an advisory vote at the annual general meeting of the Company to be held on 15 June 2017. Some of the information contained in the annual remuneration report is subject to audit. Where the information is subject to audit, this is identified in the relevant heading.

Activities of the Committee in 2016 and since the year end

The Chairman of the Compensation Committee is Arthur L. Rosenthal, Ph.D., and the other members of the Compensation Committee are Alfred J. Novak and Francesco Bianchi, all of whom are non-executive directors that the Company considers to be independent and all have served on the Committee since 19 October 2015. The Committee's terms of reference (Compensation Committee Charter) are available on the Company's website at www.livanova.com.

During 2016, the Committee held 12 meetings. On four other occasions, the Committee took decisions by unanimous written consent. Since year-end, there have been six meetings.

The Committee's main responsibilities are to:

- Review, evaluate, and approve the agreements, plans, policies, programs of the Company designed to compensate the officers and directors of the Company, any major subsidiary undertakings and LivaNova as a whole, as appropriate.
- Review, evaluate, and approve all awards by the Company of equity securities or derivatives of equity securities, including, but not limited to, restricted stock, stock options, stock appreciation rights and phantom stock awards, to executive officers, non-executive employees, and others as permitted under the Company's equity award plans.
- Review and discuss with the Company's management the Compensation Discussion and Analysis ("CD&A") to be included in the Company's 2016 Form 10-K/A and to determine whether to recommend to the Board inclusion of the CD&A in the Form 10-K/A, in accordance with applicable rules and regulations.
- Produce the Committee report for inclusion in the Company's Form 10-K/A, in accordance with applicable rules and regulations.
- Approve the Directors' Remuneration Report to be included in the Company's UK Annual Report.
- Otherwise discharge the Board's responsibilities relating to compensation of the Company's officers and directors.

The Compensation Committee has the sole authority to retain and terminate a compensation consultant to assist with its responsibilities, as well as the sole authority to approve the consultant's fees, which are then paid by the Company (within any budgetary constraints imposed by the Board). Our officers do not discuss compensation matters with the Compensation Committee's consultant, except as needed to respond to questions from the consultant. The Compensation Committee's consultant does not provide services for the company or any of our officers. In 2016, the Compensation Committee engaged the services of Pearl Meyer & Partners, LLC, an experienced compensation consulting firm, to advise the committee on executive compensation matters The Committee considered the following factors and determined that Pearl Meyer is an independent and conflict-free advisor to the Company:

- the provision of other services to the Company by the advisor's employer;
- the amount of fees received from the Company by the advisor's employer, as a percentage of the total revenue of the advisor's employer;
- the policies and procedures of the advisor's employer that are designed to prevent conflicts of interest;
- any business or personal relationship of the advisor with a member of the Committee;
- any stock of the Company owned by the advisor; and
- any business or personal relationship of the advisor or the advisor's employer with an executive officer of the Company.

In 2016, Pearl Meyer provided support on the following projects:

- UK governance review;
- Peer group benchmarks on stock options and SARs practices; and
- Peer group benchmarks for our top executive positions.

In 2017, the Compensation Committee engaged Pearl Meyer to complete an equity compensation analysis and market pricing.

LivaNova paid Pearl Meyer a total of $40,434 for the services indicated above for 2016 and 2017 to-date, computed on the basis of Pearl Meyer's hourly rates for services rendered, multiplied by the number of hours required to generate the reports and including administrative service fees.

Remuneration details for the period ended 31 December 2016

Single total figure on remuneration – executive director – audited information

The table below sets out for the Company's sole executive director, André-Michel Ballester, the single figure of his remuneration for the period ended 31 December 2016.

This comprises the total remuneration received over the full year from 1 January 2016 to 31 December 2016.

	Basic salary and fees ($'000)	Taxable benefits ($'000)	Annual bonus ($'000)	Change in control ($'000)	Service based awards ($'000)	Long-term incentive awards ($'000)	Pension contribution ($'000)	Total[1] ($'000)
André-Michel Ballester 2016	780	321	624	0	0	110	133	1,968
André-Michel Ballester 2015 Pre-mergers.	631	168	180	0	0	0	24	1,004
André-Michel Ballester 2015 Post-mergers[2].	179	56	189	2,250	4,273	1,717	27	8,691

(1) The currency conversion rates used are, for 2016 - £/$ = 1.35635 (average currency rate for the period 1 January 2016 to 31 December 2016) and for 2015 - £/$ = 1.51425 (average currency rate for the period 1 January 2015 to 31 December 2015).

(2) The value of the service-based awards and of the long-term incentive awards for the 2015 Post-mergers line has been re-stated, using the share price average of the last quarter of 2016 for unvested awards ($49.13397) and the closing share price value at vesting date for vested award.

Salary and benefits – executive director – audited information

In 2016, André-Michel Ballester was paid a base salary of £575,000 per annum ($ 779,901). The taxable benefits column line for André-Michel Ballester include: (i) the housing allowance for £150,000 ($203,452), (ii) the value of the car as benefit in kind CHF 34,913 ($35,460[1]), (iii) supplemental UK health insurance for £5,105 ($6,924), (iv) relocation agency services £4,180 ($5,670), (v) Swiss Health insurance for him and his family for CHF 61,663 ($62,629[1]), (vi) holiday pay for £4,644 ($6,300) and (vii) gym membership for £724 ($981).

Pension contributions – executive director – audited information

In 2016, the Company has accrued an amount equal to 15 per cent of André-Michel Ballester's compensation (base salary and bonus) for the purpose of his pension. The Company plan provides for the employee the possibility to opt for either cash (with a 13.8 per cent penalty) or pension contribution. André-Michel Ballester opted to receive the accrued amount in cash, net of related income tax and employee national insurance contribution

Bonus payments – executive director – audited information

In April 2017, André-Michel Ballester received £460,000 ($623,921), an amount equal to 80% of his 2016 bonus opportunity. This is the result of a discretionary decision by the Compensation Committee, and it is actually lower than he would have received under the terms of the 2016 bonus plan. The performance objectives selected by the Committee for the 2016 bonus plan were as follows:

	Percentage of target bonus
Adjusted net sales objective	50%
Adjusted net profit objective	50%
Achievement of both performance objectives	**100%**

The performance objectives for the bonus program included an adjusted net sales objective, which was the adjusted net sales as reported by the Company at the Company's budgeted currency exchange rates, and an adjusted net profit objective, which was the adjusted non-GAAP (U.S. generally accepted accounting principles) net profit as reported by the Company.

The percentage achievement of the performance objectives was subject to scaling down or up by 2 per cent for each 1 per cent, or portion thereof, of underachievement or overachievement, respectively, between an underachievement of at least 80 per cent and an overachievement of up to 125 per cent.

Given 2016 adjusted net sales of $1,213.9 million in respect of a target of $1,249.9 (97.11%) and adjusted net profit of $149.3 million in respect of a target of $157.4 million (94.85%), the 2016 bonus would have resulted in a 91.5% pay-out under the terms of the plan approved by the Compensation Committee at the outset of 2016. Observing the significant shareholder value lost as a result of the Company's shortfalls on adjusted net sales and adjusted net profit, however, the Compensation Committee used its discretion to reduce the pay-out to 80%.

Long-term incentive awards – executive director – audited information

On 11 March 2016, the Committee approved an award of RSUs to André-Michel Ballester under the LivaNova 2015 Incentive Award Plan having a date of grant value of $2.0 million, which could result in him receiving up to 34,722 Ordinary Shares. Of these:

1. 17,361 were RSUs ("Net Sales RSUs") that would vest 25% per year on the date the Company files its Annual Report on Form 10-K for each of fiscal years 2016, 2017, 2018, and 2019, subject to the condition that the adjusted net sales, as reported by the Company for such year at the budgeted currency exchange rates ("Actual Net Sales"), is equal to or greater than the budgeted amount approved by the Board within the first 90 days of such year ("Budgeted Net Sales") provided that,

    i. if the Actual Net Sales for such year is less than Budgeted Net Sales by no more than 0.5%, then 75% of the Net Sales RSUs would vest and 25% of the Net Sales RSUs would lapse;

1 CHF/$ FX average FX rate = 1. 01567

ii. if the Actual Net Sales for such year was less than Budgeted Net Sales by no more than 1.0%, then 50% of the Net Sales RSUs would vest and 50% of the Net Sales RSUs would lapse; and

iii. if the Actual Net Sales for such year was less than Budgeted Net Sales by more than 1.0%, then all Net Sales RSUs would lapse.

For 2016, as the Actual Net Sales were less than Budget Net Sales by more than 1.0% (given 2016 net adjusted sales of $1,213.9 million in respect of Budget Net Sales of $1,249.9 million), all the units expired. Pursuant to the Agreement, the remaining unvested three tranches lapsed.

2. 17,361 were RSUs ("Net Profit RSUs") that would vest 25% per year on the date the Company files its Annual Report on Form 10-K for each of fiscal years 2016, 2017, 2018, and 2019, subject to the condition that adjusted net profit, as reported by the Company for such year at the budgeted currency exchange rates, ("Actual Net Profit") is equal to or greater than the budgeted amount approved by the Board within the first 90 days of such year ("Budgeted Net Profit"), provided that

   i. if the Actual Net Profit for such year is less than Budgeted Net Profit by no more than 10% of the difference between the Budgeted Net Profit for such year and the Actual Net Profit for the prior year rounded to the nearest $0.1 million, then 75% of the Net Profit RSUs will vest and 25% of the Net Profit RSUs will lapse,

   ii. if the Actual Net Profit for such year is less than Budgeted Net Profit by no more than 20% of the difference between the Budgeted Net Profit for such year and the Actual Net Profit for the prior year rounded to the nearest $0.1 million, then 50% of the Net Profit RSUs will vest and 50% of the Net Profit RSUs will lapse; and

   iii. if the Actual Net Profit for such year is less than Budgeted Net Profit by more than 20% of the difference between the Budgeted Net Profit for such year and the Actual Net Profit for the prior year rounded to the nearest $0.1 million, then all Net Profit RSUs shall lapse.

Net Profit RSUs would vest if and only if the vesting conditions are achieved after including the equity compensation expense for Mr. Ballester's Net Profit RSUs in the calculation of Actual Net Profit.

For 2016, the 2016 Actual Net Profit, after including the equity compensation expense for the Net Profit RSUs, was $149.2 million, $8.2 million below the Budgeted Net Profit of $157.4 million (15.6%). Accordingly, 50% of the first tranche of 4,232 RSUs vested (i.e., 2,171 shares). At the vesting date (March 11, 2017), the value of LivaNova shares on the Nasdaq Stock Exchange was $50.47, for a total value of $109,570.37.

On October 19 2016, the 83,352 stock appreciation rights granted on 19 October 2015 vested; however, the share price at the vesting date and also at 31 December 2016 was lower than the exercise price. As currently anticipated, Mr. Ballester will have until 19 October 2019 to exercise these SARs.

Additional information not included in the table – audited information

On 11 March 2016, in addition to the above-mentioned awards, the Committee approved:

1. An award of SARs having a grant date value of $1.0 million, which could result in him receiving up to a maximum of 56,682 Ordinary Shares. The SARs were to vest in four equal instalments on the first four anniversaries of the grant date and be exercisable up to the 10th anniversary of the grant date. Pursuant to the terms of Mr. Ballester's 2016 separation agreement with LivaNova, the first tranche of these SARs (14,171 SARs) vested on March 11, 2017, and the remainder will lapse.

2. An award of RSUs having a grant date value of $1.0 million that would vest on the date, as certified by resolution of the Compensation Committee, that the 50-day trailing average closing price of the Company's ordinary shares traded on the NASDAQ Stock Market was at least $138.78 at any time during the period between May 1, 2019 and April 30, 2020. These RSUs lapsed as a consequence of Mr. Ballester's 2016 separation agreement with LivaNova as described below.

In February 2016, 6,432 RSUs from the second tranche of the legacy Sorin plan vested for a total value of $367,203.

In November 2016, 17,835 of the first tranche of the service-based RSUs granted in November 2015 vested for a total value of $768,153.

In December 2016, pursuant to the separation agreement described below, the last tranche of the unvested equity awards under the legacy Sorin plan accelerated to vesting for a total value of $289,247.

Separation agreement

Pursuant to a separation agreement with the Company made in December 2016, Mr. Ballester received a payment in January 2017 in the amount of £725,000 ($983,409) (which represents a payment in lieu of 12 months' salary and allowances in lieu of his notice period). In addition, he received payment for unused holidays in the amount of £4,644 ($6,300).

Consulting agreement

Mr. Ballester also agreed in December 2016 to provide consulting services to the Company commencing December 31, 2016 and continuing through December 31, 2020.

During 2017, Mr. Ballester agreed to devote at least 50% of his working days to the business of the Company, including providing transitional support for his successor, for which he will be paid a consulting fee in the amount of $400,000. During 2018, 2019 and 2020, Mr. Ballester has agreed to provide litigation support services, as needed, for which he will be paid a consulting fee in the amount of $50,000 per year.

As Mr. Ballester is a consultant and pursuant to his separation agreement, vesting continues until December 31, 2017 under Mr. Ballester's Restricted Stock Unit Award Grant Notice and Agreement dated 11 November 2015, his Restricted Stock Unit Award Grant Notice and Agreement dated 11 March 2016, and his Stock Appreciation Right Grant Notice and Agreement dated 11 March 2016. The unexercised SARs remain exercisable until their natural expiration date, with the exception of the 18,806 legacy Sorin SARs that expired unexercised on 31 March 2017.

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

The table below sets out for the Company's non-executive Chairman and each of the Company's non-executive directors the single figure of his or her remuneration for the period ended 31 December 2016. This comprises the total remuneration received since 1 January 2016 and since the effective date of their appointment to the Board for Andrea Saia.

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

Current directors	Basic annual fee ($'000)	Additional fee for acting as chairman, Chair of committee or member of committee ($'000)	Taxable benefits ($'000)[1]	Total emoluments ($'000)	Service based share awards ($'000)	Total ($'000)
Daniel J. Moore - 2016	60	60	2	122	317	439
Daniel J. Moore - 2015	18	18	4	40	156	196
Hugh Morrison - 2016	60	45	3	108	203	311
Hugh Morrison - 2015	12	12	—	24	85	109
Alfred J. Novak - 2016	60	23	2	85	203	288
Alfred J. Novak - 2015	12	5	—	17	85	102
Dr. Arthur L. Rosenthal - 2016	60	20	2	82	203	285
Dr. Arthur L. Rosenthal - 2015	12	4	4	20	85	105
Francesco Bianchi - 2016	60	23	—	83	203	286
Francesco Bianchi - 2015	12	5	—	17	85	102
Stefano Gianotti - 2016	60	6	5	71	203	274
Stefano Gianotti - 2015	12	1	2	16	85	101
Dr. Sharon O'Kane - 2016	60	6	4	70	203	273
Dr. Sharon O'Kane - 2015	12	1	—	13	85	98
Andrea Saia - 2016	26	6	0	75	164	239
Andrea Saia - 2015	—	—	—	—	—	—

On 05 August 2016, the non-executive directors listed above received RSU awards pursuant to the Incentive Award Plan. The RSUs are subject to time-based vesting and will vest on the first anniversary of the date of grant.

(1) The amounts refer to expenses reimbursement for the Directors to exercise their role that are considered taxable under UK tax legislation.

Scheme interests awarded during the financial year - audited information

The following table sets out details of scheme interests awarded to André-Michel Ballester and the Company's non-executive directors since 01 January 2016 pursuant to the Incentive Award Plan.

			No. of Shares						
Director	**Award Type**	**Basis of Award**	**Face value of Award ($)[1][2]**	**No. of shares subject to the award**	**Exercise price ($)**	**Share price on date of award (for face value calculation) ($)**	**% of scheme interests achievable on minimum performance**	**Expiry of performance period**	**Performance criteria**
André-Michel Ballester . . .	SARs	2015 Incentive Award Plan	999,870	56,682	57.60	N/A	100	11 March 2020	Time based vesting
André-Michel Ballester . . .	RSUs	2015 Incentive Award Plan	999,994	17,361	N/A	57.60	0	11 March 2020	Market
			250,042	4,341	N/A	57.60	0	31 December 2016	Net Sales
			250,042	4,341	N/A	57.60	0	31 December 2017	Net Sales
			250,042	4,341	N/A	57.60	0	31 December 2018	Net Sales
			250,042	4,341	N/A	57.60	0	31 December 2019	Net Sales
			250,042	4,341	N/A	57.60	0	31 December 2016	Net Income
			250,042	4,341	N/A	57.60	0	31 December 2017	Net Income
			250,042	4,341	N/A	57.60	0	31 December 2018	Net Income
			250,042	4,341	N/A	57.60	0	31 December 2019	Net Income
Daniel J. Moore	RSUs	2015 Incentive Award Plan	317,078	5,198	N/A	61.00	100	05 August 2017	Time based Vesting
Hugh Morrison	RSUs	2015 Incentive Award Plan	202,947	3,327	N/A	61.00	100	05 August 2017	Time based Vesting
Alfred J. Novak	RSUs	2015 Incentive Award Plan	202,947	3,327	N/A	61.00	100	05 August 2017	Time based Vesting
Dr. Arthur L. Rosenthal. . .	RSUs	2015 Incentive Award Plan	202,947	3,327	N/A	61.00	100	05 August 2017	Time based Vesting
Francesco Bianchi.	RSUs	2015 Incentive Award Plan	202,947	3,327	N/A	61.00	100	05 August 2017	Time based Vesting
Stefano Gianotti	RSUs	2015 Incentive Award Plan	202,947	3,327	N/A	61.00	100	05 August 2017	Time based Vesting
Dr. Sharon O'Kane	RSUs	2015 Incentive Award Plan	202,947	3,327	N/A	61.00	100	05 August 2017	Time based Vesting
Andrea Saia	RSUs	2015 Incentive Award Plan	163,907	2,687	N/A	61.00	100	05 August 2017	Time based Vesting

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

(2) Face value of RSUs award calculated using the closing market price of LivaNova share on the Nasdaq stock market at the date of grant.

How the remuneration policy will be applied in the year ending 31 December 2017

Salary and benefits - executive director

André-Michel Ballester resigned from the Company on 31 December 2016. Damien McDonald, initially hired in October 2016 as Chief Operating Officer, replaced Mr. Ballester as CEO and the Company's sole executive director. Mr. McDonald's 2016 base compensation is £ 658,000.

Bonus payments – executive director

The target annual bonus for Mr. McDonald for 2017 will be 100 per cent of his base salary. The amount of his bonus will be determined by multiplying the percentage achievement under the 2017 performance objectives, as described below, by such target amount. The performance objectives selected by the Committee for 2017 are as follows:

	Percentage of target bonus
Adjusted net sales objective	60%
Adjusted net profit objective	40%
Achievement of both performance objectives	**100%**

The performance objectives for the bonus program include an adjusted net sales objective, which will be the adjusted net sales as reported by the Company at the Company's budgeted currency exchange rates, and an adjusted net income objective, which will be the adjusted non-GAAP (U.S. generally accepted accounting principles) net income as reported by the Company at the actual currency exchange rates. Given that 2017 adjusted net sales and adjusted net profit are key measures of company value, the Board considers the actual target amounts of both objectives to be too commercially sensitive for disclosure at this time. The Committee will disclose the target amounts after the publication of the Company's 2017 financial results.

The percentage achievement of the performance objectives will be scaled down by 10 per cent for each 1 per cent, or portion thereof of underachievement, or up by 3 per cent for each 1 per cent, or portion thereof, of overachievement, respectively, between an underachievement of at least 95 per cent and an overachievement of up to 125 per cent. Applying this scaling factor to the performance objectives, individual bonuses can range from a low of 0 per cent to a high of 175 per cent of an executive officer's target bonus amount.

In the event that the Company fails to achieve all Group financial objectives, the CEO is nonetheless eligible to receive a payment if shareholder value, as measured by the price of the Company's stock on the NASDAQ Stock Exchange, has increased by at least a threshold amount, as follows.

- If the closing stock price (the "Measure Price") two business days after the earnings announcement for the year ended December 31, 2017 (the "Measure Date") is at least a specified price (the "Threshold Price"), the participant will be entitled to receive at least 50% of the portion of the participant's short-term incentive payment that is based on Group and Regional financial objectives.
- If the Measure Price is at least a specified amount more than the Threshold Price (the "Upper Price"), the participant will be entitled to receive 100% of the portion of the participant's short-term incentive payment that is based on Group and Regional financial objectives; or
- If the Measure Price falls between the Threshold Price and the Upper Price, the participant will be entitled to receive a portion of the participant's short-term incentive payment that is based on Group and Regional financial objectives equal to the sum of 50% and that portion of 50% determined by linear interpolation (the difference between the Measure Price and Threshold Price, divided by the specified amount, and then multiplied by 50%).

Incentive award plan – executive director

As an inducement award for Mr. McDonald's joining the Company as Chief Operation Officer, the Compensation Committed on 4 November 2016 approved:

- an award of 174,227 SARs (equivalent to $2.0 million based on the Black-Scholes value of a stock option on the grant date) vesting in four tranches - 25% per year on each of the four following anniversaries of the grant date and expiring date on the 10th anniversary.
- an award of 66,979 service-based RSUs (equivalent to $3.0 million based on the face value at the grant date) vesting in four tranches - 25% per year on each of the four anniversaries of the grant date.

In relation to the appointment to the role of Chief Executive Officer, the Chairman of the Board provided a side letter to Mr McDonald confirming that the Company will recommend that the Compensation Committee approve the following award:

- An award of service-based RSUs over Shares equal in value to $1.0 million, with 25% of the RSUs vesting on each of the first four anniversaries of the grant date. The calculation of the number of shares subject to the award will be determined based on the closing price of Shares on NASDAQ Stock Exchange on the date of grant of the award.
- An award of market-based and service-based RSUs over shares equal in value to $3.0 million, as further described below. The calculation of the number of shares subject to the award will be determined based on the closing price of shares on NASDAQ Stock Exchange on the date of grant of the award.
    - If the closing stock price on the date two days after the earnings release in respect of the fourth quarter and year ended 31 December 2017 (the "Measure Price" as determined on the "Measure Date") is at least equal to a threshold stock price (the "Threshold Price"), the award will have a value of no less than $1.0 million.
    - If the Measure Price is equal to or greater than the sum of the Threshold Price and a specified amount (the "Upper Price"), the award will have a value of $3.0 million.
    - If the Measure Price falls between the Threshold Price and the Upper Price, the award will have a value equal to the sum of $1.0 million and that portion of $2.0 million determined by linear interpolation (the difference between the Measure Price and Threshold Price, divided by the specified amount and then multiplied by $2.0 million).

The grant of any of the awards under the Plan as described in the side letter is always subject to the discretion of the Compensation Committee. The Compensation Committee has not, as of yet, approved the award.

Chairman and non-executive directors' fees

The fees for the Chairman and the non-executive directors are based on the Company's non-employee director compensation policy. Each non-executive director will receive the following fees and awards for 2017:

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

From 1 July 2017, the cash retainer in respect of Board service for non-employee directors will be $110,000, plus an additional $75,000 for the Chairman, and the annual award of RSUs will have a value of $110,000 for non-employee directors and of $185,000 for the Chairman.

Percentage change in remuneration of the Chief Executive Officer

The table below reflects a comparison between the percentage change in remuneration of the Chief Executive Officer between 2015 (Post-merger figure) and 2016 in comparison with the other employees.

To present a meaningful comparison, for the Chief Executive Officer, the table shows the change, if any, between the daily average base salary, benefits and annual bonus data for the post-merger period in 2015 and the same daily average data in 2016.

For the other employees, with respect to the base salary, the data reflect the average base salary percentage change in the compensation cycle of April 2016. With respect to benefits, the data reflect a comparable comparison of the taxable benefit in the commercial operation in the UK, as the post-merger information for the headquarters office staff in London would be not meaningful considering the small number of employees in that office. Other countries do not constitute a comparable sample given the specific benefits structure in the different countries. For annual cash bonus, the data shows the ratio between the bonus payout related to 2016 and 2015 for the employee on an annual performance period.

	Base salary % change 2016	Benefits % change 2016	Annual cash bonus % change 2016
Chief Executive Officer	-%	+32%	-25%
Average for all employees	+3%	-%	+9%

Payments made to past directors – audited information

The Company made no payments to past directors in the period under review with the exception of the payments disclosed elsewhere made to Mr. Ballester, who is no longer in 2017 a director.

Payments made for loss of office – audited information

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

Summary of share ownership guidelines – audited information

The Company has a voluntary share ownership guideline in place for its officers and directors. The directors believe that meaningful ownership of equity in the Company is an essential element in demonstrating the commitment of its leadership to its primary task of creating value for its shareholders. To further this belief, equity award programs have been established as part of the overall compensation plans for both officers and directors. Awards under these plans are made at levels that not only compensate such individuals at a competitive level in the marketplace, but also present an opportunity to accumulate equity in the Company. The following guidelines represent minimum amounts of equity ownership in the Company expected to be achieved by the later of (i) 31 December 2018 (approximately three years after the date of approval of this policy), or (ii) five years after the date an individual becomes a corporate officer or director. Although attainment of these ownership guidelines is voluntary, lack of attainment may be a factor considered by the Committee in approving future awards. At the end of the three-year phase-in period and on the last day of each financial year thereafter (the "Measurement Dates"), the market value of equity holdings in the Company is encouraged to be at least:

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

Qualifying equity ownership includes:

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

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

The table below sets out the total number of interests in the Company's shares as at 31 December 2016:

	Ordinary shares	Ordinary shares underlying Stock Options	Ordinary shares underlying SARS following conversion of Sorin SARs	Ordinary Shares underlying SARs	Ordinary Shares underlying RSUs
André-Michel Ballester	93,822	-	18,806	223,385	123,422[1]
Daniel Moore[2]	63,437	103,249	-	-	5,198
Hugh Morrison	5,215[3]	-	-	-	3,327
Alfred J. Novak	13,020	-	-	-	3,327
Arthur L. Rosenthal	15,265	-	-	-	3,327
Francesco Bianchi	-	-	-	-	3,327
Stefano Gianotti	-	-	-	-	3,327
Sharon O'Kane	-	-	-	-	3,327
Andrea Saia	-	-	-	-	2,687

(1) Of the 123,422 shares underlying RSUs, the vesting of 52,083 RSUs are subject to the achievement of performance conditions.

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

(3) At 31 December 2016 1,215 shares were pledged. Mr. Morrison subsequently pledged a further 2,000 shares in early 2017.

Relative importance of spend on pay

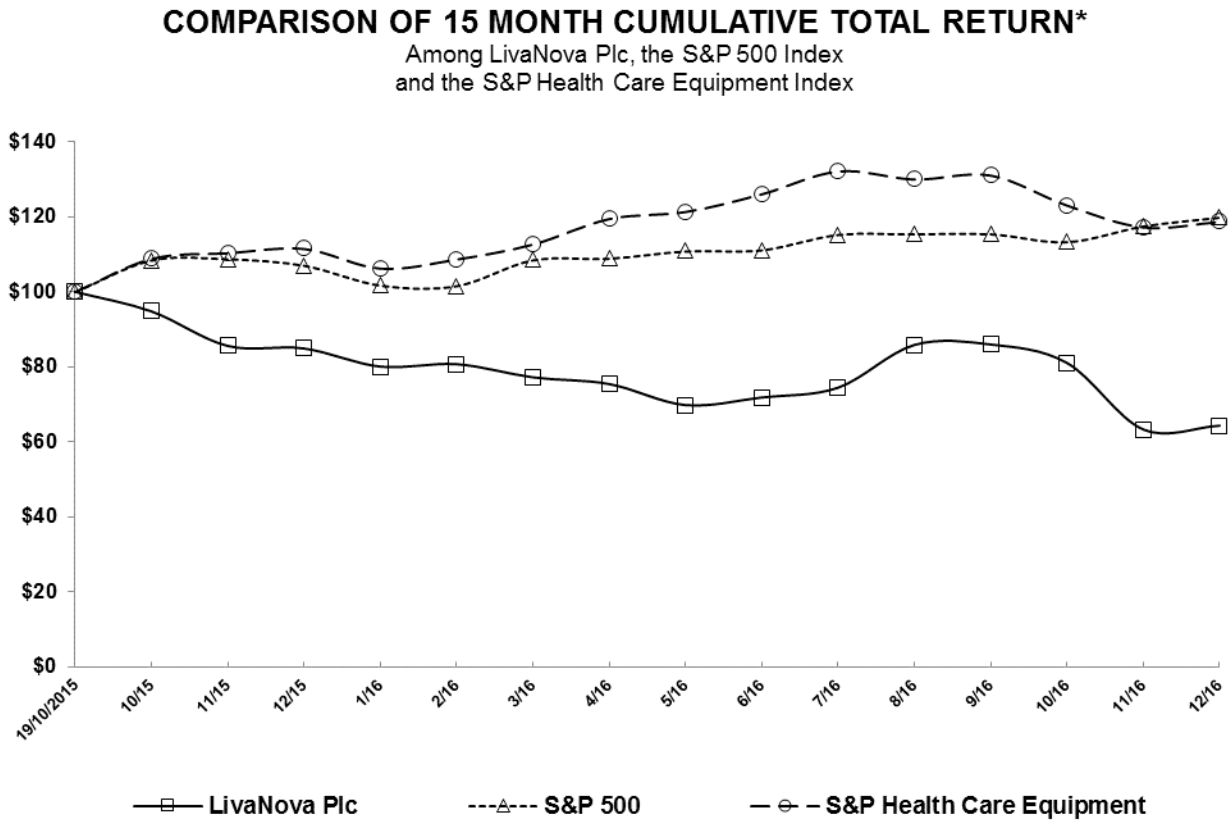
The following table sets out the total amounts spent in the year ended 31 December 2016 and the transitional Period ended 31 December 2015 on remuneration paid to employees and distributions to shareholders. Percentage change is not provided as the Transitional Period in 2015 was not a full year.

$ thousands	Year ended 31 December 2016	Transitional Period ended 31 December 2015	% change
Employee remuneration	460,264	166,162	N/A
Share buybacks	49,987	-	N/A
Dividend	Nil	Nil	

Total shareholder return

Performance graph

The graph below shows the Company's performance measured through total shareholder return on a holding of $100 in the Company's shares between 19 October 2015 and 31 December 2016, compared to the S&P 500 Index and the S&P Healthcare Equipment Index. LivaNova choses these indices as it felt they provided both a broader market benchmark ally with a more proximate industry benchmark.



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

CEO Total Compensation

	Year ended 31 December 2016	2015 Pre-Mergers	2015 Post-Mergers
Total single-figure remuneration (thousands $)	1,968	1,004	8,691
Annual bonus award (as a % of maximum)	53.3	47	107
Vesting of long term performance awards (as a % of maximum)	25	N/A	100

Statement of voting at general meeting

At the 2016 annual general meeting of shareholders held on 15 June 2016, votes on the advisory vote to approve the directors' remuneration report and the binding vote to approve the remuneration policy were as follows:

	For (Number of Votes)	Per cent For (%)	Against (Number of Votes)	Per cent Against (%)	Total Votes Validly Cast	Total Votes Validly Cast as a Percentage of Shares in Issue	Abstentions (Number of Votes)
To approve the directors' remuneration report	34,111,340	91.33	3,191,816	8.54	37,303,156	76.02	44,301
To approve the directors' remuneration policy.	32,806,406	87.84	2,699,096	7.22	35,505,502	72.35	1,842,015

By order of the Board of Directors.

DR. ARTHUR L. ROSENTHAL
CHAIRMAN OF THE COMPENSATION COMMITTEE

2 May 2017

Independent auditors' report to the members of LivaNova PLC

Report on the group financial statements

Our opinion

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

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statements of income and consolidated statements of comprehensive income for the year then ended;
- the consolidated statements of cash flows for the year then ended;
- the consolidated statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

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

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' responsibility statement set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

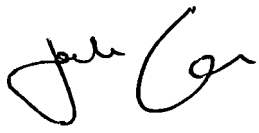
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the parent company financial statements of LivaNova PLC for the year ended 31 December 2016.



Jonathan Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 May 2017

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

TABLE OF CONTENTS

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

	Note	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Revenue	25	$ 1,213,925	$ 415,707
Cost of sales	27	(480,772)	(148,889)
Exceptional items – product remediation	18	(37,534)	—
Gross profit		$ 695,619	$ 266,818
Operating expenses:			
Selling, general and administrative	27	(506,394)	(163,021)
Research and development	27	(134,067)	(50,740)
Operating profit before exceptional items		55,158	53,057
Exceptional items	29	(148,794)	(72,172)
Operating loss		(93,636)	(19,115)
Finance income		1,698	392
Finance expense		(10,616)	(1,509)
Foreign exchange and other - gain (loss)		3,491	(7,522)
Share of loss from equity method investments	10	(22,612)	(3,308)
Loss before tax		$ (121,675)	$ (31,062)
Income tax (benefit)/expense	22	72,931	(2,784)
Loss attributable to owners of the parent		$ (194,606)	$ (28,278)
Basic loss per share	24	$ (3.98)	$ (0.86)
Diluted loss per share	24	$ (3.98)	$ (0.86)
Shares used in computing basic loss per share		48,860	32,741
Shares used in computing diluted loss per share		48,860	32,741

See accompanying notes to the consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Note	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Loss attributable to owners of the parent		$ (194,606)	$ (28,278)
Items of other comprehensive income (loss) that will subsequently be reclassified to profit or loss:			
Cash flow hedges for interest rate fluctuations	14	543	124
Tax impact		(296)	(38)
Cash flow hedges for exchange rate fluctuations	14	3,387	1,150
Tax impact		(903)	(348)
Foreign currency translation differences		(6,964)	(61,769)
Total items of other comprehensive loss that will subsequently be reclassified to profit or loss		(4,233)	(60,881)
Items of other comprehensive income (loss) that will not subsequently be reclassified to profit or loss:			
Remeasurements of net asset for defined benefits		(1,629)	(180)
Tax impact		476	50
Total items of other comprehensive loss that will not subsequently be reclassified to profit or loss		(1,153)	(130)
Total other comprehensive loss, net of taxes		(5,386)	(61,011)
Total comprehensive loss for the period, net of taxes attributable to owners of the parent		$ (199,992)	$ (89,289)

See accompanying notes to the consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In thousands)

	Note	31 December 2016	31 December 2015 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	8	$ 206,529	$ 230,711
Intangible assets	9	572,548	680,244
Goodwill	9	693,175	712,150
Equity investments in associates and joint ventures measured at equity	10	27,315	61,412
Financial assets	11	38,345	18,498
Deferred tax assets	22	86,053	60,665
Other assets		1,579	1,463
Total non-current assets		$ 1,625,544	$ 1,765,143
Inventories	12	$ 183,489	$ 212,596
Trade receivables	13	275,730	249,076
Other receivables	13	21,163	24,301
Financial derivative assets	14	8,269	—
Other financial assets	11	7,094	9,271
Tax assets	22	47,882	28,418
Cash and cash equivalents		39,789	112,613
Assets held for sale		4,477	—
Total current assets		587,893	636,275
Total assets		$ 2,213,437	$ 2,401,418
LIABILITIES AND EQUITY			
Equity			
Share capital		$ 74,578	$ 75,444
Group reconstruction reserve		1,729,764	1,729,764
Share premium		9,684	1,673
Treasury shares		(4,500)	—
Accumulated other comprehensive loss	15	(69,798)	(64,412)
Retained earnings (deficit)		(161,101)	58,178
Total equity		$ 1,578,627	$ 1,800,647
Non-current liabilities			
Financial derivative liabilities	14	$ 1,392	$ 1,793
Financial liabilities	16	75,215	91,810
Other liabilities	17	4,369	6,942
Provisions	18	31,007	16,985
Provision for employee severance indemnities and other employee benefit provisions	21	33,609	32,597
Public grants		3,804	3,918
Deferred income taxes liability	22	168,603	110,061
Total non-current liabilities		$ 317,999	$ 264,106

See accompanying notes to the consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET - (Continued)
(In thousands)

	Note	31 December 2016	31 December 2015 (Restated)
Current liabilities			
Trade payables		$ 89,514	$ 106,258
Other payables	19	105,664	105,718
Financial derivative liabilities	14	942	1,815
Other financial liabilities	16	47,650	82,465
Provisions	18	50,701	13,710
Tax payable		22,340	26,699
Total current liabilities		$ 316,811	$ 336,665
Total liabilities and equity		$ 2,213,437	$ 2,401,418

The financial statements on pages 80 to 156 were approved by the Board of Directors and were signed on its behalf on 2 May 2017 by:

DAMIEN MCDONALD
CHIEF EXECUTIVE OFFICER & DIRECTOR

See accompanying notes to the consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)

	Note	Common / Ordinary Number of Shares	Common / Ordinary Share Capital	Group Reconstruction Reserve	Additional Paid-In Capital/ Share Premium	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Equity
Balance at 24 April 2015		32,055	$ 321	$ —	$ 456,434	$(243,535)	$ (3,401)	$ 71,591	$ 281,410
Share-based compensation plans	20	86	1	—	10,028	—	—	—	10,029
Purchase of common share		—	—	—	—	(7,350)	—	—	(7,350)
Cancellation of Cyberonics shares	6,15	(32,141)	(322)	—	(466,462)	250,885	—	—	(215,899)
Sub-total		—	—	—	—	—	(3,401)	71,591	68,190
Issuance of LivaNova ordinary shares for Cyberonics shares and equity awards	6,15	26,046	40,213	175,686	—	—	—	—	215,899
Issuance of LivaNova ordinary shares for Sorin share and equity awards	6,15	22,673	35,005	1,554,078	—	—	—	—	1,589,083
Tax benefits from share-based compensation plans		—	—	—	—	—	—	2,432	2,432
Share-based compensation plans	20	149	226	—	1,673	—	—	12,433	14,332
Total transactions with owners, recognised directly in shareholders' equity		48,868	75,444	1,729,764	1,673	—	—	14,865	1,821,746
Net loss		—	—	—	—	—	—	(28,278)	(28,278)
Other comprehensive loss	15	—	—	—	—	—	(61,011)	—	(61,011)
Total comprehensive loss for the period		—	—	—	—	—	(61,011)	(28,278)	(89,289)
Balance at 31 December 2015 (Restated)		48,868	75,444	1,729,764	1,673	—	(64,412)	58,178	1,800,647
Share-based compensation plans	20	282	391	—	8,011	—	—	24,057	32,459
Purchase of ordinary shares	15	(993)	(1,257)	—	—	(4,500)	—	(48,730)	(54,487)
Tax benefits from share-based compensation plans		—	—	—	—	—	—	—	—
Total transactions with owners, recognised directly in shareholders' equity		48,157	74,578	1,729,764	9,684	(4,500)	(64,412)	33,505	1,778,619
Net loss		—	—	—	—	—	—	(194,606)	(194,606)
Other comprehensive loss	15	—	—	—	—	—	(5,386)	—	(5,386)
Total comprehensive loss for the period		—	—	—	—	—	(5,386)	(194,606)	(199,992)
Balance at 31 December 2016		48,157	$ 74,578	$ 1,729,764	$ 9,684	$ (4,500)	$ (69,798)	$(161,101)	$ 1,578,627

See accompanying notes to the consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Note	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Cash Flows From Operating Activities:			
Loss for the period		$ (194,606)	$ (28,278)
Non-cash items included in loss:			
Depreciation and amortization	25	88,771	17,092
Share-based compensation	20	27,064	27,387
Deferred income tax expense (benefit)	22	32,199	(31,265)
Impairment of goodwill and other assets	9	72,314	—
Amortization on income taxes payable on intercompany transfers		25,952	12,719
Impairment of intangible assets	9	—	1,689
Impairment of property, plant and equipment		5,971	—
Impairment of available-for-sale	11	—	5,127
Loss from equity method investments		22,612	3,308
Other non-cash items		9,777	4,287
Changes in operating assets and liabilities:			
Accounts receivable, net		(16,448)	(15,850)
Inventories		26,703	36,326
Other current and non-current assets		(32,686)	(8,697)
Restructuring reserve		12,405	(4,720)
Current and non-current liabilities		10,124	(28,413)
Net cash provided by (used in) operating activities		90,152	(9,288)
Cash Flow From Investing Activities:			
Purchase of short-term investments		(7,054)	(13,990)
Maturities of short-term investments		14,051	34,013
Purchase of property, plant and equipment	8	(35,356)	(16,057)
Intangible assets purchases	9	(3,006)	(1,229)
Proceeds from asset sales		1,145	950
Cash obtained in the Merger	6	—	12,495
Investment in cost method equity securities		(8,026)	—
Net cash (used in) provided by investing activities		(38,246)	16,182
Cash Flows From Financing Activities:			
Short-term (repayments) proceeds from borrowing, net		(33,708)	11,112
Proceeds from long-term debt obligations		7,231	—
Repayment of long-term debt obligations		(21,109)	(31,968)
Repayment of trade receivable advances		(23,779)	—
Loans to equity method investees		(6,270)	—
Purchase of treasury shares		(54,487)	(7,350)
Proceeds from exercise of options for shares		8,332	6,480
Cash settlement of compensation-based share units		(2,724)	(708)
Realised excess tax benefits - share-based compensation		2,060	3,050
Other financial assets and liabilities		144	1,257
Net cash used in financing activities		(124,310)	(18,127)
Effect of exchange rate changes on cash and cash equivalents		(420)	(341)
Net decrease in cash and cash equivalents		(72,824)	(11,574)
Cash and cash equivalents at beginning of period		112,613	124,187
Cash and cash equivalents at end of period		$ 39,789	$ 112,613

See accompanying notes to the consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(In thousands)

	Note	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Supplementary Disclosures of Cash Flow Information:			
Cash paid for interest		7,371	815
Cash paid for income taxes		47,808	22,738
Supplementary disclosure of non-cash financing activity:			
Acquisition financed by ordinary shares of LivaNova	6	—	1,589,083

See accompanying notes to the consolidated financial statements

Note 1. Nature of Operations

Company information. LivaNova PLC is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 09451374). The Company is domiciled in the United Kingdom and its registered address is 20 Eastbourne Terrace, London, W2 6LG, 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". On 23 February 2017, we announced our voluntary cancellation of our standard listing of ordinary shares with the London Stock Exchange due to the low volume of our ordinary share trading on the London Stock Exchange. Trading ceased at the close of business on 4 April 2017.

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

Description of the business. LivaNova, is a global medical device company focused on the development and delivery of important therapeutic solutions for the benefit of patients, healthcare professionals, and healthcare systems throughout the world. Working closely with medical professionals throughout the world in the field of Cardiac Surgery, Neuromodulation and Cardiac Rhythm Management, we design, develop, manufacture and sell innovative therapeutic solutions that are consistent with our mission to improve our patients' quality of life, increase the skills and capabilities of healthcare professionals and minimize healthcare costs.

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

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

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

The financial statements for the year ended 31 December 2016 and the transitional period ended 31 December 2015 were prepared in accordance with IFRS. For all periods prior to the transitional period ended 31 December 2015, LivaNova prepared its financial statements in accordance with U.S. generally accepted accounting principles (Local GAAP).

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

Fiscal Year-End. Prior to the Mergers, Cyberonics utilized a 52/53-week fiscal year that ended on the last Friday in April. As a result of the merger, Cyberonics changed to a calendar year ending the 31st of December each year. The change of fiscal year, effective as of 19 October 2015, resulted in a transitional period which began 25 April 2015 and ended 31 December 2015.

Reporting Period. LivaNova, as the successor company to Cyberonics, is reporting the results of operations for Cyberonics for the period 25 April 2015 to 31 December 2015 and the results of operations for Sorin and Cyberonics from 19 October 2015 to 31 December 2015. The year ended 31 December 2016 reports the results of operations for the combined company for the entire year.

Consolidation. The accompanying consolidated financial statements include LivaNova, our wholly owned subsidiaries and the LivaNova PLC Employee Benefit Trust ("the Trust"). All significant intercompany accounts and transactions have been eliminated.

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

Joint Arrangements. Under IFRS 11 Joint Arrangements investments are classified as either joint operations or joint ventures. Interests in joint ventures are accounted for using the equity method of accounting, after initially being recognised at cost in the consolidated balance sheet. LivaNova has joint ventures.

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

Unrealised gains on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

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

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

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

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

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

	Weighted average rate GBP	Closing rate GBP
Year Ended 31 December 2016	0.741130	0.812240
Transitional period 25 April 2015 to 31 December 2015	0.650364	0.678578

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

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

Financial Instruments

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

(a) *Financial assets*

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

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

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

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

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The receivable balance consists of trade receivables from direct customers and distributors and loans issued. We maintain an allowance for doubtful accounts for potential credit losses based on our estimates of the ability of customers to make required payments, historical credit experience, existing economic conditions and expected future trends. We write off uncollectible accounts against the allowance when all reasonable collection efforts have been exhausted. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. The losses arising from impairment are recognised in the statement of profit or loss in cost of sales or other operating expenses for receivables. Refer to "Note 13. Trade Receivables and Allowance for Bad Debt" for further information.

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

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference

between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss is removed from other comprehensive income and recognised in the Consolidated Statements of Income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairments are recognised in other comprehensive income. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of its continuing involvement in it. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

The Company enters into sale of trade receivables through factoring transactions. The trade receivables that are sold without recourse are derecognised only if such sale transfers substantially all risks and rewards associated with owning the receivables, as required by IAS 39. In other cases of non-recourse sales or with-recourse sales, the receivables continue to be recognised within current assets in the consolidated balance sheet, and the advances received for such receivables are recorded as a financial liability. Refer to "Note 13. Trade Receivables and Allowance for Bad Debt" for a detailed description.

(b) *Financial liabilities*

Initial recognition and measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings (bank debt), payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and bank debt including bank overdrafts, and derivative financial instruments.

The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains or losses on liabilities held-for-trading are recognised in the Consolidated Statements of Income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings (bank debt). After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Consolidated Statements of Income when the liabilities are derecognised, as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Consolidated Statements of Income.

Financial guarantee contracts. Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs, because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, and then adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition. A financial liability is derecognised when the obligation under the liability is discharged, canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Consolidated Statements of Income.

Derivative financial instruments and hedge accounting. We use currency exchange rate derivative contracts and interest rate derivative instruments to manage the impact of currency exchange and interest rate changes on the Consolidated Statements of Income and the Consolidated Statement of Cash Flows. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. We evaluate hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in the Consolidated Statements of Income. Cash flows from derivative contracts are reported as operating activities in the Consolidated Statements of Cash Flows.

When a hedging instrument expires, is sold or is terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Statements of Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

In order to minimize income statement and cash flow volatility resulting from currency exchange rate changes, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities and of some revenue. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassed into the Consolidated Statements of Income to offset exchange differences originated by the hedged item or to adjust the value of operating income (expense). We do not enter into currency exchange rate derivative contracts for speculative purposes.

We use interest rate derivative instruments designated as cash flow hedges to manage the exposure to interest rate movements and to reduce the risk of the increase of borrowing costs, by converting floating-rate debt into fixed-rate debt. Under these agreements, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts, calculated by reference to agreed-upon notional principal amounts. The interest rate swaps are structured to mirror the payment terms of the underlying loan. The fair value of the interest rate swaps is reported in the consolidated balance sheets financial assets or liabilities (current or non-current) depending upon the gain or loss position of the contract and the maturity of the future cash flows of the fair value of each contract. The effective portion of the gain or loss on these derivatives is reported as a component of accumulated other comprehensive income (loss). The non-effective portion is reported in interest expense in the consolidated statements of income loss.

Cash and Cash Equivalents. We consider all highly liquid investments with an original maturity of three months or less, consisting of demand deposit accounts and money market mutual funds, to be cash equivalents and are carried in the consolidated balance sheets at cost, which approximate their fair value.

Borrowing costs. General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

Non-monetary assets

Property, Plant and Equipment ("PP&E"). PP&E is carried at cost, less accumulated depreciation and any accumulated impairment losses. Maintenance and repairs, and minor replacements are charged to expense as incurred, while significant renewals and improvements are capitalized. We compute depreciation using the straight-line method over estimated useful lives. Where an item of PP&E comprises several parts with different useful lives, each part is recognised as a separate item and depreciated over its useful life. Useful life and residual value of PP&E are reviewed at each period-end. As necessary, the occurrence of changes to the useful life or residual value is recognised prospectively as a change in accounting estimates.

Leasehold improvements are depreciated over the shorter of the useful life of an asset or the lease term. Capital improvements to the building are added as building components and depreciated over the useful life of the improvement or the building, whichever is less.

We classify long-lived assets as held for sale in the period in which we commit to a plan to sell the asset, the asset is available for immediate sale, the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale of the asset is probable. A long-lived asset classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell and depreciation is discontinued. We recognize a loss for any excess of carrying value over the fair value less cost to sell. See "Note 7. 2015 and 2016 Restructuring Plans" for information regarding our Costa Rica manufacturing facility that was classified as held for sale at 31 December 2016.

The estimated useful lives for all classes of depreciable PP&E except for land and capital investment in process as of 31 December 2016 are as follow:

	Lives in years
Building and building improvements	3 to 50
Equipment, furniture, fixtures	3 to 20
Other	3 to 10

Where there are any internal or external indications that the value of an item of PP&E may be impaired, the recoverable amount of the group of cash generating units (CGUs) to which it belongs is calculated. If the recoverable amount is less than the carrying amount of the group of CGUs, a provision for impairment is recorded.

Intangible Assets. Intangible assets shown on the consolidated balance sheet are finite-lived assets. Developed technology rights consist primarily of existing technology and technical capabilities acquired from Sorin in the Mergers that were recorded at their respective fair values as of the acquisition date which includes patents, related know-how and licensed patent rights that represent assets expected to generate future economic benefits. Trademarks and trade names include Sorin trade names acquired as part of the Mergers. Customer relationships consist of relationships with hospitals and cardiac surgeons in the countries where we operate. Other intangible assets consist of favorable leases acquired from Sorin in the Mergers. We amortize our intangible assets over their useful lives using the straight-line method.

We evaluate our intangible assets each reporting period to determine whether events and circumstances indicate either a different useful life or impairment. If we change our estimate of the useful life of an asset, we amortize the carrying amount over the revised remaining useful life.

Impairment of Intangible Assets and Goodwill. The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Usually, the Company applies the fair value less costs of disposal method for its impairment assessment. In most cases no directly observable market inputs are available to measure the fair value less costs of disposal. Fair value less costs of disposal reflects estimates of assumptions that market participants would be expected to use when pricing the asset or CGU. Goodwill impairment evaluations are highly subjective. In most instances, they involve expectations of future cash flows that reflect our judgments and assumptions regarding future industry conditions and operations. The estimates, judgments and

assumptions used in the application of our goodwill impairment policies reflect both historical experience and an assessment of current operational, industry, market, economic and political environments. Quantitative factors used to determine the fair value of the CGU reflect our best estimates, and we believe they are reasonable. Future declines in the CGU's operating performance or our anticipated business outlook may reduce the estimated fair value of our CGU and result in additional impairments. Factors that could have a negative impact on the fair value of the reporting units include, but are not limited to:

- Decreases in revenue as a result of the inability of our sales force to effectively market and promote our products;
- Increased competition, patent expirations or new technologies or treatments;
- Declines in anticipated growth rates;
- The outcome of litigation, legal proceedings, investigations or other claims resulting in significant cash outflows; and
- Increases in the market-participant risk-adjusted Weighted Average Cost of Capital ("WACC").

Generally, for intangible assets with a definite useful life, the Company uses cash flow projections for the whole useful life of these assets with a terminal value based on cash flow projections usually in line with or lower than inflation rates for later periods.

Discount rates used are based on the Company's estimated weighted average cost of capital adjusted for specific country and currency risks associated with cash flow projections as an approximation of the weighted average cost of capital of a comparable market participant. Due to the above factors, actual cash flows and values could vary significantly from forecasted future cash flows and related values derived using discounting techniques.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Research and Development ("R&D"). Research costs are recognised as an expense for the period in which they are incurred. R&D includes costs of basic research activities as well as engineering and technical effort required to develop a new product or make significant improvement to an existing product or manufacturing process. R&D costs also include regulatory and clinical study expenses, including post-market clinical studies.

Inventories. We state our inventories at the lower of cost, using the first-in first-out ("FIFO"), and net realizable value. Our calculation of cost includes the acquisition cost of raw materials and components, direct labor and overhead. We reduce the carrying value of inventories for those items that are potentially excess, obsolete or slow moving based on changes in customer demand, technology developments or other economic factors.

Revenue Recognition

Product Revenue. We sell our products through a direct sales force and independent distributors. We recognise revenue when significant risks and benefits associated with the products' ownership are transferred, and the amount of revenues can be reliably determined. We estimate expected sales returns based on historical data and record a reduction of sales with a return reserve. We record state and local sales taxes net, that is, we exclude sales tax from revenue.

Service Revenue. Services largely consist of technical assistance services provided to hospitals for the installation, maintenance and support in the operation of heart-lung machines, and autotransfusion systems. Service related revenue is recognised on the basis of progress of the services, when services are rendered, when collectability is probable and when the revenue amount can be reliably measured.

U.S. Medical Device Excise Tax ("MDET"). Section 4191 of the Internal Revenue Code enacted by the Health Care and Education Reconciliation Act of 2010, in conjunction with the Patient Protection and Affordable Care Act, established a 2.3% excise tax on medical devices sold domestically beginning on 1 January 2013 and is suspended from 1 January 2016 through 31 December 2017. We include the cost of MDET in cost of sales on the Consolidated Statements of Income.

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

Defined Benefit Pension Plans and Other Post-Employment Benefits. The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), defined contribution savings plans and termination indemnity plans, covering substantially all U.S. employees and employees outside the United States. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated balance sheet with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date on which the Company recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under 'Cost of sales' and 'Selling, general and administrative' expenses in the Consolidated Statements of Income (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and nonroutine settlements
- Net interest expense or income

Provision for severance indemnity (TFR) is mandatory for Italian companies and is considered:

- a defined benefit plan with respect to amounts vested up to 31 December 2006 and amounts vesting from 1 January 2007 for employees who have chosen to maintain the TFR at the company, for companies with 50 or fewer employees;
- a defined contribution plan with respect to amounts vesting as from 1 January 2007 for employees who have opted for supplementary pensions or who have chosen to maintain the TFR at the company, for companies with more than 50 employees.

As a defined benefit plan, the TFR is measured using the unit credit projection method based on actuarial assumptions (demographic assumptions: mortality, turnover, disability of the population included in the above plan; financial assumptions: discount rate, benefit growth rate, capitalization rate). The increase in the present value of the TFR is included in personnel expense, with the exception of the revaluation of the net liability, which is recorded among items of other comprehensive income. The cost of TFR accrued through 31 December 2006 no longer includes the component related to future salary increases. Payments of TFR, as a defined contribution plan, are also included in personnel expense, and until they are settled financially, they have a balancing entry in the statement of financial position in the form of current payables.

Share-Based Compensation

We grant share-based incentive awards to directors, officers, key employees and consultants during each fiscal year. We measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair market value of the award. The cost of equity-settled transactions is recognised in employee benefits expense, together with

a corresponding increase in equity (in "Additional paid-in-capital" prior to the Mergers and after the Mergers expense in "Retained earnings") over the period in which the service and the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. We issue new shares upon share option exercise, share appreciation right ("SAR") exercise, the award of restricted share and at our election, on vesting of a restricted share unit. The social security contributions on employee share-based payment awards are accrued over the service period.

The following share-based incentive awards are offered by the Company:

- *Share Appreciation Rights.* A share appreciation right ("SAR") confers upon an employee the contractual right to receive an amount of cash, share, or a combination of both that equals the appreciation in the Company's common share from an award's grant date to the exercise date. SARs may be exercised at the employee's discretion during the exercise period and do not give the employee an ownership right in the underlying share. The SARs may be settled in LivaNova shares and/or cash, as determined by LivaNova and as set forth in the individual award agreements. SARs do not involve payment of an exercise price. We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of SARs. We determine the expected volatility on historical volatility.

- *Restricted Share and Restricted Share Units.* We grant restricted share and restricted share units at no purchase cost to the grantee, which typically vest over four years or cliff-vest in one or three years. Unvested restricted share entitles the grantees to dividends, if any, and voting rights for their respective shares. Sale or transfer of the share and share units are restricted until they are vested. We issue new shares for our restricted share and restricted share unit awards. We have the right to elect to pay the cash value of vested restricted share units in lieu of the issuance of new shares. Under our share-based compensation plans we repurchase a portion of these shares from our employees to permit our employees to meet their minimum statutory tax withholding requirements on vesting of their restricted share.

- *Service-Based Restricted Share and Restricted Share Units.* The fair market value of service-based restricted share and restricted share units are determined using the market closing price on the grant date, and compensation is expensed ratably over the vesting period. Calculation of compensation for restricted share awards requires estimation of employee turnover and forfeiture rates.

- *Market and Performance-Based Restricted Share and Performance-Based Restricted Share Units.* We may grant restricted share and restricted share units subject to market or performance conditions that vest based on the satisfaction of the conditions of the award. The fair market values of market condition-based awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilized must be estimated, including the derived service period, which is estimated based on our judgement of likely future performance and our share price volatility. The fair value of performance-based awards is determined using the market closing price on the grant date. Derived service periods and the periods charged with compensation expense for performance-based awards are estimated based on our judgement of likely future performance and may be adjusted in future periods depending on actual performance.

Income Taxes. The tax expense for the period comprises current and deferred tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. The Company is subject to taxation on earnings in several countries under various tax regulations. Calculation of taxes on a global scale requires the use of estimates and assumptions developed based on the information available at the balance sheet date. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes are recognised by the liability method for temporary differences between the carrying amount of assets and liabilities in the consolidated balance sheet and their tax base. They are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Adjustments to deferred taxes resulting from changes in tax rates are recognised in profit or loss. However, when the deferred tax relates to items recognised in equity, the adjustment is also recognised in equity. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. At each period-end, the Company reviews the recoverable value of deferred tax assets of tax entities holding significant loss carryforwards. This value is based, by tax entity, on the strategy for recoverability of the tax loss carryforwards. Deferred taxes are charged or credited directly to equity when the tax relates to items that are recognised directly in equity, such as gains and losses on cash flow hedges and actuarial gains and losses on defined benefit plan obligations. Deferred tax assets and liabilities are set off when they are levied on the same taxable entity (legal entity or tax group) by the same taxation authority and the entity has a legally enforceable right of set off. Deferred taxes are recognised for all temporary differences associated with investments in subsidiaries and associates, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax balances are not discounted.

Leases. We account for leases that transfer substantially all risks and rewards incident to the ownership of property as an acquisition of an asset and the incurrence of an obligation, and we account for all other leases as operating leases. Certain of our leases provide for tenant improvement allowances that have been recorded as deferred rent and amortized, using the straight-line method, over the life of the lease as a reduction to rent expense. In addition, scheduled rent increases and rent holidays are recognised on a straight-line basis over the term of the lease.

Equity. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of LivaNova as treasury share until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of LivaNova.

Provisions and warranties. Provisions for legal claims, service warranties and make good obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

The Company offers a warranty on various products. The Company estimates the costs that may be incurred under warranties and records a liability in the amount of such costs at the time the product is sold. The amount of the reserve recorded is equal to the net costs to repair or otherwise satisfy the claim. The warranty obligation is included in accrued liabilities on the consolidated balance sheet. Warranty expense is recorded to Cost of sales in the Consolidated Statements of Income.

Contingencies. The Company is subject to product liability claims, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in Selling, general and administrative expenses in the Consolidated Statements of Income. Contingent accruals are recorded when the Company determines that a loss is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgement regarding future events.

Earnings Per Share. Basic earnings (loss) per share (EPS) is calculated by dividing the profit (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted

average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Refer to "Note 24. Earnings per Share" for additional information.

Segments. Prior to the Mergers we had one operating and reportable segment. Upon completion of the Mergers, we reorganized our reporting structure and aligned our segments and the underlying divisions and businesses. We currently function in three operating segments; the historical Cyberonics operations are included in the Neuromodulation segment, and the historical Sorin businesses are included in the Cardiac Surgery and the Cardiac Rhythm Management segments.

The Company's chief operating decision maker ("CODM") is the Chief Executive Officer ("CEO") supported as necessary by the remaining members of the executive leadership team. The CODM assesses performance and allocates resources at the business unit level which includes Neuromodulation, Cardiac Rhythm Management, and Cardiac Surgery. Refer to "Note 25. Geographic and Segment Information" for additional information.

Critical Estimates and Judgements. The preparation of our consolidated financial statements in conformity with IFRS requires management to make estimates and judgements that affect the amounts reported in such financial statements and accompanying notes. These estimates and judgements are based on management's best knowledge of current events and actions we may undertake in the future. Actual results could differ materially from those estimates. Application of the following accounting policies requires certain judgements and estimates that have the potential for the most significant impact on our consolidated financial statements:

- *Impairment of non-financial assets.* An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budgets and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

- *Commitments and Contingencies.* A number of LivaNova subsidiaries are involved in various government investigations and legal proceedings (product liability, commercial, employment, environmental claims, etc.) arising out of the normal conduct of their businesses. For more information, see "Note 23. *Commitments and Contingencies.*" We record accruals for contingencies when it is probable that a liability has been incurred and the amount can be reliably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. Expected legal defense costs are accrued when the amount can be reliably estimated. Provisions relating to estimated future expenditure for liabilities do not usually reflect any insurance or other claims or recoveries, since these are only recognized as assets when the amount is reasonably estimable and collection is virtually certain.

- *Retirement and Other Post-Employment Benefit Plans.* We sponsor pension and other post-employment benefit plans in various forms that cover a significant portion of our current and former associates. For post-employment plans with defined benefit obligations, we are required to make significant assumptions and estimates about future events in calculating the expense and the present value of the liability related to these plans. These include assumptions about the interest rates we apply to estimate future defined benefit obligations and net periodic pension expense as well as rates of future pension increases. In addition, our actuarial consultants provide our management with historical statistical information, such as withdrawal and mortality rates in connection with these estimates. Assumptions and estimates used by the Company may differ materially from the actual results we experience due to changing market and economic conditions, higher or lower withdrawal rates, and longer or shorter life spans of participants among other factors. For more information on obligations under retirement and other post-employment benefit plans and underlying actuarial assumptions, see "Note 21. Employee Retirement Plans."

- *Research & Development.* Internal Research & Development costs are fully charged to the consolidated income statement in the period in which they are incurred. We consider that regulatory and other uncertainties inherent in the development of new products preclude the capitalization of internal development expenses as an intangible asset usually until marketing approval from the regulatory authority is obtained in a relevant market.

- *Taxes.* We prepare and file our tax returns based on an interpretation of tax laws and regulations, and record estimates based on these judgements and interpretations. Our tax returns are subject to examination by the competent taxing authorities, which may result in an assessment being made requiring payments of additional tax, interest or penalties. Inherent uncertainties exist in our estimates of our tax positions. We believe that our estimated amounts for current and deferred tax assets or liabilities, including any amounts related to any uncertain tax positions, are appropriate based on currently known facts and circumstances.

- *Impairment of available-for-sale financial (AFS).* The fair value of financial instruments classified as available-for-sale that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. During the transitional period 25 April 2015 to 31 December 2015 the Company made a significant judgement about the impairment of an investment in Cerbomed GmbH, see "Note 11. Financial Assets." To determine if an available-for-sale financial asset is impaired, the Company evaluates the duration and extent to which the fair value of the asset is less than its cost, and the financial health of and short-term business outlook for the investee (including factors such as industry performance, changes in technology and operational and financing cash flows).

- *Share-based payments.* Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.

- *Exceptional items.* Exceptional items are expense or income items recorded in a period which have been determined by management as being material by their size or incidence and are presented separately within the results of the group. The determination of which items are disclosed as exceptional items will affect the presentation of profit measures and requires a degree of judgement. Details relating to exceptional items reported during the period are set out in "Note 29. Exceptional items".

Note 3. Financial Risk Management

Management of financial risk

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

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

Liquidity Risk

Liquidity risk results from the Company's inability to meet its financial liabilities. LivaNova follows a financing policy that is aimed towards a balanced financing portfolio, a diversified maturity profile and a comfortable liquidity cushion. LivaNova mitigates liquidity risk by the implementation of an effective working capital and centralized cash management and arranged credit facilities with highly rated financial institutions. In addition, LivaNova constantly monitors funding options available in the capital markets, as well as trends in the availability and costs of such funding, with a view to maintaining financial flexibility and limiting repayment risks.

The following tables reflect the undiscounted cash outflows related to settlement and repayments, of the Company's financial liabilities at a balance sheet date. The disclosed expected undiscounted net cash outflows from derivative financial liabilities are determined based on each particular settlement date of an instrument and based on the earliest date on which LivaNova could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the conditions existing at the respective balance sheet date.

Contractual undiscounted cash outflows were as follows (in thousands):

	31 December 2016				
	DUE WITHIN 1 YEAR	1-2 YEARS	2-5 YEARS	OVER 5 YEARS	TOTAL
Non-derivative financial instruments					
Trade payables	$ 89,514	$ —	$ —	$ —	$ 89,514
Public grants	—	3,804	—	—	3,804
Financial liabilities	21,301	21,814	50,767	2,634	96,516
Total	110,815	25,618	50,767	2,634	189,834
Financial derivative liabilities					
- on rate risk	942	699	693	—	2,334
Total	$ 942	$ 699	$ 693	$ —	$ 2,334

	31 December 2015				
	DUE WITHIN 1 YEAR	1-2 YEARS	2-5 YEARS	OVER 5 YEARS	TOTAL
Non-derivative financial instruments					
Trade payables	$ 106,258	$ —	$ —	$ —	$ 106,258
Public grants	—	3,918	—	—	3,918
Financial liabilities	21,243	20,872	60,908	10,030	113,053
Total	127,501	24,790	60,908	10,030	223,229
Financial derivative liabilities					
- on exchange risk	1,107	—	—	—	1,107
- on rate risk	708	865	918	10	2,501
Total	$ 1,815	$ 865	$ 918	$ 10	$ 3,608

Foreign Currency Exchange Rate Risk

Foreign exchange risk is the risk that reported financial performance of the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. LivaNova operates in many countries and currencies and therefore currency fluctuations may impact LivaNova's financial results. In the ordinary course of business LivaNova is exposed to foreign currency exchange rate fluctuations, particularly between the U. S. dollar, Euro, Pound Sterling and Japanese Yen. LivaNova is exposed to currency risk in the following areas:

- Transaction exposures, related to anticipated sales and purchases and on-balance-sheet receivables/ payables resulting from such transactions
- Translation exposure of foreign-currency intercompany and external debt
- Translation exposure of net income in foreign entities
- Translation exposure of foreign-currency denominated equity invested in consolidated companies

It is LivaNova's policy to reduce the potential year on year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases. Intercompany financing or investments of operating units are preferably carried out in their functional currency or on a hedged basis. Additionally, foreign currency exchange rate exposure is partly balanced by purchasing of goods, commodities and services in the respective currencies, as well as production activities in the local markets. LivaNova's operating units are prohibited from borrowing or investing in foreign currencies on a speculative basis. The target is to keep up to 12 to 15 months of consolidated EBITDA, denominated in material currencies, hedged against USD, LivaNova's reporting currency. At 31 December 2016, cash flow hedge is carried out for FX net risk positions denominated in Japanese Yen and in Pound Sterling.

Based on our exposure to foreign currency exchange rate risk, a sensitivity analysis indicates that if the U.S. dollar had uniformly strengthened by 10% against the Pound Sterling and the Japanese Yen, in the year ended at 31 December 2016, the effect on our unrealised income, for our derivatives outstanding at 31 December 2016, would have been approximately $5.4 million; if the U.S. Dollar had uniformly weakened by 10% against the same currencies, the effect on our unrealized expenses for our derivatives outstanding at 31 December 2016 would have been approximately $6.6 million. We did not engage in derivative contracts prior to the Mergers.

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

With regard to financial instruments denominated in currencies other than the currency of account of the companies holding them, the currencies involving the greatest exposure are the U. S. dollar, Euro, Pound Sterling and Japanese Yen as indicated below (in thousands):

	31 December 2016					
	EUR	USD	JPY	GBP	OTHER	TOTAL
Assets						
Cash and cash equivalents denominated in foreign currency	$ 282	$ 7,888	$ 3,655	$ 946	$ 4,191	$ 16,962
Trade receivables and other assets denominated in foreign currency	548	24,940	5,325	(76)	5,205	35,942
Other assets denominated in foreign currency	—	318	—	314	10	642
Total assets	**830**	**33,146**	**8,980**	**1,184**	**9,406**	**53,546**
Liabilities						
Trade payables denominated in foreign currency	1	6,639	225	583	212	7,660
Financial liabilities denominated in foreign currency	79,038	71	—	39	—	79,148
Other liabilities denominated in foreign currency	72	316	—	2,899	233	3,520
Total liabilities	**79,111**	**7,026**	**225**	**3,521**	**445**	**90,328**
Net exposure	**(78,281)**	**26,120**	**8,755**	**(2,337)**	**8,961**	**(36,782)**
Financial derivative assets						
- not for hedging[1]	725	2,537	307	5	—	3,574
- for hedging	—	—	4,186	725	(216)	4,695
Total	**725**	**2,537**	**4,493**	**730**	**(216)**	**8,269**
Total net exposure	**$ 725**	**$ 2,537**	**$ 4,493**	**$ 730**	**$ (216)**	**$ 8,269**

(1) For hedging transactions that do not meet the requirements for hedge accounting.

	31 December 2015					
	EUR	USD	JPY	GBP	OTHER	TOTAL
Assets						
Cash and cash equivalents denominated in foreign currency	$ 85	$ 4,264	$ 806	$ 3,247	$ 809	$ 9,211
Trade receivables and other assets denominated in foreign currency	372	31,450	1,182	1,027	8,537	42,568
Total assets	**457**	**35,714**	**1,988**	**4,274**	**9,346**	**51,779**
Liabilities						
Trade payables denominated in foreign currency	128	36,175	1,097	4,522	1,108	43,030
Financial liabilities denominated in foreign currency	—	213	—	—	28	241
Total liabilities	**128**	**36,388**	**1,097**	**4,522**	**1,136**	**43,271**
Net exposure	**329**	**(674)**	**891**	**(248)**	**8,210**	**8,508**
Financial derivative liabilities						
- not for hedging[1]	—	—	(147)	(567)	603	(111)
Total	**—**	**—**	**(147)**	**(567)**	**603**	**(111)**
Total net exposure	**$ —**	**$ —**	**$ 147**	**$ 567**	**$ (603)**	**$ 111**

(1) For hedging transactions that do not meet the requirements for hedge accounting.

Interest Rate Risk

The Company's main interest rate risk arises from long-term debt with variable rates, which expose the Company to cash flow interest rate risk. LivaNova's policy is to hedge, case by case, medium-long term loans from a floating to a fixed rate, to avoid the impact on net earnings of any potential increase of interest rates. During the year ended 31 December 2016, the Company's debt at variable rates was mainly denominated in Euro and in U.S. dollar.

As at 31 December 2016, LivaNova Group had no outstanding financing denominated in USD, except for a local credit facility in favor of LivaNova Columbia for an amount of $750,000.

We manage a portion of our interest rate risk with contracts that swap floating-rate interest payments for fixed rate interest payments.

As at 31 December 2016 and 31 December 2015, the Company had outstanding derivative contracts to hedge against the risk of interest rate fluctuations in a notional amount of $63.2 million and $79.6 million, equal to about 51% and 57% of consolidated financial liabilities as at 31 December 2016 and 31 December 2015, respectively.

As at 31 December 2016, if interest rates on Euro-denominated debt had been 10 basis points higher or lower with all other variables held constant, the calculated post-tax profit for the period would have been approximately $32 thousand lower or higher, mainly as a result of higher or lower interest expense on floating rate debt; other components of equity would have been $138 thousand lower or higher mainly as a result of a decrease or increase in the fair value of fixed rate interest rate swaps (derivatives designated for hedge accounting).

The following assumptions were used for the sensitivity analysis as at 31 December 2016:

- Interest-bearing assets: change of +0.25% - 0.05% in short-term rates at 31 December;
- Unhedged financial liabilities: change of +0.50% - 0.05% in the rate curve at 31 December relative to euro rates;
- Hedged financial liabilities: change of +0.50% - 0.05% in the rate curve at 31 December relative to euro and US dollar rates.

Credit Risk

Our trade receivables represent potential concentrations of credit risk. This risk is limited due to the large number of customers and their dispersion across a number of geographic areas, as well as our efforts to control our exposure to credit risk by monitoring our receivables, the use of credit approvals and credit limits. Refer to "Note 13. Trade Receivables and Allowance for Bad Debt" for more details. In addition, we have historically had strong collections and minimal write-offs. While we believe that our reserves for credit losses are adequate, essentially all of our trade receivables are concentrated in the hospital and healthcare sectors worldwide, and accordingly, we are exposed to their respective business, economic and country-specific variables. Although we do not currently foresee a concentrated credit risk associated with these receivables, repayment is dependent on the financial stability of these industry sectors and the respective countries' national economies and healthcare systems.

The maximum theoretical credit risk exposure for LivaNova is an aggregate carrying amount of financial assets at each reporting period date (in thousands):

	31 December 2016	31 December 2015 (Restated)
Financial assets	$ 38,345	$ 18,498
Other assets	1,540	1,381
Trade receivables	275,730	249,076
Other receivables	17,296	15,230
Other financial assets	7,094	8,533
Cash and cash equivalents	39,789	112,613
Guarantees	48,939	42,051
Total	**$ 428,733**	**$ 447,382**

The risk related to bank accounts, financial assets and assets for financial derivatives is limited since all bank and financial counterparties have a high rating.

The guarantees issued by LivaNova are primarily due to regulatory requirements (security issued to credit institutions to back guarantees issued by them for competitive bidding procedures and guarantees to the tax administration for the VAT tax consolidation scheme), and thus, the related risk is remote as also seen on a historical basis.

Since LivaNova operates in the medical technology sector, there is not a significant risk of customer insolvency, a significant portion of which is related to government agencies, but they are subject to the risk related to cash requirements due to the high level of trade receivables owing to average collection periods (D.S.O. - days of sales outstanding) and the ageing of these receivables.

Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum investment grade credit rating are accepted.

For customers, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external information in accordance with limits set by the Company's Treasury Group. The compliance with and authorization of credit limits by customers is regularly monitored by line management. Additionally, the Company established a Bad Debt Policy, which provides the methodology to be used to calculate an addition to the provision for uncollectible receivables for past-due receivables for each LivaNova entity and the ageing of each receivable.

Changes in provisions for uncollectible receivables are explained in "Note 13. Trade Receivables and Allowance for Bad Debt."

For the purposes of disclosing the credit risk to which LivaNova is exposed, below is a breakdown of trade receivables by due dates (in thousands):

	31 December 2016	31 December 2015 (Restated)
Trade receivables		
Performing	$ 206,286	$ 184,023
Less than 30 days past due	28,148	24,282
31-120 days past due	21,227	19,429
121-365 days past due	13,320	12,656
366-730 days past due	4,344	6,600
Over 730 days past due	2,405	2,086
Total	**$ 275,730**	**$ 249,076**

Trade receivables that are past due were $69.4 million and $65.1 million at 31 December 2016 and 31 December 2015, respectively. Of this amount 24.6% and 24.6% at 31 December 2016 and 31 December 2015, respectively, are receivables from certain government hospitals that pay their suppliers in 1-2 years on average, and the remaining are receivables from private customers, clinics and distributors, most of which have agreed to repayment plans through the renegotiation of payment terms.

Trade receivables that are not past due and not written down were $206.3 million and $184.0 million at 31 December 2016 and 31 December 2015, respectively. Of this amount, 16.2% and 13.1% at 31 December 2016 and 31 December 2015, respectively, were the receivables from government as indicated in the following table (in thousands):

	31 December 2016			31 December 2015 (Restated)		
	TOTAL	PERFORMING	PAST DUE	TOTAL	PERFORMING	PAST DUE
BY SECTOR						
Public	$ 50,542	$ 33,451	$ 17,091	$ 39,484	$ 24,106	$ 15,378
Private	225,188	172,835	52,353	209,592	159,917	49,675
Total	$ 275,730	$ 206,286	$ 69,444	$ 249,076	$ 184,023	$ 65,053

Concentrations of risk by region are provided below to further assess the risk related to the trade receivables (in thousands except D.S.O.):

	31 December 2016				31 December 2015 (Restated)			
	D.S.O.	TOTAL	PERFORMING	PAST DUE	D.S.O.	TOTAL	PERFORMING	PAST DUE
BY REGION								
Italy	161	$ 34,473	$ 19,278	$ 15,195	118	$ 25,537	$ 15,876	$ 9,661
Spain	122	13,573	9,002	4,571	165	16,996	8,952	8,044
France	59	22,230	18,262	3,968	62	22,645	20,081	2,564
Germany	27	3,510	3,273	237	17	3,927	3,336	591
Rest of Europe	64	23,160	15,881	7,279	70	23,039	15,992	7,047
North America	57	84,419	70,553	13,866	46	65,347	54,548	10,799
Japan	78	15,872	16,029	(157)	61	10,891	10,891	—
Rest of world	139	78,493	54,008	24,485	143	80,694	54,347	26,347
Total	80	$ 275,730	$ 206,286	$ 69,444	73	$ 249,076	$ 184,023	$ 65,053

Revenues are derived from a large number of customers with no customers being individually material.

The average collection period increased from 73 days at 31 December 2015 to 80 days at 31 December 2016.

The D.S.O. (days of sales outstanding), or average collection period, is calculated as the ratio of total receivables at the end of the period to revenues generated in the 12 preceding months.

D.S.O. = (Trade receivables/Revenues) * 365

For comparability the revenue amounts include VAT.

For the purposes of the disclosure of credit risk, there were no past-due balances of a significant amount related to other assets, other receivables and financial assets.

Capital management

LivaNova maintains a sufficient amount of capital to meet its development needs, fund the business units' operations and ensure the Company continues to be a going concern. The equilibrium of sources of funding, which is also aimed at minimising overall capital costs, is achieved by balancing risk capital contributed on a permanent basis by shareholders, and debt capital, which is in turn diversified and structured with several due dates and in many currencies. To this end, changes in debt levels in relation to both equity and operating profit, and the generation of cash by the business units are constantly kept under control.

Note 4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability, based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels defined as follows:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs are unobservable for the asset or liability

No assets or liabilities are classified as Level 1. Financial assets and liabilities that are classified as Level 2 include derivative instruments, primarily forward and option currency contracts and interest rate swaps contracts, which are valued using standard calculations and models that use readily observable market data as their basis.

Level 3 includes a contingent payment recognised as a result of acquisition of Cellplex Pty Ltd. and investments in non-listed companies classified as AFS.

Assets and Liabilities That Are Measured at Fair Value on a Recurring Basis

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	Fair Value as at 31 December 2016	Fair Value Measurements Using Inputs Considered as:		
		Level 1	Level 2	Level 3
Assets:				
Available-for-sale investments	$ 33,777	$ —	$ —	$ 33,777
Assets held for sale	4,477	—	—	4,477
Derivative Assets – for hedging (exchange rates)	4,911	—	4,911	—
Derivative Assets – not for hedging (exchange rates)	3,358	—	3,358	—
Total assets	$ 46,523	$ —	$ 8,269	$ 38,254
Liabilities:				
Derivative Liabilities – for hedging (interest rates)	$ 2,334	$ —	$ 2,334	$ —
Derivative Liabilities – not for hedging (interest rates)	—	—	—	—
Derivative Liabilities – not for hedging (exchange rates)	—	—	—	—
Earnout for contingent payments[1]	3,890	—	—	3,890
Total Liabilities	$ 6,224	$ —	$ 2,334	$ 3,890

(1) This contingent payment arose as a result of the acquisition of Cellplex Pty Ltd. in September 2015 and was valued using the Black Scholes method at the date of the Mergers.

	Fair Value as at 31 December 2015	Fair Value Measurements Using Inputs Considered as:		
		Level 1	Level 2	Level 3
Assets:				
Available-for-sale investments	$ 15,847	$ —	$ —	$ 15,847
Derivative Assets – for hedging (exchange rates)	839	—	839	—
Total assets	$ 16,686	$ —	$ 839	$ 15,847
Liabilities:				
Derivative Liabilities – for hedging (interest rates)	$ 2,876	$ —	$ 2,876	$ —
Derivative Liabilities – not for hedging (interest rates)	24	—	24	—
Derivative Liabilities – not for hedging (exchange rates)	1,547	—	1,547	—
Earnout for contingent payments[1]	3,457	—	—	3,457
Total Liabilities	$ 7,904	$ —	$ 4,447	$ 3,457

(1) This contingent payment arose as a result of the acquisition of Cellplex Pty Ltd. in September 2015 and was valued using the Black Scholes method at the date of the Mergers.

Level 2

To measure the fair value of its derivative transactions (transactions to hedge exchange risk and interest rate risk), we calculate the mark-to-market of each transaction using prices quoted in active markets (e.g. the spot exchange rate of a currency for forward exchange transactions) and observable market inputs processed for the measurement (e.g. the fair value of an interest rate swap using the interest rate curve), or the measurement of an exchange rate option (with the processing of listed prices and observable variables such as volatility).

For all level 2 valuations, we use the information provided by a third-party as a source for obtaining quoted observable prices and to process market variables. In particular, we use the following techniques to calculate the fair value of derivatives:

- For forward exchange rate transactions, fair value is calculated using the forward market exchange rate on the reporting date for each contract. The difference calculated between this amount and the contractual forward rate is discounted (present value) to the same reporting date;
- For interest rate swaps, the fair value is calculated taking into account the present value of interest flows calculated on the notional amount of each contract using the forward interest rate curve applicable on the reporting date.

The derivative valuation models incorporate the credit quality of counterparties, adjustments for counterparties' credit risk and the Company's own non-performance risk.

Level 3

AFS financial assets consist of investments in equity shares and convertible preferred shares of privately held companies for which there are no quoted market prices. During the transitional period 25 April 2015 to 31 December 2015 it was determined that the fair value of the investment in Cerbomed GmbH was below its carrying value and that the carrying values of this investment was not expected to be recoverable within a reasonable period of time. As a result, an impairment charge of $5.1 million was recognised during the transitional period ended 31 December 2015. The fair value of the other investments in equity shares approximated their carrying value as at 31 December 2016 and 31 December 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 acquisition of Cellplex Pty Ltd., a contingent payment was recorded and valued using the Black-Scholes model at the acquisition date.

Transfers

We review the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. Our policy is to recognise transfers into and out of levels within the fair value hierarchy at the end of the fiscal quarter in which the actual event or change in circumstances that caused the transfer occurs. There were no transfers between Level 1, Level 2 or Level 3 during the periods ended 31 December 2016 and 31 December 2015. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value.

Assets and Liabilities that are Measured at Fair Value on a Non-recurring Basis

Non-financial assets such as investments in 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 year ended 31 December 2016, we recorded a $9.2 million impairment of our equity-method investment in Respicardia, Inc. Refer to "Note 4. Fair Value Measurements" for further information. This impairment is included in share of loss from equity method investments in the Consolidated Statement of Income. In addition, during the year ended 31 December 2016, we recorded an impairment of approximately $5.7 million, for our Costa Rica manufacturing plant and equipment. These impairments were triggered by our plan to transfer manufacturing to Houston, Texas from Costa Rica. Refer to "Note 8. Property Plant and Equipment" for further information. These impairments are included in Exceptional Items in the Consolidated Statement of Income.

During the transitional period 25 April 2015 to 31 December 2015 we fully impaired certain finite-lived intangible assets and PP&E for a loss of $0.4 million and $0.6 million, respectively, which was primarily related to R&D projects that no longer factored into our future product plans.

During the transitional period 25 April 2015 to 31 December 2015, we fully impaired finite-lived intangible assets primarily related to R&D projects, such as our rechargeable battery technology, that no longer factored into our future product plans, for a loss of $1.7 million. We estimated the fair value of the intangible assets utilizing a discounted future cash flow analysis, which we classified as a Level 3 within the fair value hierarchy. Refer to "Note 9. Goodwill and Intangible Assets" for further details.

Financial Instruments Not Measured at Fair Value

The carrying values of our cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these items.

The balance of our investments in short-term securities as of 31 December 2015 consisted of commercial paper carried at amortized cost which approximated its fair value. There were no short-term securities as at 31 December 2016. Refer to "Note 11. Financial Assets" for further details.

The carrying value of our long and short-term debt as of 31 December 2016 and 31 December 2015 was $122.9 million and $174.3 million, respectively which we believe approximates fair value.

Note 5. Financial Instruments

The Company uses several instruments to fund its operating activities including short and long-term debt from credit institutions and other lenders and short-term bank loans. The Company's other financial instruments consist of trade payables and receivables resulting from operating activities, investments in other companies, assets and liabilities for financial derivatives (primarily interest rate swaps and forward foreign currency contracts) and other receivables and payables other than those related to staff, tax authorities and welfare agencies.

Classification of financial instruments

With regard to classification of financial instruments on the basis of the types as specified in IAS 39, the following should be noted:

- Assets and liabilities for financial derivatives related to contracts entered into to mitigate exchange risk on imports and exports are classified under "Hedging derivatives" when they meet the requirements for being recognised as hedge accounting instruments, and under "Financial assets/liabilities at fair value through profit or loss" when these requirements are not met.
- Assets and liabilities for financial derivatives related to contracts entered into to mitigate interest rate risk are classified under "Hedging derivatives" when they meet the requirements for being recognised as hedge accounting instruments, and under "Financial assets/liabilities at fair value through profit or loss" when these requirements are not met.
- Trade receivables also include those sold to third parties under factoring agreements that do not meet the conditions of IAS 39 for their derecognition from the financial statements. To reflect these sales, payables are recorded for advances received that fall into the category of "Financial liabilities at amortised cost". There were no factoring agreements as at 31 December 2016.

Classification of financial instruments at 31 December 2016

	CLASSIFICATION						CARRYING AMOUNT			
(in thousands)	**FINANCIAL ASSETS/ LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**	**RECEIVABLES AND LOANS**	**FINANCIAL ASSETS HELD TO MATURITY**	**AVAILABLE-FOR-SALE FINANCIAL ASSETS**	**FINANCIAL LIABILITIES AT AMORTISED COST**	**HEDGING DERIVATIVES**	**TOTAL**	**CURRENT PORTION**	**NON-CURRENT PORTION**	***FAIR VALUE***
Assets										
Financial assets	$ —	$ 2,031	$ 2,537	$ 33,777	$ —	$ —	$ 38,345	$ —	$ 38,345	$ 38,345
Other assets	—	1,579	—	—	—	—	1,579	—	1,579	1,579
Trade receivables	—	275,730	—	—	—	—	275,730	275,730	—	275,730
Other receivables	—	21,011	—	—	—	—	21,011	21,011	—	21,011
Financial derivative assets	3,358	—	—	—	—	4,911	8,269	8,269	—	8,269
Other financial assets	—	7,094	—	—	—	—	7,094	7,094	—	7,094
Cash and cash equivalents	—	39,789	—	—	—	—	39,789	39,789	—	39,789
Total financial assets	**$ 3,358**	**$ 347,234**	**$ 2,537**	**$ 33,777**	**$ —**	**$ 4,911**	**$391,817**	**$351,893**	**$ 39,924**	**$391,817**
Liabilities										
Financial liabilities	$ —	$ —	$ —	$ —	$ 96,516	$ —	$ 96,516	$ 21,301	$ 75,215	$ 96,516
Other liabilities	—	—	—	—	3,285	—	3,285	—	3,285	3,285
Trade payables	—	—	—	—	89,514	—	89,514	89,514	—	89,514
Other payables	—	—	—	—	27,362	—	27,362	27,362	—	27,362
Financial derivative liabilities	—	—	—	—	—	2,334	2,334	942	1,392	2,334
Other financial liabilities	—	—	—	—	26,349	—	26,349	26,349	—	26,349
Total financial liabilities	**$ —**	**$ —**	**$ —**	**$ —**	**$ 243,026**	**$ 2,334**	**$245,360**	**$165,468**	**$ 79,892**	**$245,360**

Classification of financial instruments at 31 December 2015 (Restated)

	CLASSIFICATION						CARRYING AMOUNT			
(in thousands)	FINANCIAL ASSETS/ LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	RECEIVABLES AND LOANS	FINANCIAL ASSETS HELD TO MATURITY	AVAILABLE-FOR-SALE FINANCIAL ASSETS	FINANCIAL LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVES	TOTAL	CURRENT PORTION	NON-CURRENT PORTION	*FAIR VALUE*
Assets										
Financial assets	$ —	$ 874	$ 1,777	$ 15,847	$ —	$ —	$ 18,498	$ —	$ 18,498	$ 18,498
Other assets	—	1,463	—	—	—	—	1,463	—	1,463	1,463
Trade receivables	—	249,076	—	—	—	—	249,076	249,076	—	249,076
Other receivables	—	24,179	—	—	—	—	24,179	24,179	—	24,179
Other financial assets	—	9,271	—	—	—	—	9,271	9,271	—	9,271
Cash and cash equivalents	—	112,613	—	—	—	—	112,613	112,613	—	112,613
Total financial assets	**$ —**	**$ 397,476**	**$ 1,777**	**$ 15,847**	**$ —**	**$ —**	**$415,100**	**$395,139**	**$ 19,961**	**$415,100**
Liabilities										
Financial liabilities	$ —	$ —	$ —	$ —	$ 113,053	$ —	$113,053	$ 21,243	$ 91,810	$113,053
Other liabilities	—	—	—	—	5,763	—	5,763	—	5,763	5,763
Trade payables	—	—	—	—	106,258	—	106,258	106,258	—	106,258
Other payables	—	—	—	—	45,865	—	45,865	45,865	—	45,865
Financial derivative liabilities	1,571	—	—	—	—	2,037	3,608	1,815	1,793	3,608
Other financial liabilities	—	—	—	—	62,439	—	62,439	62,439	—	62,439
Total financial liabilities	**$ 1,571**	**$ —**	**$ —**	**$ —**	**$ 333,378**	**$ 2,037**	**$336,986**	**$237,620**	**$ 99,366**	**$336,986**

Note 6. Business Combinations

On 19 October 2015, and pursuant to the terms of the Merger Agreement, Sorin merged with and into LivaNova, with LivaNova continuing as the surviving company, immediately followed by the merger of Merger Sub with and into Cyberonics, with Cyberonics continuing as the surviving company and as a wholly owned subsidiary of LivaNova. Following the completion of the Mergers, LivaNova became the holding company of the combined businesses of Cyberonics and Sorin, and LivaNova's ordinary shares were listed under the ticker symbol "LIVN", on NASDAQ and admitted for listing on the standard segment of the U.K. Financial Authority's Official List and to trading on the LSE. As a result of the Mergers on 19 October 2015, LivaNova issued approximately 48.8 million ordinary shares. On 23 February 2017, we announced our voluntary cancellation of our standard listing of ordinary shares with the London Stock Exchange due to the low volume of our ordinary share trading on the London Stock Exchange. Trading ceased at the close of business on 4 April 2017.

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 following table summarises the fair value of consideration transferred and 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	$ 1,589,083		$ 1,589,083
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	(84)	60,590
Property, plant and equipment	192,503	(1,121)	191,382
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	(121,234)	14,283
Total assets acquired	$ 1,637,894	(123,839)	$ 1,514,055
Short-term debt	$ 110,601	—	$ 110,601
Other current liabilities	237,855	830	238,685
Long-term debt	128,458	—	128,458
Deferred tax liabilities	278,940	(148,640)	130,300
Other long-term liabilities	57,674	—	57,674
Total liabilities assumed	813,528	(147,810)	665,718
Goodwill	$ 764,717	(23,971)	$ 740,746

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. As a consequence of such push-down, deferred income taxes were presented on a net basis by jurisdiction. due to the fair value measurement period adjustments the consolidated net assets at 31 December 2015 have been restated by $9.2 million and the 2015 consolidated loss attributable to owners of the parent by $0.8 million. Where a comparative disclosure has been restated as a result of the change in fair value measurement 'restated' has been included in the column header.

Goodwill was calculated as the excess of the consideration transferred over the net assets recognised and represents growth opportunities and expected cost synergies of the combined company. The Mergers are expected to provide both short-term and long-term revenue enhancements and cost savings and synergy opportunities, increase the diversity of LivaNova's business mix, and accelerate the entry into three emerging market opportunities in the areas of heart failure, sleep apnea and less invasive mitral valves. The Mergers are also expected to allow LivaNova to utilize and integrate certain Sorin technologies into its existing and future product lines for epilepsy. LivaNova expects all of its reporting units to benefit, directly or indirectly, from the synergies arising from the business combination, and as a result, we assigned goodwill arising from the Sorin acquisition to Cardiac Surgery, Cardiac Rhythm Management and Neuromodulation. This assignment was made by taking into consideration market participant rates of return for each acquired reporting unit (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 reporting 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. Refer to "Note 9. Goodwill and Intangible Assets" for further discussion.

The fair value of accounts receivable and other current assets is $285.1 million and includes trade receivables with a fair value of $224.5 million. The gross amount of trade receivables is $243.9 million.

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.

In relation to the Mergers, we incurred $20.5 million and $55.8 million of merger and integration costs for the year ended 31 December 2016 and for the transitional period 25 April 2015 to 31 December 2015, respectively. The merger and integration costs were related primarily to advisory, legal and accounting fees and are included in the Exceptional Items line in the Consolidated Statement of Income.

Note 7. 2015 and 2016 Restructuring Plans

We initiate restructuring plans 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 Exceptional Items in the operating results of our Consolidated Statement of Income.

Our 2015 and 2016 Reorganization Plans (the "Plans") were initiated October 2015 and March 2016, respectively, in conjunction with the completion of the Mergers. The Plans include the closure of our R&D facility in Meylan, France and consolidation of its research and development ("R&D") capabilities into our Clamart, France facility. In addition, during the year ended 31 December 2016, we initiated a plan to exit the Costa Rica manufacturing operation and transfer its operations to Houston, Texas. We expect to complete the exit of Costa Rica in the first half of 2017 and to complete the 2015 and 2016 Reorganization Plans in the first half of the year ending December 2018.

We estimate that these Plans will result in a net reduction of approximately 317 personnel of which 205 have occurred as of 31 December 2016.

The restructuring plan's liabilities for the period 1 January 2016 to 31 December 2016 are as follows (in thousands):

	Employee severance and other termination costs	Other	Total
Beginning liability balance	$ 6,919	$ —	$ 6,919
Charges	46,678	9,265	55,943
Cash payments	(32,505)	(6,209)	(38,714)
Ending liability balance	$ 21,092	$ 3,056	$ 24,148

Note 8. Property, Plant and Equipment

(in thousands)	Land	Building and building improvements	Equipment, other, furniture, fixtures	Capital investment in process	Total
At 24 April 2015					
Gross amount	$ 1,644	$ 28,048	$ 28,788	$ 6,695	$ 65,175
Accumulated depreciation and impairment	—	(6,084)	(20,715)	—	(26,799)
Net amount	1,644	21,964	8,073	6,695	38,376
At 31 December 2015 (Restated)					
Gross amount	15,741	80,299	130,642	41,129	267,811
Accumulated depreciation and impairment	—	(7,591)	(29,509)	—	(37,100)
Net amount	15,741	72,708	101,133	41,129	230,711
At 31 December 2016					
Gross amount	15,181	96,304	150,545	17,012	279,042
Accumulated depreciation and impairment	—	(11,852)	(60,661)	—	(72,513)
Net amount	$ 15,181	$ 84,452	$ 89,884	$ 17,012	$ 206,529

Changes during the year in the net amount of each category of property, plant and equipment are indicated below (in thousands):

	Land	Building and building improvements	Equipment, other, furniture, fixtures	Capital investment in process	Total
Net Amount at 24 April 2015	$ 1,644	$ 21,964	$ 8,073	$ 6,695	$ 38,376
Additions	—	437	3,970	11,650	16,057
IFRS 3 business combinations	14,391	54,284	93,511	30,317	192,503
IFRS 3 business combinations adjustments 2016	79	(1,960)	4,682	(1,081)	1,720
Disposals	—	(44)	(584)	(226)	(854)
Depreciation		(1,356)	(7,472)	—	(8,828)
Currency translation gains/losses	(373)	(2,030)	(4,691)	(1,169)	(8,263)
Reclassifications	—	1,413	3,644	(5,057)	—
Net Amount at 31 December 2015 (Restated)	15,741	72,708	101,133	41,129	230,711
Additions	—	7,912	9,975	17,469	35,356
Disposals	—	(47)	(2,592)	(68)	(2,707)
Impairment		(2,540)	(8,760)	(149)	(11,449)
Depreciation		(4,827)	(30,994)	—	(35,821)
Currency translation gains/losses	(243)	(987)	(386)	(1,354)	(2,970)
Reclassifications	346	16,047	21,445	(39,989)	(2,151)
Other changes	—	—	63	(26)	37
Assets classified as held for sale	(663)	(3,814)	—	—	(4,477)
Net Amount at 31 December 2016	$ 15,181	$ 84,452	$ 89,884	$ 17,012	$ 206,529

A building in Cantù, Italy with a net book value of $0.6 million and $1.2 million as at 31 December 2106 and 31 December 2015, respectively was provided as collateral to secure a long-term loan taken out by Sorin Group Italia S.r.l.

As part of the Mergers, we acquired Sorin's PP&E with a carrying value of $191.4 million equal to their fair value.

During the year ended 31 December 2016, we initiated a plan to exit the Costa Rica manufacturing operation and transfer those activities to Houston, Texas. Movable machinery and equipment was transferred to various locations, primarily to Europe. As a result of our exit from Costa Rica, we recorded impairments for the building and equipment of $5.7 million which is included in restructuring expenses within Exceptional Items in the Consolidated Statement of Income. We wrote-down obsolete inventory of $0.3 million and accrued $0.3 million for employee termination expenses as at 31 December 2016. In addition, the carrying value of $4.5 million of the land and building after impairment was classified as Assets Held for Sale in the Consolidated Balance Sheet as at 31 December 2016.

During the year ended 31 December 2016, an impairment of $5.5 million was recorded against equipment within the CRM cash generating unit. Refer to "Note 9. Goodwill and Intangible Assets" for further details.

Note 9. Goodwill and Intangible Assets

(in thousands)	Goodwill	Developed technology	Customer relationships	Trademarks and trade names	Other intangible assets	Software	Total
At 24 April 2015							
Gross amount.	$ —	$ 13,204	$ —	$ —	$ 1,023	$ 10,537	$ 24,764
Accumulated amortisation and impairment	—	(3,713)	—	—	(347)	(8,625)	(12,685)
Net amount	—	9,491	—	—	676	1,912	12,079
At 31 December 2015 (Restated)							
Gross amount.	712,150	213,499	449,874	13,030	270	24,836	701,509
Accumulated amortisation and impairment	—	(5,939)	(4,419)	(543)	(5)	(10,359)	(21,265)
Net amount	712,150	207,560	445,455	12,487	265	14,477	680,244
At 31 December 2016							
Gross amount.	711,523	206,048	441,088	12,649	2,106	27,383	689,274
Accumulated amortisation and impairment	(18,348)	(28,880)	(67,362)	(3,689)	(1,226)	(15,569)	(116,726)
Net amount	$693,175	$177,168	$ 373,726	$ 8,960	$ 880	$ 11,814	$572,548

The changes in the net carrying value of each class of intangible assets during the year are indicated below (in thousands):

	Goodwill	Developed technology	Customer relationships	Trademarks and trade names	Other intangible assets	Software	Total
Net Amount at 24 April 2015	$ —	$ 9,491	$ —	$ —	$ 676	$ 1,912	$ 12,079
Purchases	—	1,000	—	—	—	229	1,229
IFRS 3 business combinations	764,717	211,102	463,996	13,619	12	15,136	703,865
IFRS 3 business combinations adjustments 2016	(34,710)	180	6,274	117	254	(1,119)	5,706
Disposals	—	(155)	—	—	—		(155)
Amortisation	—	(3,660)	(5,317)	(661)	(75)	(1,600)	(11,313)
Impairment	—	(1,088)	—	—	(601)		(1,689)
Currency translation losses	(17,857)	(9,310)	(19,498)	(588)	(1)	(81)	(29,478)
Net Amount at 31 December 2015 (Restated)	712,150	207,560	445,455	12,487	265	14,477	680,244
Purchases	—	—	—	—	1,878	1,128	3,006
Amortisation	—	(15,647)	(28,389)	(3,228)	(91)	(5,590)	(52,945)
Impairment	(18,348)	(10,521)	(37,041)	—	(962)	(21)	(48,545)
Currency translation losses	(627)	(4,224)	(6,299)	(299)	(308)	(274)	(11,404)
Reclassifications	—	—	—	—	98	2,053	2,151
Other changes	—	—	—	—	—	41	41
Net Amount at 31 December 2016	$693,175	$177,168	$ 373,726	$ 8,960	$ 880	$ 11,814	$572,548

We purchased developed technology for $1.9 million and a patent license for $1.0 million related to the integration of conditionally safe MR technologies with our leads during the year ended 31 December 2016 and the transitional period 25 April 2015 to 31 December 2016, respectively.

In connection with the Mergers, we acquired certain finite-lived intangible assets which included $464.0 million of customer relationships, $211.1 million of developed technology, $13.6 million of trade names and $15.1 million of software. In addition, the newly formed LivaNova entity recognized $764.7 million of goodwill on its balance sheet as the excess of the fair value of consideration over the fair value of the net assets acquired and liabilities assumed from Sorin.

During the transitional period 25 April 2015 to 31 December 2015, we fully impaired finite-lived intangible assets primarily related to R&D projects, such as our rechargeable battery technology, that no longer factored into our future product plans, for a loss of $1.7 million. The impairment losses were charged to R&D expense in the Consolidated Statement of Income.

Amortisation costs charged to the Consolidated Statement of Income totaled $52.9 million and $11.3 million for the year ended 31 December 2016 and for the transitional period 25 April 2015 to 31 December 2015, respectively.

The amortisation periods for our finite-lived intangible assets as at 31 December 2016 was as follows:

	Minimum Life in years	Maximum life in years
Developed technology	9	15
Customer relationships	16	18
Trademarks and trade names	4	4
Other intangible assets	5	5
Software	1	10

Impairment of Goodwill and Intangible Assets

Our CGUs consist of: Neuromodulation ("NM"), Cardiac Surgery ("CS") and Cardiac Rhythm Management ("CRM").

The carrying amount of goodwill by CGU (in thousands):

	31 December 2016	31 December 2015
Neuromodulation	$ 315,943	$ 315,943
Cardiac Surgery	377,232	379,146
Cardiac Rhythm Management	—	17,061
	$ 693,175	$ 712,150

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. As part of our annual assessment, we considered that certain sales targets were not achieved during the third quarter of 2016 and the reduction to our fourth quarter 2016 sales projections.

Our stock price also declined significantly during the fourth quarter, reaching a low following the Mergers of $40.84 on 15 November 2016. Our stock price traded between $40.84 and $60.99 during the fourth quarter of 2016 and averaged $49.31 during this period.

Management considered the reduction in third quarter sales and fourth quarter sales projections, in addition to a decline in our stock price, and based on a qualitative assessment concluded that the goodwill of the CRM and CS CGUs may be impaired. As a result, we performed an impairment test by estimating the fair value of the CGUs using an income approach.

Based on the valuation performed, the CRM CGU carrying amount exceeded its recoverable amount; therefore, we concluded that the CRM goodwill balance was impaired. For the impairment analysis, we compared the estimated fair value of the CGU of $199.5 million to the fair value of all assets and liabilities of the CGU to calculate the implied fair value of goodwill. As a result, we recorded a non-cash loss on impairment totaling $18.3 million. The calculated $72.3 million impairment representing the shortfall between recoverable amount and carrying value of the CRM CGU was greater than the $18.3 million carrying value of the goodwill balance; therefore, the remaining impairment was allocated across other assets in the CGU. We recorded impairments in Developed Technology, Customer Relationships, Other Intangible assets and property, plant and equipment of $10.5 million, $37.0 million, $0.9 million and $5.5 million, respectively. The total impairment related to CRM of $72.3 million was recorded in Exceptional Items in our Consolidated Statement of Income for the year ended 31 December 2016.

Based on the valuation performed, the CS CGU estimated recoverable amounts exceeded the carrying amounts by approximately 15%; therefore, we concluded that the goodwill balance was not impaired.

The income approach was based on a discounted cash flow model, which utilized present values of cash flows to estimate fair value. The future cash flows were projected for five years based on our estimates of future sales, operating costs, capital requirements, growth rates and terminal values. Forecasted sales and growth rates take into account current market conditions and our anticipated business outlook, both of which have been impacted by the reduction in sales projections during 2016.

Operating costs were forecasted using a combination of our historical average operating costs and expected future costs, adjusted for an estimated inflation factor. Capital requirements in the discounted cash flow model were based on management's estimates of future capital costs, taking into consideration our historical trends. The estimated capital requirements included cash outflows to maintain manufacturing and R&D facilities.

A terminal period was used to reflect our estimate of stable, perpetual growth. The terminal period reflects a terminal growth rate of 3% for all CGUs, which includes an estimated inflation factor. The future cash flows were discounted using a market participant risk-adjusted weighted average cost of capital ("WACC") for CRM and CS of 9.5% and 8.5%, respectively.

Management has considered the potential impact of changes in assumptions on the total recorded as a result of the review for impairment of CRM. It is estimated that a 1% decrease in the terminal growth rate, with no change to other assumptions, would result in a $19.5 million increase in the impairment charge for the year ended 31 December 2016. In the same manner, a 1% increase in the WACC, with no change to other assumptions, would result in a $24.5 million increase in the impairment charge for the year ended 31 December 2016. Management do not consider that a reasonable possible change in key assumptions for the CS business would result in an impairment charge.

These assumptions were derived from unobservable inputs and reflect management's judgments and assumptions. A decline in the cash flow projections or adverse changes in other key assumptions such as a 100 basis point increase in the WACC or a 1.0% reduction in the terminal growth rate could result an impairment charge in the future. However, management does not believe that an impairment charge is likely.

A 15% customer attrition rate was used in the valuation of the CRM Customer Relationship intangible asset. This was based on a review of historical attrition in the CRM franchise.

We evaluated the estimated fair value of our reporting units as compared to our market capitalization. The aggregate fair values of our CGU exceeded our market capitalization, and we believe the resulting implied control premium was reasonable based on recent market transactions within our industry or other relevant benchmark data.

We performed an assessment for our NM CGU. Despite the reduction to sales projections for CRM and CS, we concluded that the fair value of NM remains substantially in excess of the recoverable amount of the CGU, as evidenced by the estimated fair value of the NM CGU calculated for the purpose of reconciling the fair value of our CGUs to our market capitalization. Therefore, we concluded that it remains more-likely than not that the NM CGU goodwill was not impaired.

The estimates used to determine the fair value of the CS CGU reflect management's best estimates of inputs and assumptions that a market participant would use. We believe our estimates are reasonable given the Company's advantageous position in the global market for oxygenators, heart-lung machines, and auto-transfusion systems, despite the issues experienced in the 3T Heater Cooler market. Future declines in the CS CGU's operating performance or our anticipated business outlook may reduce the estimated fair value of our CS CGU and result in an impairment of goodwill. Various factors that could impact the CGU's operating performance include, but are not limited to, the timing of regulatory approvals, market acceptance of products, non-coverage determinations for reimbursement by third-party payors, temporary manufacturing disruptions, or product recalls or safety alerts.

Note 10. Investments in Associates, Joint Ventures and Subsidiaries

Equity investments in associates and joint ventures measured at equity. In connection with the Mergers, refer to "Note 6. Business Combinations", we acquired equity investments which are accounted for under the equity method.

The table below lists the investments in associates and joint ventures and the balance (in thousands except percentage of ownership):

	Nature of relationship	% Ownership[1]	31 December 2016	31 December 2015 (Restated)
La Bouscarre S.C.I.	Associate	50.0	$ 16	$ 16
LMTB – Laser und Medizin Technologie Gmbh	Associate	22.5	—	3
MD START S.A.	Associate	20.9	—	—
MD START I K.G.	Associate	23.4	—	—
Enopace Biomedical Ltd.	Associate	31.8	—	—
Cardiosolutions Inc.	Associate	35.3	—	—
Caisson Interventional LLC[2]	Associate	49.1	16,423	13,361
Highlife S.A.S.[2]	Associate	38.0	6,009	8,177
MicroPort Sorin CRM (Shanghai) Co. Ltd.	Joint venture	49.0	4,867	9,088
Respicardia Inc.[3]	Cost Method / Associate	19.7	—	30,767
Total			$ 27,315	$ 61,412

(1) Ownership percentages as at 31 December 2016.

(2) We have outstanding loans to Caisson Interventional LLC (Caisson) and to Highlife S.A.S (Highlife) that amount to $8.7 million, which are included in current and non-current financial assets in the consolidated balance sheets.

(3) In September 2016 we recorded an impairment of Respicardia, Inc. (Respicardia) of $9.2 million and as of 30 November 2016, we reclassified Respicardia to cost method investments. Refer to the Respicardia details below.

Respicardia

In September 2016 we declined to exercise or extend our option to purchase all of the issued and outstanding shares of Respicardia held by other investors as we preferred to continue as a minority investor instead of becoming a strategic acquirer. In addition, our analysis indicated that our carrying value in Respicardia might not be recoverable and the impairment was other than temporary. We estimated the fair value of our investment in Respicardia using information about past events, current conditions, and forecasts and an estimate of future cash flows. As a result, in September 2016, we impaired our investment in Respicardia by $9.2 million, which essentially represents the purchase option's carrying value on the date we declined to exercise our option. This loss is included in the share of loss from equity method investments of $22.6 million in the Consolidated Statement of Income for the year ended 31 December 2016. In November 2016, we terminated our distributor agreement with Respicardia; the distributor agreement had been a key component in the determination of whether our influence over Respicardia was significant, and as a result, we determined in November 2016 that we no longer had significant influence over Respicardia and transferred the investment to our cost method investments.

Caisson

In July 2016, we invested $7.5 million in Caisson Series B Preferred Units upon their achievement of a previously agreed upon milestone. This investment raised our interest in Caisson by 5.4% to 49.1%. There were no other changes with respect of our interest in, and control of, Caisson, therefore we continue to account for this investment under the equity method of accounting.

In addition, we sold our total investment of LMTB -Laser -und Medizin Technologie GmbH during the year ended 31 December 2016.

Summarized financial information for all individually not material associates and joint ventures not adjusted for the percentage of ownership held by the Company, is presented below (in thousands):

	Revenue	Net Loss	Total Assets	Equity
MD START I K.G.	$ 940	$ —	$ 3,653	$ 3,596
Enopace Biomedical Ltd.	—	—	1,708	1,020
Cardiosolutions Inc.	—	—	45	(3,122)
Caisson Interventional LLC	—	(4,438)	3,039	(958)
Highlife S.A.S.	—	(1,913)	1,743	(5,868)
MicroPort Sorin CRM (Shanghai) Co. Ltd.	1,256	(3,924)	8,041	1,314
Respicardia Inc.	220	(3,098)	10,835	(5,771)

The summarised financial information of the associates and joint ventures include adjustments made by the Company when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies. The share of loss from equity method investments of $22.6 million includes the share of net loss included in the table above as well as the $9.2 million impairment in Respicardia.

Refer to "Note 26. Related Parties" for details of transactions and balances between the Company and its associates and joint ventures. The associates and joint ventures had no contingent liabilities or capital commitments as at 31 December 2016. The Company has no contingent liabilities relating to its interests in the associates and joint ventures.

Principal subsidiaries. The Company had the following subsidiaries and associates as at 31 December 2016:

	REGISTERED OFFICE	CURRENCY	% CONSOLIDATED GROUP OWNERSHIP
LivaNova Plc	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	EUR	100
LivaNova Plc (Italian Branch)	Via Benigno Crespi, 17 20159 Milan, Italy	EUR	100
Alcard Indústria Mecânica Ltda	Rua Liege, 54 – Vila Vermelha, 04298-070 – São Paulo - SP - Brasil	BRL	100
Caisson Interventional LLC	10900 73rd Ave N Ste 116, Maple Grove, MN 55339 USA	USD	49
California Medical Laboratories (CalMed) Inc.	1570 Sunland LN, Costa Mesa, CA 92626 USA	USD	100
Cardiosolutions Inc.	375 West Street, West Bridgewater, MA 02379 USA	USD	35
Cyberonics France SARL	3 place Giovanni da Verrazzano, 69009 Lyon, France	EUR	100
Cyberonics Holdings LLC	100 Cyberonics Boulevard, Houston, TX 77058 USA	USD	100
Cyberonics Inc.	100 Cyberonics Boulevard, Houston, TX 77058 USA	USD	100
Cyberonics Latam SRL	Edificio B49, 51 Ave O, Zona Franca Coyo, Coyo-Alajeuela, Costa Rica 20113	CRC	100
Cyberonics Netherlands CV	100 Cyberonics Boulevard, Houston, TX 77058 USA	EUR	100
Cyberonics Spain SL	100 Cyberonics Boulevard, Houston, TX 77058 USA	USD	100
Enopace Biomedical Ltd	15 Alon Hatavor St, Caesaria 38900, Israel	USD	32
Highlife SAS	331 B rue Saint Augustin 75002 Paris, France	EUR	38
Imthera Medical, Inc	12555 High Bluff Dr, Ste 310, San Diego, CA 92130 USA	USD	16
La Bouscare S.C.I.	Route de Revel 31450 Fourquevaux, France	EUR	50
LivaNova Australia PTY Limited	16-18 Hydrive Close - Dandenong South - Victoria 3175, Australia	AUD	100
LivaNova Austria GmbH	Donau City Strasse 11/16 1220 Wien, Austria	EUR	100
LivaNova Belgium SA	Ikaroslaan 83, 1930 Zaventem, Belgium	EUR	100
LivaNova Canada Corp	280 Hillmount Road, Unit 8, Markham, ON L6C 3A1 Canada	CAD	100
LivaNova Colombia Sas	Avenida Calle 80 No. 69-70 Bodega 37, Bogotá, Colombia	COP	100
LivaNova Espana, S.L.	Avenida Diagonal 123, planta 10, 08005, Barcelona, Spain	EUR	100
LivaNova Finland OY	c/o Kalliolaw Asianajotoimisto Oy, Södra kajen 12, 00130 Helsinki, Finland	EUR	100
LivaNova France SAS	4 avenue Reaumur 92134 Clamart, France	EUR	100
LivaNova Holding SAS	4 avenue Reaumur 92134 Clamart, France	EUR	100
LivaNova Holding S.r.l.	Via Benigno Crespi, 17 - 20159 Milano, Italy	EUR	100
LivaNova India Private Limited	Barakhamba Road 110001 New Delhi, India	INR	100
LivaNova IP Limited	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	USD	100
LivaNova Japan K.K.	11-1 Nagatacho 2 chome, Chiyoda-ku, Tokyo, 100-6110 Japan	JPY	100
LivaNova Nederland N.V.	Westerdoksdijk 423, 1013 BX, Amsterdam, Netherlands	EUR	100
LivaNova Norway AS	c/o AmestoAccounthouse AS, Smeltedigelen 1, 0195 Oslo, Norway	NOK	100

	REGISTERED OFFICE	CURRENCY	% CONSOLIDATED GROUP OWNERSHIP
LivaNova Poland Sp. Z o.o.	Park Postepu Bud A Ul. Postepu 21 PL-02 676 Warszawa, Poland	PLN	100
LivaNova Portugal, Lda	Edificio Zenith, Rua Dr. António L. Borges n. 9/9 a - 6a - Miraflores - 1495-131 Algés, Portugal	EUR	100
LivaNova Scandinavia AB	Djupdalsvägen 16, 192 51 Sollentuna, Scandinavia	SEK	100
LivaNova Singapore Pte Ltd (SG)	The Adelphi, 1 Coleman Street, #10-07, Singapore 179803	USD	100
LivaNova Site Management S.r.l.	Via Benigno Crespi 17 20159 Milan, Italy	EUR	100
LivaNova Switzerland SA	WTC Av. Grattapaille 2 1018 Lausanne CH, Switzerland	CHF	100
LivaNova UK Limited	1370 Montpellier Court, Gloucester Business Park, Gloucester, Gloucestershire, GL3 4AH, United Kingdom	GBP	100
Livn Irishco 2 UC	70 Sir John Rogerson's Quay, Dublin 2, Ireland	USD	100
Livn Irishco Unlimited Company	70 Sir John Rogerson's Quay, Dublin 2, Ireland	USD	100
Livn Irishco 3 Unlimited Company	70 Sir John Rogerson's Quay, Dublin 2, Ireland	USD	100
Livn Luxco Sarl	15 Rue Edward Steichen L-2540 Luxembourg	USD	100
Livn Luxco 2 Sarl	15 Rue Edward Steichen L-2540 Luxembourg	CAD	100
Livn UK Holdco Limited	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	USD	100
Livn UK Limited 2 Co	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	USD	100
Livn UK Limited 3 Co	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	USD	100
Livn US Holdco, Inc.	1209 Orange Street, Wilmington, DE 19801 USA	USD	100
Livn US Lp	2711 Centerville Road, Suite 400, Wilmington, DE 19808 USA	USD	100
Livn US 1, LLC	2711 Centerville Road, Suite 400, Wilmington, DE 19808 USA	USD	100
Livn US 3 LLC	2711 Centerville Road, Suite 400, Wilmington, DE 19808 USA	USD	100
MD Start I KG	Lauensteiner Str. 37 , D- 01277 Dresden, Germany	EUR	23
MD Start SA	Parc scientifique EPFL, 1015 Lausanne, Schweiz, Switzerland	CHF	20
MicroPort Sorin CRM (Shanghai) Co. Ltd	Room 101 Bleg 2 501 Newtone Rd 201203 Shanghaî, China	CNY	49
Respicardia, Inc	Whitewater Drive 55343, Minnetonka, MN USA	USD	20
Sobedia Energia	Via Crescentino sn 13040 Saluggia (VC), Italy	EUR	75
Sorin CRM SAS	4 avenue Reaumur 92134 Clamart, France	EUR	100
Sorin CRM USA	14401 W. 65th Way - Arvada, CO 80004 USA	USD	100
Sorin Group Czech Republic	Na poriçi 1079/3a Nové Mesto Praha 110 00 Praha 1, Czech Republic	EUR	100
Sorin Group Deutschland GmbH	Lindberghstrasse 25, D - 80939 München, Germany	EUR	100
Sorin Group DR, S.r.l.	Edificio I-3Zona Franca Industrial de las Americas, Autopista Las Americas Km 22 Z.F. Santo Domingo Este, Dominican Republic	USD	100
Sorin Group Italia S.r.l.	Via Benigno Crespi, 17 - 20159 Milano, Italy	EUR	100

	REGISTERED OFFICE	CURRENCY	% CONSOLIDATED GROUP OWNERSHIP
Sorin Group Rus LLC	Marshal Proshlyakov str. 30 office 304 123458 Moscow, Russia	RUB	100
Sorin Group USA Inc.	14401 W. 65th Way - Arvada, CO 80004 USA	USD	100
Sorin Medical Devices (Suzhou) Co. Ltd	No. 130, Weihe Road, Suzhou Industrial Park, Jiangsu Province, PRC	CNY	100
Sorin Medical (Shanghai) Co. Ltd	Room 218, 2nd Floor, No. 56 Meisheng Road, China (Shanghai) Pilot Free Trade Zone	CNY	100

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

Operating performance of the main group companies.

Sorin Group Italia S.r.l.

(thousands of euros)	For the Year Ended 31 December 2016
Net revenues	$ 396,482
EBIT	(18,041)
Net profit/(loss)	(12,571)

Sorin Group USA Inc. (U.S.A.)

(thousands of U.S. dollars)	For the Year Ended 31 December 2016
Net revenues	$ 193,192
EBIT	(1,698)
Net profit	1,987

Sorin CRM S.A.S. (France)

(thousands of euros)	For the Year Ended 31 December 2016
Net revenues	$ 176,670
EBIT	(124,137)
Net profit/(loss)	(112,287)

Sorin Group Deutschland GmbH (Germany)

(thousands of euros)	For the Year Ended 31 December 2016
Net revenues	$ 112,171
EBIT	(25,555)
Net profit/(loss)	(16,013)

Sorin Group Deutschland GmbH is a 100% consolidated LivaNova group company, that is formally exempt for FS 2016 from GERMAN GAAP auditing and publishing.

LivaNova Canada Corp.

(thousands of Canadian dollars)	For the Year Ended 31 December 2016
Net revenues	$ 126,586
EBIT	31,666
Net profit/(loss)	15,699

(thousands of U.S. dollars)	For the Year Ended 31 December 2016
Net revenues	$ 364,632
EBIT	115,521
Net profit/(loss)	36,773

Note 11. Financial Assets

Non-current financial assets.

(in thousands)	31 December 2016	31 December 2015 (Restated)
Investments in preferred shares of private companies	$ 33,777	$ 15,847
Financial receivables due from associated companies	1,870	713
Corporate owned life insurance policies	2,537	1,777
Other	161	161
Total non-current financial assets	$ 38,345	$ 18,498

Our non-current financial assets in the consolidated balance sheets include investments in equity instruments in privately held companies classified as available-for-sale.

(in thousands)	31 December 2016	31 December 2015
ImThera Medical, Inc. - convertible preferred shares and warrants[1]	$ 12,000	$ 12,000
Cerbomed GmbH - convertible preferred shares[2]	—	—
Rainbow Medical Ltd.[3]	3,733	3,847
Respicardia Inc.[4]	17,518	—
MD Start II	526	—
	$ 33,777	$ 15,847

(1) ImThera Medical, Inc. is a private U.S. company developing a neurostimulation device system for the treatment of obstructive sleep apnea.

(2) Cerbomed GmbH is a European company developing a transcutaneous vagus nerve stimulation device for the treatment of epilepsy. During the transitional period 25 April 2015 to 31 December 2015, the Company recorded an impairment of $5.1 million against the investment in Cerbomed GmbH. Refer to "Note 4. Fair Value Measurements" for more details.

(3) Rainbow Medical Ltd. is an Israeli company that seeds and grows companies developing medical devices in a diverse range of medical fields.

(4) Respicardia is a privately funded U.S. company developing an implantable device designed to restore a more natural breathing pattern during sleep in patients with central sleep apnea ("CSA") by transvenously stimulating the phrenic nerve. As of 30 November 2016, we reclassified Respicardia to a cost method investment from an equity method investment. Refer to "Note 10. Investments in Associates, Joint Ventures and Subsidiaries."

Current financial assets.

(in thousands)	31 December 2016	31 December 2015
Commercial paper	$ —	$ 6,997
Financial receivables due from associated companies	6,852	1,632
Other	242	642
Total current financial assets	$ 7,094	$ 9,271

Note 12. Inventories

Inventories consisted of the following (in thousands):

	31 December 2016	31 December 2015 (Restated)
Raw materials	$ 47,704	$ 52,506
Work-in-process	32,316	44,240
Finished goods	103,469	115,850
	$ 183,489	$ 212,596

Inventories are reported net of the provision for obsolescence which totaled $9.8 million and $3.6 million as at 31 December 2016 and 31 December 2015, respectively. The provision for obsolescence at 31 December 2016 reflects normal obsolescence and includes components that are phased out or expired.

As part of the acquisition, we acquired Sorin's inventory with a carrying value of $233.8 million. Sorin's inventory was recorded at fair value, which was measured considering any provision for obsolescence previously recognised by Sorin.

We included $35.2 million of amortization of the step-up in inventory basis that resulted from the Mergers in cost of sales in the Consolidated Statement of Income for the year ended 31 December 2016, whereas, in the transitional period ended 31 December 2015, the amortization of the step-up in inventory was $21.0 million.

Note 13. Trade Receivables and Allowance for Bad Debt

Trade receivables, net, consisted of the following (in thousands):

	31 December 2016	31 December 2015 (Restated)
Trade receivables from third parties	$ 285,336	$ 250,729
Allowance for bad debt	(9,606)	(1,653)
	$ 275,730	$ 249,076

During the year ended 31 December 2016, we increased our allowance for bad debt by $8.0 million primarily due to certain receivables in Greece, Venezuela, the U.S. and Italy whose probability of recoverability became doubtful during the year.

Our customers consist of hospitals, other healthcare institutions, distributors, organized purchase groups and government and private entities. Actual collection periods for trade receivables vary significantly as a function of the nature of the customer (e.g. government or private) and its geographic location. We acquired carrying value of $224.5 million of trade receivables from Sorin in the Mergers. As part of the acquisition accounting, trade receivables were recorded at fair value, which was measured considering any allowance for bad debt previously recognised by Sorin.

Trade receivables are reported net of the allowance for bad debt provision, the changes in which are provided below (in thousands):

	31 December 2016	31 December 2015
Beginning of period	$ (1,653)	$ (664)
Additions to provision	(8,004)	(1,337)
Utilisation	23	—
Release of provisions	—	347
Reclassifications	(83)	—
Currency translation gains/losses	111	1
End of period	$ (9,606)	$ (1,653)

Actual collection periods for trade receivables vary significantly due to the nature of a customer (e.g. government or private) and its geographic location. LivaNova utilizes non-recourse and with-recourse factoring arrangements as a part of its funding policy; however, as at 31 December 2016 there are no factoring arrangements outstanding.

Below is a summary of other receivables (in thousands):

	31 December 2016	31 December 2015 (Restated)
Prepaid assets	$ 12,058	$ 19,036
Other receivables	7,554	2,828
Guarantee deposits	1,551	2,437
Total	$ 21,163	$ 24,301

Note 14. Derivative Financial Instruments

Due to the global nature of our operations, we are exposed to foreign currency exchange rate fluctuations. In addition, due to certain loans with floating interest rates, we are also subject to the impact of changes in interest rates on our interest payments. We enter into foreign currency exchange rate ("FX") derivative contracts and interest rate swap contracts to reduce the impact of foreign currency rate and interest rate fluctuations on earnings and cash flow. We measure all outstanding derivatives each period end at fair value and report the fair value as either financial assets or liabilities in the consolidated balance sheets. We do not enter into derivative contracts for speculative purposes. If the derivative qualifies for hedge accounting, depending on the nature of the hedge and hedge effectiveness, changes in the fair value of the derivative will either be recognized immediately in earnings or recorded in other comprehensive income (loss) ("OCI") until the hedged item is recognized in earnings upon settlement/termination. FX amounts in OCI are reclassified to in the Consolidated Statement of Income as shown in the tables below and interest rate swaps gains and losses in OCI are a reclassified to interest expense in the Consolidated Statement of Income. We evaluate hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings. Cash flows from derivative contracts are reported as operating activities in the Consolidated Statements of Cash Flows. We did not engage in derivative contracts designated as hedging prior to the Mergers.

Derivatives that are not designated as hedging instruments are referred to as freestanding derivatives with changes in fair value included in earnings. We use currency exchange rate derivative contracts and interest rate derivative instruments, to manage the impact of currency exchange and interest rate changes on earnings and cash flows. In order to minimize earnings and cash flow volatility resulting from currency exchange rate changes, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. We did not engage in freestanding derivative contracts prior to the Mergers.

Freestanding derivative foreign currency ("FX") contracts

The gross notional amount of our FX derivative contracts not designated as hedging instruments, outstanding at 31 December 2016 and 31 December 2015, was $489.1 million and $254.4 million, respectively.

The amount and location of the gains (losses) in the Consolidated Statements of Income related to freestanding FX derivative contracts (in thousands):

Derivatives Not Designated as Hedging Instruments	Location	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
FX derivative contracts	Foreign exchange and other	$ 10,960	$ (12,813)

Cash Flow Hedges

Foreign Currency Risk

We utilize FX derivative contracts, designed as cash flow hedges, to hedge the variability of cash flows associated with our 12 month USD forecasts of revenues denominated in British Pound and Japanese Yen. We transfer to earnings from accumulated other comprehensive income (loss), the gain or loss realized on the FX derivative contracts at the time of invoicing.

There was no hedge ineffectiveness and there were no components of the FX derivative contracts excluded in the measurement of hedge effectiveness during the year ended 31 December 2016.

During the year ended 31 December 2016, we discontinued and settled certain of our FX derivative contracts due to changes in our foreign currency revenue forecast that resulted in a gain of $0.2 million reclassified to earnings from accumulated other comprehensive (loss).

Interest Rate Risk

In July 2014, Sorin entered into a European Investment Bank ("EIB") long-term loan agreement that matures in June 2021 with variable interest payments due quarterly based on the Euribor 3 month floating interest rate. To minimize the impact of changes in the interest rate we entered into an interest rate swap agreement program to swap the EIB floating-rate interest payments for fixed-rate interest payments. The interest rate swap contracts qualify for, and are designated as, cash flow hedges.

There was no interest rate swap hedge ineffectiveness or component of the swap contract excluded in the measurement of hedge effectiveness during the year ended 31 December 2016.

Open derivative contracts designated as cash flow hedges (in thousands):

Description of derivative contract:	31 December 2016	31 December 2015
FX derivative contracts to be exchanged for British Pounds	$ 6,663	$ 13,134
FX derivative contracts to be exchanged for Japanese Yen	$ 57,840	$ 53,766
Interest rate swap contracts	$ 63,246	$ 79,625

After-tax net gain associated with derivatives designated as cash flow hedges recorded in the ending balance of Accumulated Other Comprehensive Loss and the amount expected to be reclassified to earnings in the next 12 months (in thousands):

	31 December 2016	Amount expected to be reclassed to earnings in next 12 months
FX derivative contracts	$ 3,289	$ 3,289
Interest rate swap contracts	330	73
Total	$ 3,619	$ 3,362

Presentation in Financial Statements

Pre-tax gains (losses) posted to other comprehensive income ("OCI") and the amount reclassified to earnings for derivative contracts designated as cash flow hedges (in thousands):

		Year Ended 31 December 2016	
Description of derivative contract	Location in earnings of reclassified gain or loss	Gains Recognized in OCI	Gains (Losses) Reclassified from OCI to Earnings:
FX derivative contracts	Foreign Exchange and Other	$ 2,874	$ (3,705)
FX derivative contracts	SG&A	—	4,218
Interest rate swap contracts	Interest expense	85	458
Total		$ 2,959	$ 971

		Transitional Period 25 April 2015 to 31 December 2015	
Description of derivative contract	Location in earnings of reclassified gain or loss	Gains Recognized in OCI	Gains Reclassified from OCI to Earnings:
FX derivative contracts	Foreign Exchange and Other	$ 1,150	$ —
FX derivative contracts	SG&A	—	—
Interest rate swap contracts	Interest expense	124	—
Total		$ 1,274	$ —

The following tables present the fair value, and the location of, derivative contracts reported in the consolidated balance sheets (in thousands):

31 December 2016	Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value[1]**	**Balance Sheet Location**	**Fair Value[1]**
Interest rate contracts	Prepaid expenses and other current assets	$ —	Current financial derivative liabilities	$ 942
Interest rate contracts	Other assets (long term)	—	Non-current financial derivative liabilities	1,392
Foreign currency exchange rate contracts	Current financial derivative assets	4,911	Accrued liabilities	—
Total derivatives designated as hedging instruments		4,911		2,334
Derivatives not designated as hedging instruments				
Interest rate contracts	Prepaid expenses and other current assets	—	Accrued liabilities	—
Foreign currency exchange rate contracts	Current financial derivative assets	3,358	Accrued liabilities	—
Total derivatives not designated as hedging instruments		3,358		—
Total derivatives		$ 8,269		$ 2,334

(1) For the classification of input used to evaluate the fair value of our derivatives, refer to "Note 4. Fair Value Measurements."

31 December 2015	Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value[1]**	**Balance Sheet Location**	**Fair Value[1]**
Interest rate contracts	Prepaid expenses and other current assets	$ —	Current financial derivative liabilities	$ 1,083
Interest rate contracts	Other assets (long term)	—	Non-current financial derivative liabilities	1,793
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	839	Accrued liabilities	—
Total derivatives designated as hedging instruments		839		2,876
Derivatives not designated as hedging instruments				
Interest rate contracts	Prepaid expenses and other current assets	—	Current financial derivative liabilities	24
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	—	Current financial derivative liabilities	1,547
Total derivatives not designated as hedging instruments		—		1,571
Total derivatives		$ 839		$ 4,447

(1) For the classification of input used to evaluate the fair value of our derivatives, refer to "Note 4. Fair Value Measurements."

Note 15. 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." On 23 February 2017, we announced our voluntary cancellation of our standard listing of ordinary shares with the London Stock Exchange due to the low volume of our ordinary share trading on the London Stock Exchange. Trading ceased at the close of business on 4 April 2017.

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)	31 December 2016	31 December 2015
Authorised share capital, ordinary shares of £1 each, unlimited shares authorized		
Issued – fully paid	48,156,690	48,868,305
Outstanding	48,028,413	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 was structured to enable us to buy back up to $30 million of ordinary shares on NASDAQ in the period ended 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. In November 2016, the share repurchase plan was amended to authorize the repurchase up to $50 million of ordinary shares through 31 December 2016 (instead of the originally authorized $30 million). Ordinary shares repurchased under the repurchase plan were canceled. As of 31 December 2016, we purchased 993,339 shares under this plan at a cost of $50.0 million at an average price per share of $50.32.

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 6. Business Combinations" for discussion of the Mergers.

Comprehensive income.

The table below presents the change in each component of accumulated other comprehensive income (loss), net of tax and the reclassifications out of accumulated other comprehensive income into net earnings.

Taxes were not provided for foreign currency translation adjustments for the year ended 31 December 2016 as translation adjustment related to earnings that are intended to be reinvested in the countries where earned.

(in thousands)	Change in unrealised gain (loss) on derivatives	Foreign currency translation adjustments	Revaluation of net liability (asset) for defined benefits	Total
Beginning Balance - 25 April 2015	$ —	$ (3,401)	$ —	$ (3,401)
Other comprehensive income (loss) before reclassifications, before tax	1,274	(61,769)	(180)	(60,675)
Tax benefit (expense)	(386)	—	50	(336)
Other comprehensive income (loss) before reclassifications, net of tax	888	(61,769)	(130)	(61,011)
Net current-period other comprehensive income (loss), net of tax	888	(61,769)	(130)	(61,011)
Ending Balance – 31 December 2015 (Restated)	$ 888	$ (65,170)	$ (130)	$ (64,412)
Other comprehensive income (loss) before reclassifications, before tax	2,959	(6,964)	(1,629)	(5,634)
Tax benefit (expense)	(795)	—	476	(319)
Other comprehensive income (loss) before reclassifications, net of tax	2,164	(6,964)	(1,153)	(5,953)
Reclassification of (gain)/loss from accumulated other comprehensive income, before tax	971	—	—	971
Tax effect	(404)	—	—	(404)
Reclassification of (gain)/loss from accumulated other comprehensive income, after tax	567	—	—	567
Net current-period other comprehensive income (loss), net of tax	2,731	(6,964)	(1,153)	(5,386)
Ending Balance - 31 December 2016	$ 3,619	$ (72,134)	$ (1,283)	$ (69,798)

Note 16. Financial Liabilities

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

	Principal Amount at 31 December 2016	Principal Amount at 31 December 2015 (Restated)	Maturity	Effective Interest Rate
European Investment Bank	$ 78,987	$ 99,426	June 2021	0.96%
Banca del Mezzogiorno	6,747	8,870	December 2019	0.50% – 3.15%
Mediocredito Italiano	7,276	—	December 2023	0.50% – 3.074%
Bpifrance (ex-Oséo)	1,909	2,621	October 2019	2.58%
Novalia SA (Vallonie)	798	1,192	December 2023 - June 2033	0.00% – 2.45%
Mediocredito Italiano	799	944	September 2021 and September 2026	0.80% – 1.30%
Total long-term facilities	$ 96,516	$ 113,053		
Less current portion of long-term debt	21,301	21,243		
Total long-term debt	$ 75,215	$ 91,810		

The outstanding principal amount of short-term debt consisted of the following (in thousands, except interest rates):

	Principal Amount at 31 December 2016	Principal Amount at 31 December 2015 (Restated)	Effective Interest Rate
Intesa San Paolo Bank	$ —	$ 20,630	—%
BNL BNP Paribas	7,379	18,459	0.25%
Unicredit Banca	8,433	15,201	0.21%
BNP Paribas (Brazil)	3,211	2,225	15.27%
French Government	1,971	2,030	—
Banco de Bogota	757	—	3.69%
Other short-term facilities	4,598	2,677	
Total short-term facilities	$ 26,349	$ 61,222	
Current portion of long-term debt	21,301	21,243	
Total current debt	$ 47,650	$ 82,465	
Total debt	$ 122,865	$ 174,275	

Note 17. Other Non-Current Liabilities

(in thousands)	31 December 2016	31 December 2015 (Restated)
Unfavorable operating leases	$ 1,672	$ 2,513
Other	2,697	4,429
Total	$ 4,369	$ 6,942

The unfavorable operating leases were acquired in the Mergers at 19 October 2015.

Note 18. Provisions

The provisions in the table below are expected to result in payments within the next year.

Current provisions

(in thousands)	31 December 2016	31 December 2015 (Restated)
Product remediation	$ 23,464	$ —
Contractual warranty reserve	2,736	2,119
Restructuring reserve	16,859	4,720
Other	7,642	6,871
Total	$ 50,701	$ 13,710

Non-Current provisions

(in thousands)	31 December 2016	31 December 2015
Liability for uncertain tax provisions	$ 16,857	$ 13,048
Product remediation	10,023	—
Other	4,127	3,937
Total	$ 31,007	$ 16,985

Recorded with other non-current provisions is a contingent liability totaling $3.4 million assumed during the Mergers. Refer for details to "Note 6. Business Combinations."

Product Remediation. In December 2015, we received an FDA Warning Letter (the "Warning Letter") alleging certain violations of FDA regulations applicable to medical device manufacturing at our Munich, Germany and Arvada, Colorado facilities. On 13 October 2016 the Centers for Disease Control and Prevention ("CDC") and FDA separately released safety

notifications regarding the 3T Heater Cooler devices in response to which the Company issued a Field Safety Notice Update for U.S. users of 3T Heater Cooler devices to proactively and voluntarily contact facilities to facilitate implementation of the CDC and FDA recommendations.

At 31 December 2016, the Company recognized a liability for a product remediation plan related to its 3T Heater Cooler device. The remediation plan developed by the Company consists primarily of a modification of the 3T design to include internal sealing and addition of a vacuum system to new and existing devices. These changes are intended to address regulatory actions and further reduce the risk of possible dispersion of aerosols from the 3T Heater Cooler devices in the operating room. The deployment of this solution for commercially distributed devices will occur upon final validation and verification of the design changes and approval or clearance by regulatory authorities worldwide, including FDA clearance in the U.S. In April 2017, we obtained CE Mark in Europe for the design change of the 3T. As part of this plan, we also intend to perform a no-charge deep disinfection service for 3T users who have reported confirmed M. chimaera mycobacterium contamination. Although the deep disinfection service is not yet available in the U.S., it is currently offered in many countries around the world and will be expanded to additional geographies as regulatory approvals are received. Finally, in the fourth quarter of 2016 we initiated a program to provide existing 3T users with a new loaner 3T device at no charge pending regulatory approval and implementation of the vacuum system addition and deep disinfection service worldwide. This loaner program began in the U.S. and is being progressively made available on a global basis, prioritizing and allocating devices to 3T users based on pre-established criteria. It is estimated that by the end of 2018, a majority of the 3T devices in use globally will be upgraded and returned to operation. In addition to $4.0 million of costs incurred during the year ended 31 December 2016, we also recognized a $33.5 million liability at 31 December 2016 to provide for the remaining execution of the plan including finalization and implementation of the design change, deep disinfection services and the provision of loaner 3T Heater Cooler devices. We concluded that it was probable that a liability had been incurred upon management's approval of the plan and the commitments made by management to various regulatory authorities globally in November and December 2016, and furthermore, the cost associated with the plan was reasonably estimable. This liability is included in Current and Non-Current Provisions on the Consolidated Balance Sheet. It is reasonably possible that our estimate of the remediation liability could materially change in future periods due to the various significant assumptions involved such as customer behavior, market reaction and the timing of approvals or clearance by regulatory authorities worldwide.

For further information, please refer to "Note 23. Commitments and Contingencies." At this stage, no liability has been recognized with respect to any lawsuits involving the Company related to the 3T Heater Cooler and the related legal costs will be expensed as incurred.

Warranties. We offer a warranty on various products. We estimate the costs that may be incurred under the warranties and record a liability in the amount of such costs at the time the product is sold. The amount of the reserve recorded is equal to the cost to satisfy the claim. We include the costs associated with claims, if any, in cost of sales in the Consolidated Statements of Income. We acquired $2.1 million in warranty obligation from Sorin as part of the Mergers.

Restructuring reserve. Refer to "Note 7. 2015 and 2016 Restructuring 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	Product remediation	Other reserves	Total
24 April 2015	$ —	$ —	$ —	$ 8,334	$ 8,334
IFRS 3 Business Combination	4,320	2,069	—	6,476	12,865
Additions to provision	4,609	141	—	3,448	8,198
Utilisation	(3,608)	(57)	—	(11,194)	(14,859)
Release of provisions	(400)	—	—	—	(400)
Currency translation gains/losses	(201)	(34)	—	(193)	(428)
31 December 2015 (Restated)	4,720	2,119	—	6,871	13,710
Additions to provision	26,770	1,359	27,510	1,872	57,511
Utilisation	(13,726)	(762)	(4,046)	(928)	(19,462)
Release of provisions	(636)	—	—	—	(636)
Currency translation gains/losses	(269)	20	—	(173)	(422)
31 December 2016	$ 16,859	$ 2,736	$ 23,464	$ 7,642	$ 50,701

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

	Uncertain tax positions reserve	Product remediation	Other reserves	Total
24 April 2015	$ 5,782	$ —	$ 828	$ 6,610
IFRS 3 Business Combination	9,158	—	3,839	12,997
Additions to provision	—	—	152	152
Utilisation	(1,523)	—	(828)	(2,351)
Currency translation gains/losses	(369)	—	(54)	(423)
31 December 2015	13,048	—	3,937	16,985
Additions to provision	4,024	10,024	2,554	16,602
Utilisation	—	—	(2,227)	(2,227)
Release of provisions	—	—	(90)	(90)
Currency translation gains/losses	(215)	(1)	(47)	(263)
31 December 2016	$ 16,857	$ 10,023	$ 4,127	$ 31,007

Note 19. Other Payables

(in thousands)	31 December 2016	31 December 2015 (Restated)
Accrued expenses- employee-related charges	$ 50,277	$ 44,580
Other accrued expenses	15,516	30,602
Other current liabilities	6,700	10,980
Other amounts due to health and social security institution	7,652	9,649
Amounts due to employees	20,373	5,585
Current advances from customers	3,438	3,330
Deferred income	1,708	992
Total	$ 105,664	$ 105,718

Note 20. Share-Based Incentive Plans

Share-Based Incentive Plans

Sorin awards exchanged for LivaNova awards

Prior to the Mergers, the Sorin Board of Directors adopted the Long-Term Incentive 2012-2014 (the "2012-2014 Plan), 2013-2015 (the "2013-2015 Plan") and 2014-2016 (the "2014-2016 Plan") share grant plans in April 2012, April 2013 and April 2014, respectively. The share grant plans authorised the issuance of stock appreciation rights (2014-2016 Plan only), performance share units and restricted share units. The awards under these share grant plans were converted into LivaNova awards pursuant to the terms of the Transaction Agreement as described below and were accounted for as equity settled. Refer to "Note 1. Nature of Operations" for additional details related to the Mergers.

Pursuant to the Transaction Agreement, 3,815,824 share appreciation rights outstanding (2014-2016 Plan) and 3,365,931 restricted share units (2013-2015 and 2014-2016 Plans) and performance share units (2012-2014 Plan) that were unvested immediately prior to the Mergers were accelerated and vested upon the close of the Mergers and were converted into 180,076 LivaNova share appreciation rights and 158,716 LivaNova ordinary shares, respectively, in a manner designed to preserve the intrinsic value of such awards. The accelerated vesting and share conversion constituted a modification under the authoritative guidance for accounting for share-based compensation. The modification resulted in $8.8 million of incremental costs on the date of acquisition.

In addition, pursuant to the Transaction Agreement, 2,617,490 unvested performance share units granted under the 2014-2016 Plan and 2013-2015 Plan which were held by Sorin employees upon close of the Mergers were converted into 123,456 LivaNova ordinary shares in a manner designed to preserve the intrinsic value of such awards. For awards not yet earned based on performance achieved as of the date of the Mergers, a service requirement was added to the remaining

awards and the performance conditions were removed, resulting in a modification to the award (see below for further details). A portion of the service awards vested on the date of the Mergers and of the remaining awards, 50% were paid on 26 February 2016 and 50% will be paid on 26 February 2017, in each case subject to continued employment. The awards will continue to be governed in accordance with the terms and conditions as were applicable immediately prior to the completion of the Mergers, with the exception of the modified terms pursuant to the Transaction Agreement. The modifications made to the performance share units granted under the 2014-2016 Plan and 2013-2015 Plan constituted modifications under the authoritative guidance for accounting for share compensation. The modification resulted in $8.6 million incremental costs of which $0.9 million was recognised on the acquisition date and the remaining $7.7 million will be recognised over the remaining service period of the award. We recognised $1.4 million share-based compensation expense related to these modifications from the date of the acquisition through the period ended 31 December 2015.

Further, pursuant to the Transaction Agreement, 1,721,530 deferred bonus shares held by Sorin employees that were outstanding immediately prior to the Mergers were accelerated and became vested upon the close of the Mergers, and were converted to 81,251 LivaNova ordinary shares in a manner designed to preserve the intrinsic value of such awards. The accelerated vesting and share conversion constituted a modification under the authoritative guidance for accounting for share-based compensation. This guidance requires the Company to revalue the award upon the transaction close and allocate the revised fair value between consideration paid and post-combination expense based on the ratio of service performed through the transaction date over the total service period of the award. The revised fair value allocated to post-combination services resulted in $0.3 million of incremental costs which was recognised on the acquisition date.

Cyberonics awards exchanged for LivaNova awards

Prior to the Mergers, Cyberonics issued share options and restricted share awards under its Amended and Restated New Employee Equity Inducement Plan and 2009 Stock Plan. All of the awards under these plans were accounted for as equity settled and were accelerated and vested as a result of the Mergers. Cyberonics share options (except as described below) and restricted shares were converted into 813,794 LivaNova share options and 209,043 LivaNova ordinary shares, respectively, in a manner designed to preserve the intrinsic value of such awards. The share options will continue to become exercisable in accordance with the terms and conditions as were applicable immediately prior to the completion of the Mergers. Additionally, 146,105 Cyberonics share options held by executive officers that were outstanding immediately prior to the Mergers were settled in cash in the amount of $5.0 million.

LivaNova awards

On 16 October 2015, the sole shareholder of LivaNova approved the adoption of the Company's 2015 Incentive Award Plan (the "2015 Plan"), which was previously approved by the Board of Directors of the Company on 14 September 2015 subject to such shareholder approval. The Plan was adopted in order to facilitate the grant of cash and equity incentives to non-employee directors, employees (including our named executive officers) and consultants of the Company and certain of our affiliates and to enable the Company and certain of our affiliates to obtain and retain services of these individuals. The Plan became effective as of 19 October 2015. Incentive awards may be granted under the 2015 Plan in the form of share options, share appreciation rights, restricted share, restricted share units, other share and cash-based awards and dividend equivalents. As of 31 December 2016, there were approximately 6,916,397 shares available for future grants under the 2015 Plan.

Share-Based Compensation

Amounts of share-based compensation recognised in the Consolidated Statement of Income, including the modification expense related to the Mergers, by expense category are as follows (in thousands):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Cost of sales	$ 984	$ 278
Selling, general and administrative	24,543	13,588
Research and development	1,266	511
Merger-related expense	271	13,010
Total share-based compensation expense	$ 27,064	$ 27,387

Amounts of share-based compensation expense recognised in the Consolidated Statement of Income, including the modification expense related to the Mergers, by type of arrangement are as follows, (in thousands):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Service-based share option awards	$ —	$ 6,988
Service-based share appreciation rights	12,468	2,747
Service-based restricted and restricted share unit awards	14,464	5,672
Performance-based restricted share and restricted share unit awards	132	11,724
Other Awards	—	256
Total share-based compensation expense	$ 27,064	$ 27,387

The expense for the year ended 31 December 2016 and for the transitional period 25 April 2015 to 31 December 2015 related to awards that were accounted for as equity settled.

Share Options and Share Appreciation Rights

We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of share option awards and share appreciation rights. The following table lists the assumptions we utilized as inputs to the Black-Scholes model:

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Weighted average share price	$ 54.31	$ 69.39
Exercise price	54.31–65.58	51.34–69.39
Dividend Yield[1]	—	—
Risk-free interest rate - based on grant date[2]	1.0% – 1.8%	1.2% – 1.4%
Expected option term - in years per group of employees/consultants[3]	4 – 5	4 – 5
Expected volatility at grant date[4]	30.75% – 32.36%	34%

(1) We do not plan to pay dividends.

(2) We use yield rates on U.S. Treasury securities for a period that approximated the expected term of the award to estimate the risk-free interest rate.

(3) We estimated the expected term of the awards granted using historic data of actual time elapsed between the date of grant and the exercise or forfeiture of options or SARs for employees. For consultants, the expected term is the remaining time until expiration of the option or SAR.

(4) Refer to "Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies-Share-based Compensation" for further information regarding expected volatility.

The following tables detail the activity for service-based share option awards and share appreciation rights, including awards assumed or issued as a result of the Mergers:

	Year Ended 31 December 2016		For the Transitional Period 25 April 2015 to 31 December 2015	
Options and SARs	**Number of Optioned Shares**	**Wtd. Avg. Exercise Price**	**Number of Optioned Shares**	**Wtd. Avg. Exercise Price**
Outstanding – at beginning of period	1,589,561	$ 55.56	1,125,738	$ 41.33
Granted	761,812	54.31	677,560	69.39
Assumed in Merger	—	—	180,076	51.34
Exercised	(256,293)	37.62	(199,655)	34.11
Forfeited	(81,230)	64.42	(45,553)	61.27
Cashed-out in Merger	—	—	(146,105)	31.67
Expired	(64,522)	55.45	(2,500)	28.21
Outstanding – end of year	1,949,328	57.07	1,589,561	55.56
Fully vested and exercisable – end of year	941,763	55.65	935,586	45.90
Fully vested and expected to vest – end of year [1]	1,915,212	57.03	1,571,191	55.40

(1) Factors in expected future forfeitures.

The weighted average remaining contractual life for the share options and SARs outstanding at 31 December 2016 and 31 December 2015 is 6.09 years and 4.70 years, respectively.

The aggregate intrinsic value of the options and SARs outstanding at 31 December 2016 and 31 December 2015 is $2.0 million and $12.7 million, respectively. The aggregate intrinsic value of options and SARs is based on the difference between the fair market value of the underlying share at the end of the period using the market closing share price, and exercise price for in-the-money awards.

The range of exercise prices for options and SARs outstanding at 31 December 2016 and 31 December 2015 are categorized in exercise price ranges as follows:

Outstanding Options	**31 December 2016**	**31 December 2015**
$10–20	30,100	94,021
$21–30	44,536	90,368
$31–40	12,763	20,481
$41–50	285,156	91,887
$51–60	949,135	633,329
$61–70	627,638	659,475
Total	1,949,328	1,589,561

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Weighted average grant date fair value of share option awards and SARs during the fiscal year[1]	$ 15.03	$ 21.05
Weighted average share price of share option exercises during the period	$ 37.62	$ 34.97
Aggregate intrinsic value of share option and SAR exercises during the fiscal year (in thousands)	$ 5,033	$ 5,464

(1) Including weighted average Mergers date fair value of SARs assumed in the Mergers.

Restricted Share and Restricted Share Units Awards

The following tables detail the activity for service-based restricted share and restricted share unit awards, including activity from restricted share units assumed or issued as a result of the Mergers:

	Year Ended 31 December 2016		For the Transitional Period 25 April 2015 to 31 December 2015	
	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value
Non-vested shares at beginning of period	203,563	$ 59.20	279,818	$ 50.70
Granted	407,822	55.53	99,870	57.55
Conversion of shares	—	—	213,038	69.39
Vested	(88,303)	56.65	(378,322)	54.92
Forfeited	(16,863)	62.73	(10,831)	54.65
Non-vested shares at end of year	506,219	$ 56.56	203,573	$ 63.57

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Weighted average grant date fair value of service-based share grants issued during the fiscal year	$ 55.53	$ 57.55
Aggregate fair value of service-based share grants that vested during the year (in thousands)	$ 4,810	$ 24,384

The following tables detail the activity for performance-based and market-based restricted share and restricted share unit awards:

	Year Ended 31 December 2016		For the Transitional Period 25 April 2015 to 31 December 2015	
	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value
Non-vested shares at beginning of period	—	$ —	155,288	$ 31.76
Granted	52,083	42.01	—	—
Conversion of shares	—	—	150,285	69.39
Vested	—	—	(245,466)	55.93
Forfeited	—	—	(60,107)	33.82
Non-vested shares at end of year	52,083	$ 42.01	—	$ —

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Weighted average grant date fair value of performance-based share grants issued during the fiscal year	$ 42.01	$ —
Aggregate fair value of performance-based share grants that vested during the year (in thousands)	$ —	$ 9,648

Note 21. Employee Retirement Plans

As a result of the Mergers, we assumed several defined benefit pension plans which include plans in the U.S., Italy, Germany, Japan and France. Prior to the Mergers, we did not sponsor any defined benefit pension plans.

We maintain a frozen cash balance retirement plan in the U.S., that is a contributory, defined benefit plan designed to provide the benefit in terms of a stated account balance dependent on the employer's promised interest-crediting rate. In Italy and France we maintain a severance pay defined benefit plan that obligates the employer to pay severance pay in case of resignation, dismissal or retirement. In other jurisdictions we sponsor non-contributory, defined benefit plans designated to provide a guaranteed minimum retirement benefits to eligible employees.

We carried forward Cyberonics' defined contribution plans after the Mergers, which consisted of the Cyberonics, Inc. Employee Retirement Savings Plan, that qualifies under Section 401(k) of the IRC, covering U.S. employees, the Cyberonics, Inc. Non-Qualified Deferred Compensation Plan (the "Deferred Compensation") covering certain U.S. middle and senior management and the Belgium Defined Contribution Pension Plan for Cyberonics' Belgium employees. The expense related to these plans was $11.9 million and $3.5 million for the years ended 31 December 2016 and the transitional period from 25 April 2015 to 31 December 2015, respectively.

As at 31 December 2016 the net underfunded status of our benefit plans was $4.5 million.

Risks Related to Defined-benefit Plans

The defined benefit plans expose the Company to various demographic and economic risks such as longevity risk, investment risks, currency and interest rate risk and in some cases inflation risk. The latter plans a role in the assumed wage increase and in some smaller plans where indexation is mandatory. Pension fund Trustees are responsible for and have full discretion over the investment strategy of the plan assets. In general Trustees manage pension fund risks by diversifying the investments of plan assets and by (partially) matching interest rate risk of liabilities.

The Company has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its defined benefit plans. The plans are governed by Trustees who have a legal obligation to evenly balance the interests of all stakeholders and operate under the local regulatory framework.

The change in benefit obligations and funded status of our U.S. and non-U.S. pension benefits are as follows (in thousands):

	Year Ended 31 December 2016		Transitional Period 25 April 2015 to 31 December 2015	
	U.S. Pension Benefits	Non-U.S. Pension Benefits	U.S. Pension Benefits	Non-U.S. Pension Benefits
Accumulated benefit obligation at end of year:	10,615	39,002	10,218	29,315
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	$ 10,218	$ 29,315	$ —	$ —
Service cost	—	693	—	155
Interest cost	367	534	86	117
Benefits obligations assumed in the Mergers	—	—	10,378	29,082
Employee contributions	—	—	—	—
Plan curtailments and settlements	(609)	(296)	(59)	—
Actuarial (gain) loss	698	1,227	(40)	193
Benefits paid	(249)	(2,214)	(147)	(232)
Foreign currency exchange rate changes and other	—	(682)	—	—
Projected benefit obligation at end of year	$ 10,425	$ 28,577	$ 10,218	$ 29,315
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 5,858	$ 2,760	$ —	$ —
Actual return on plan assets	277	29	(33)	6
Plan assets acquired in the Mergers	—	—	6,097	2,676
Employer contributions	648	—	—	83
Employee contributions	—	369	—	—
Plan settlements	(609)	—	(59)	—
Benefits paid	(249)	(244)	(147)	(5)
Foreign currency exchange rate changes	—	63	—	—
Fair value of plan assets at end of year	$ 5,925	$ 2,977	$ 5,858	$ 2,760
Funded status at end of year:				
Fair value of plan assets	$ 5,925	$ 2,977	$ 5,858	$ 2,760
Benefit obligations	10,425	28,577	10,218	29,315
Underfunded status of the plans	$ 4,500	$ 25,600	$ 4,360	$ 26,555
Recognised liability	$ 4,500	$ 25,600	$ 4,360	$ 26,555
Amounts recognised on the consolidated balance sheets consist of:				
Non-current liabilities	4,500	25,600	4,360	26,555
Recognised liability	$ 4,500	$ 25,600	$ 4,360	$ 26,555

Major actuarial assumptions used in determining the benefit obligations and net periodic benefit (income) cost for our significant benefit plans are presented in the following table as weighted averages:

	Year Ended 31 December 2016		Transitional Period 25 April 2015 to 31 December 2015	
	U.S. Pension Benefits	Non-U.S. Pension Benefits	U.S. Pension Benefits	Non-U.S. Pension Benefits
Actuarial assumptions used to determine benefit obligation				
Discount rate	3.63%	0.27% – 1.50%	3.79%	0.48% – 2.00%
Rate of compensation increase	N/A	2.50% – 3.89%	N/A	2.50% – 3.89%
Mortality rate	N/A	0.18% – 0.5%	N/A	0.20% – 0.50%
Employee turnover rate	N/A	3.20% – 4.57%	N/A	3.20% – 3.85%
Actuarial assumptions used to determine net periodic benefit cost				
Discount rate	3.04% – 3.79%	3.64%	3.64%	—
Expected return on plan assets	5.00%	5.00%	5.00%	0.48% – 2.00%

To determine the discount rate for our U.S. benefit plan, we used the Citigroup Above-median yield curve. For the discount rate used to determine the other non-U.S. benefit plans we consider local market expectations of long-term returns. The resulting discount rates are consistent with the duration of plan liabilities.

The expected long-term rate of return on plan assets assumptions are determined using a building block approach, considering historical averages and real returns of each asset class. In certain countries, where historical returns are not meaningful, consideration is given to local market expectations of long-term returns.

Retirement Benefit Plan Investment Strategy

In the U.S., we have an account that holds the defined benefit frozen balance pension plan assets. The Qualified Plan Committee (the "Plan Committee") sets investment guidelines for U.S. pension plans with the assistance of an external consultant. The plan assets in the U.S. are invested in accordance with sound investment practices that emphasize long-term fundamentals. The investment objectives for the plan assets in the U.S. are to achieve a positive rate of return that would be expected to close the current funding deficit and so enable us to terminate the frozen pension plan at a reasonable cost. These guidelines are established based on market conditions, risk tolerance, funding requirements and expected benefit payments. The Plan Committee also oversees the investment allocation process, selects the investment managers, and monitors asset performance. The investment portfolio contains a diversified portfolio of fixed income and equity index funds. Securities are also diversified in terms of domestic and international securities, short- and long-term securities, growth and value styles, large cap and small cap stocks.

Outside the U.S., pension plan assets are typically managed by decentralized fiduciary committees. There is a significant variation in policy asset allocation from country to country. Local regulations, local funding rules, and local financial and tax considerations are part of the funding and investment allocation process in each country. Pension plan assets outside of the U.S. were $3.0 million as of 31 December 2016 and were not material.

Our U.S. pension plan target allocations as of 31 December 2016, by asset category, are as follows:

	U.S. Pension Benefits
Equity Securities	25%
Debt Securities	70%
Other	5%
	100%

Retirement Benefit Fair Values

The following is a description of the valuation methodologies used for retirement benefit plan assets measured at fair value:

Equity Mutual Funds: Valued based on the year-end net asset values of the investment vehicles. The net asset values of the investment vehicles are based on the fair values of the underlying investments of the partnerships valued at the closing price reported in the active markets in which the individual security is traded. Equity mutual funds have a daily reported net asset value and we classify these investments as Level 2.

Fixed Income Mutual Funds: Valued based on the year-end net asset values of the investment vehicles. The net asset values of the investment vehicles are based on the fair values of the underlying investments of the partnerships valued based on inputs other than quoted prices that are observable.

Money Markets: Valued based on quoted prices in active markets for identical assets.

Retirement Benefit Fair Values

The following tables provide information by level for the retirement benefit plan assets that are measured at fair value, as defined by IFRS. Refer to "Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies" for discussion of the fair value measurement terms of Levels 1, 2, and 3.

		Fair Value Measurement Using Inputs Considered as		
(in thousands)	**Fair Value as at 31 December 2016**	**Level 1**	**Level 2**	**Level 3**
Equity mutual funds	$ 1,660	$ —	$ 1,660	$ —
Fixed income mutual funds	4,041	—	4,041	—
Money market funds	224	224	—	—
	$ 5,925	$ 224	$ 5,701	$ —

		Fair Value Measurement Using Inputs Considered as		
(in thousands)	**Fair Value as at 31 December 2015**	**Level 1**	**Level 2**	**Level 3**
Equity mutual funds	$ 1,727	$ —	$ 1,727	$ —
Fixed income mutual funds	4,058	—	4,058	—
Money market funds	73	73	—	—
	$ 5,858	$ 73	$ 5,785	$ —

Retirement Benefit Funding Plan

We have the policy to make the minimum required contribution to fund the U.S. pension plan as determined by MAP – 21 and the Highway and Transportation Funding Act of 2014 ("HAFTA").

During the transitional period 25 April 2015 to 31 December 2015, we did not make a material contribution to the U.S. pension plan or to the non-U.S. pension plan. The weighted average duration of the defined benefit plans is 8.6 years and about 10 years for U.S. plans and Non-U.S. plans respectively. We anticipate that we will make contributions to the U.S. pension plan of approximately $0.6 million during fiscal year 2016. Contributions to the non-U.S. pension plans in fiscal year 2016 are not expected to be material.

Benefit payments, including amounts to be paid from our assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

(in thousands)	**U.S. Plans**	**Non-U.S. Plans**
2017	$ 687	$ 1,058
2018	$ 881	$ 935
2019	$ 574	$ 898
2020	$ 994	$ 877
2021	$ 723	$ 1,011
Thereafter	$ 6,756	$ 23,798

Sensitivity analysis

The sensitivity of the defined benefit obligation as of 31 December 2016 to significant changes in actuarial assumptions:

	Increase +0.50%	Decrease –0.50%
Discount rate	(4.97)%	5.39%
Interest rate	(6.51)%	6.51%
	Increase +10%	**Decrease –10%**
Employee turnover rate	(0.12)%	0.44%

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected until credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the consolidated balance sheets.

Defined Contribution Plans. We incurred expenses for our defined contribution plans of $10.3 million and $3.0 million for the year ended 31 December 2016 and the transitional period 25 April 2015 to 31 December 2015, respectively.

Severance Indemnity. In Italy, upon termination of employment for any reason, employers are required to pay a termination indemnity (*Trattamento di fine Rapporto* or "TFR") to all employees as required by Italian legislation. The TFR serves as a backup in the event of redundancy or as an additional pension benefit after retirement. The TFR is considered a defined contribution plan with respect to amounts vesting after 1 January 2007 for employees who have opted for a supplementary pensions system or who have chosen to maintain the TFR at the company, for companies with more than 50 employees. A similar termination indemnity is required in France. In France the Indemnités de Fin de Carrière consists in a termination indemnity which must be paid by the employer to an employee in case of retirement, based on a number of monthly gross salary depending by seniority, type of contract and employee level. We have incurred expenses related to the Italian TFR and France severance indemnity of approximately $1.3 million and $1.5 million, respectively, for the year ended 31 December 2016 and for the transitional period 25 April 2015 to 31 December 2015.

Note 22. Income Taxes

Income tax expense (benefit) consists of the following (in thousands):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Current tax	$ 40,732	$ 28,481
Deferred tax	32,199	(31,265)
	$ 72,931	$ (2,784)

The following is a reconciliation of the statutory income tax rate to our effective income tax rate expressed as a percentage of income before income taxes:

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Statutory tax rate at U.K. Rate	20.0%	20.0%
Change in tax rate	(0.9)	(12.1)
Change in unrecognized deferred tax assets	(25.0)	(8.0)
Reduced tax benefit due to non-deductible transaction costs[1]	(2.7)	(19.5)
State and local tax provision, net of federal benefit	(2.2)	—
Foreign tax rate differential	(5.1)	36.3
Notional interest deduction	17.7	11.2
U.S. Subpart F	(2.0)	(7.1)
Research and development tax credits	2.2	5.6
Equity compensation	(1.0)	(20.8)
Reserve for uncertain tax positions	(2.2)	—
Domestic manufacturing deduction	0.7	2.8
Sale of intellectual property	(81.1)	—
Goodwill impairment	(10.7)	—
Distribution of subsidiary earnings	14.3	—
Other, net	4.2	1.7
Effective tax rate	(73.6)%	10.0%

(1) Included in transitional period 25 April 2015 to 31 December 2015 is the reversal of the deferred tax asset established during the fiscal year ended 24 April 2015 based on the assumption that these otherwise non-deductible transaction costs would be deductible if the business combination was not consummated. Because the transaction was ultimately consummated, the deferred tax asset was reversed as a non-deductible transaction cost in the amount of $2.3 million.

The change in net deferred taxes recognized in the balance sheet can be analyzed as follows (in thousands):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
At the beginning of the period	$ (49,396)	$ 20,662
Deferred tax income (expense) for the period, net	(32,199)	31,265
Currency translation & other	(955)	6,252
Effect of business combination[1]	—	(107,575)
At the end of the period	$ (82,550)	$ (49,396)

(1) The increase in assets and liabilities recognized in an acquisition can be attributed for the most part to the Mergers (see "Note 6. Business Combinations" for more details).

Deferred income tax assets and liabilities on a gross basis are summarized as follows (in thousands):

	31 December 2016	31 December 2015 (Restated)
Deferred tax assets:		
Net operating loss carryforwards	$ 74,043	$ 92,607
Tax credit carryforwards	17,242	17,731
Deferred compensation	1,805	5,150
Accruals and reserves	28,988	22,988
Depreciation and amortisation	85,201	15,423
Inventory	17,174	19,017
Other	8,856	2,348
Deferred tax assets	233,309	175,264
Deferred tax liabilities:		
Sale of intellectual property	(136,117)	—
Basis differences in subsidiaries	(12,553)	(13,555)
Property and equipment and intangible assets	(165,998)	(206,719)
Other	(1,191)	(4,386)
Deferred tax liabilities:	(315,859)	(224,660)
Total deferred tax assets (liabilities), net	$ (82,550)	$ (49,396)
Reported in the consolidated balance sheet:		
Deferred tax assets, net	$ 86,053	$ 60,665
Deferred tax liability, net	(168,603)	(110,061)
Net deferred tax asset (liability)	$ (82,550)	$ (49,396)

During the year ended 31 December 2016 we utilized a U.S. capital loss carryforward in the amount of $5.3 million. We have $12.8 million of foreign tax credits in the United States, $0.6 million in Canadian research and development credits, $2.8 million of U.S. State tax credits, and $1.2 million of other U.S. credits. Lastly, we have 3.1 million Euros of French refundable research and development credits shown as a current tax asset in our balance sheet. We have net operating losses ("NOL") and carryforwards of the following amounts (in thousands):

Region	Gross Amount	Gross Amount with No Expiration	With Expiration	Starting Expiration Year
Europe	$ 265,555	$ 253,794	$ 11,761	2017
South America	11,754	11,754	—	N/A
U.S. Federal	148,824	—	148,824	2020
U.S. State	138,488	—	138,488	2017
Far East	3,894	—	3,894	2018

As a result of the business combination, the historic net operating losses of Sorin U.S. are limited by IRC section 382. Before considering the adjustments for net unrealised and realised built in-gains, the annual limitation is approximately $14.2 million, which is sufficient to absorb the U.S. net operating losses prior to their expiration.

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 recognize the future tax liability of the sale with the balance as of 31 December 2016 of $136 million, and a corresponding deferred tax asset was recorded in the buying jurisdiction to recognize the future tax benefit of the amortization of the purchased intangibles with the balance as of 31 December 2016 of $68 million. As a result, the impact to tax expense for the year ended 31 December 2016 is approximately $81 million.

Deferred tax assets have not been recognized with respect of the following items in gross amounts (in thousands):

	31 December 2016	31 December 2015 (Restated)
Tax loss carryforwards	$ 218,058	$ 116,153
Other	17,801	17,559
	$ 235,859	$ 133,712

Included in the table above are primarily tax loss carryforwards for which a tax benefit was not recorded due to the inability to utilize such losses. In addition, the items included in the other category relate to certain tax credits and capital losses that a tax benefit was not recorded.

No provision has been made for income taxes on undistributed earnings of foreign subsidiaries as of 31 December 2016 because it is our intention to indefinitely reinvest undistributed earnings of our foreign subsidiaries. In the event of the distribution of those earnings in the form of dividends, a sale of the subsidiaries, or certain other transactions, we may be liable for income taxes. There should be no material tax liability on future distributions as most jurisdictions with undistributed earnings have various participation exemptions / no withholding tax. As at 31 December 2016, it was not practicable to determine the amount of the income tax liability related to those investments.

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 2012 through 2015. On 16 December 2016, the Italian tax inspectors issued an audit report for tax year 2014. Based on the audit report for tax year 2014 and an analysis as to the more likely than not outcome, we have not recognized tax benefits for the tax years 2012 through 2015. During the fiscal year ended 24 April 2015, based upon our review and rework of certain prior-year R&D tax credits, we believe that the credits are more likely than not to be sustained upon examination and as a result we have recognized these R&D tax credits.

Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of our tax positions in order to determine the appropriateness of our provisions for uncertain tax positions. However, there can be no assurance that we will accurately predict the outcome of these audits and the actual outcome of an audit could have a material impact on our consolidated results of income, financial position or cash flows. If all of our unrecognised tax benefits as 31 December 2016 were recognised, $22.4 million would impact our effective tax rate. We are unable to estimate the amount of change in the majority of our unrecognised tax benefits over the next 12 months. Refer to "Note 23. Commitments and Contingencies" for additional information regarding the status of current tax litigation.

We record accrued interest and penalties related to unrecognised tax benefits in interest expense and operating expense, respectively.

The major jurisdictions where we are subject to income tax examinations are as follows:

Jurisdiction	Earliest year open
U.S. - federal and state	1992
Italy	2012
Germany	2010
England and Wales	2012
Canada	2012
France	2010

In April 2016, the U.S. Internal Revenue Service ("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 with the Mergers certain future acquisitions of U.S. businesses made in exchange for LivaNova equity, and such linkage may impact LivaNova's 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.

On 13 October 2016, the U.S. IRS and U.S. Treasury Department released final and temporary regulations under section 385. In response to comments, the final regulations significantly narrow the scope of the proposed regulations previously issued on 4 April 2016. Like the proposed regulations, the final regulations establish extensive documentation requirements that must be satisfied for a debt instrument to constitute debt for U.S. federal tax purposes and re-characterizes a debt instrument as stock if the instrument is issued in one of a number of specified transactions. Moreover, while these new rules are not retroactive, they will impact our future intercompany transactions and our ability to engage in future restructuring.

Note 23. Commitments and Contingencies

3T Heater Cooler

FDA Warning Letter

On 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 27 August 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 stated 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.

CDC and FDA Safety Communications and Company Field Safety Notice Update

On 13 October 2016 the Centers for Disease Control and Prevention ("CDC") and FDA separately released safety notifications regarding the 3T Heater Cooler devices. The CDC's Morbidity and Mortality Weekly Report ("MMWR") and Health Advisory Notice ("HAN") reported that tests conducted by CDC and its affiliates indicate that there appears to be genetic similarity between both patient and heater cooler strains of the non-tuberculous mycobacterium ("NTM") bacteria M. chimaera isolated in hospitals in Iowa and Pennsylvania. Citing the geographic separation between the two hospitals referenced in the investigation, the report asserts that 3T Heater Cooler devices manufactured prior to 18 August 2014 could have been contaminated during the manufacturing process. The CDC's HAN and FDA's Safety Communication, issued contemporaneously with the MMWR report, each assess certain risks associated with heater cooler devices and provide guidance for providers and patients. The CDC notification states that the decision to use the 3T Heater Cooler during a surgical operation is to be taken by the surgeon based on a risk approach and on patient need. Both the CDC's and FDA's communications confirm that heater cooler devices are critical medical devices and enable doctors to perform life-saving cardiac surgery procedures.

Also on 13 October 2016, the Company issued a Field Safety Notice Update for U.S. users of 3T Heater Cooler devices to proactively and voluntarily contact facilities to facilitate implementation of the CDC and FDA recommendations. In the fourth quarter of 2016 the Company initiated a program to provide existing 3T users with a new loaner 3T device at no charge pending regulatory approval and implementation of additional risk mitigation strategies worldwide. This loaner program began in the U.S. and is being progressively made available on a global basis, prioritizing and allocating devices to 3T users based on pre-established criteria. We anticipate that this program will continue until we are able to address customer needs through a broader solution that includes implementation of one or more of the risk mitigation strategies currently under review with regulatory agencies.

At 31 December 2016, the Company recognized a liability for a product remediation plan related to its 3T Heater Cooler device. We concluded that it was probable that a liability had been incurred upon management's approval of the plan and the commitments made by management to various regulatory authorities globally in November and December 2016, and furthermore, the cost associated with the plan was reasonably estimable.

Baker, Miller et al v. LivaNova PLC

On 12 February 2016, LivaNova was alerted that a class action complaint had been filed in the U.S. District Court for the Middle District of Pennsylvania with respect to the Company's 3T Heater Cooler devices, naming as evidence, in part, the Warning Letter issued by the FDA in December 2015. The named plaintiffs to the complaint are two individuals who underwent open heart surgeries at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center in 2015, and the complaint alleges that: (i) patients were exposed to a harmful form of bacteria, known as nontuberculous mycobacterium ("NTM"), from LivaNova's 3T Heater Cooler devices; and (ii) LivaNova knew or should have known that design or manufacturing defects in 3T Heater Cooler devices can lead to NTM bacterial colonization, regardless of the cleaning and disinfection procedures used (and recommended by the Company). Named plaintiffs seek to certify a class of plaintiffs consisting of all Pennsylvania residents who underwent open heart surgery at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center between 2011 and 2015 and who are currently asymptomatic for NTM infection (approximately 3,600 patients).

The putative class action, which has not been certified, seeks: (i) declaratory relief finding the 3T Heater Cooler devices are defective and unsafe for intended uses; (ii) medical monitoring; (iii) general damages; and (iv) attorneys' fees. On 21 March 2016, the plaintiffs filed a First Amended Complaint adding Sorin Group Deutschland GmbH and Sorin Group USA, Inc. as defendants. On 29 September 2016 the Court dismissed LivaNova PLC from the case, and on 11 October 2016, the Court denied the Company's motion to dismiss Sorin Group Deutschland GmbH and Sorin Group USA, Inc. from the lawsuit.

In addition to the Baker case addressed in the preceding section, the Company has received additional lawsuits from around the U.S. related to surgical cases in which a 3T Heater Cooler device was allegedly used. Thirty-six lawsuits have been filed against the Company in state and Federal courts in Pennsylvania, South Carolina, North Carolina, Iowa, South Dakota, California, Texas, Massachusetts, Illinois, and Alabama and one case has been filed in Montreal, Canada. Two of the cases noted above are brought by plaintiffs seeking class action status: the case filed against the Company in Canada, which relates to surgical cases at the Montreal Heart Institute, and a single case relating to surgical cases performed at two hospitals in South Carolina.

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 relatively early stage of each of these matters, 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 these complaints or other related litigation in connection therewith will not have a material adverse effect on our business, results of operations, financial condition and/or liquidity.

Other Matters

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 €573 million, or $601.7 million), 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 SNIA debts and 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 €3.4 billion, or $3.6 billion, 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 the 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 Subsidiaries or SNIA 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 favorable decision pertaining to the case was delivered in Judgment No. 4101/2016 on 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 €300 thousand, or $315 thousand, as legal fees (of which €50,000 jointly with SNIA).

On 21 June 2016, the Public Administrations filed an appeal against the above decision before the Court of Appeal of Milan. The first hearing of the appeal proceedings was held on 20 December 2016 and the Court scheduled the final hearing for 16 May 2017. After such hearing the parties will file their final briefs and the Court is expected to render its decision in November 2017. SNIA appeared before the Court but did not file an appeal.

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 consolidated financial position, results of operations or cash flows.

Environmental Remediation Order

On 28 July 2015, Sorin and other direct and indirect shareholders of SNIA received an administrative order from the Italian Ministry of the Environment (the "Environmental Remediation Order"), directing them to promptly commence environmental remediation efforts at the Caffaro Chemical Sites (as described above). LivaNova believes that the Environmental Remediation Order is without merit. LivaNova (as successor to Sorin) believes that it should not be liable for damages relating to the Caffaro Chemical Operations pursuant to the Italian statute on which the Environmental Remediation Order relies because, 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 on 3 February 2016.

On 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.

Opposition to Merger Proceedings

On 28 July 2015, the Public Administrations filed an opposition proceeding to the proposed merger between Sorin and Cyberonics (the "Merger"), before the Commercial Courts of Milan, asking the Court to prohibit the execution of the Merger. In its initial decision on 20 August 2015 the Court authorized the Merger. Public Administrations did not appeal such decision. The proceeding then continued as a civil case, with the Public Administration seeking damages against LivaNova. The Commercial Court of Milan delivered a first instance decision on 6 October 2016 fully rejecting the Public Administrations' request and condemning the same to pay LivaNova €200 thousand in damages for frivolous litigation plus €200 thousand in legal fees. LivaNova has welcomed the decision, which has nonetheless been appealed by the Public Administrations before the Court of Appeal of Milan. The first hearing was held on 4 April 2017 and the Court scheduled a final hearing on 17 January 2018. The Court of Appeal is likely to take a decision around June 2018.

Andrew Hagerty v. Cyberonics, Inc.

On 5 December 2013, the United States District Court for the District of Massachusetts ("District Court") unsealed a qui tam action filed by former employee Andrew Hagerty against Cyberonics under the False Claims Act (the "False Claims Act") and the false claims statutes of 28 different states and the District of Columbia (*United States of America et al ex rel. Andrew Hagerty v. Cyberonics, Inc.* Civil Action No. 1:13-cv-10214-FDS). The False Claims Act prohibits the submission of a false claim or the making of a false record or statement to secure reimbursement from, or limit reimbursement to, a government-sponsored program. A "qui tam" action is a lawsuit brought by a private individual, known as a relator, purporting to act on behalf of the government. The action is filed under seal, and the government, after reviewing and investigating the allegations, may elect to participate, or intervene, in the lawsuit. Typically, following the government's election, the qui tam action is unsealed.

Previously, in August 2012, Mr. Hagerty filed a related lawsuit in the same court and then voluntarily dismissed that lawsuit immediately prior to filing this qui tam action. In addition to his claims for wrongful and retaliatory discharge stated in the first lawsuit, the qui tam lawsuit alleges that Cyberonics violated the False Claims Act and various state false claims statutes while marketing its VNS Therapy System, and seeks an unspecified amount consisting of treble damages, civil penalties, and attorneys' fees and expenses.

In October 2013, the United States Department of Justice declined to intervene in the qui tam action, but reserved the right to do so in the future. In December 2013, the District Court unsealed the action. In April 2014, Cyberonics filed a motion to dismiss the qui tam complaint, alleging a number of deficiencies in the lawsuit. In May 2014, the relator filed a First Amended Complaint. Cyberonics filed another motion to dismiss in June 2014, and the parties completed their briefing on the motion in July 2014. On 6 April 2015, the District Court dismissed all claims filed by Andrew Hagerty under the False Claims Act, but did not dismiss the claims for wrongful and retaliatory discharge. On 28 July 2015, Cyberonics filed its answer to the surviving claims in Mr. Hagerty's first Amended Complaint and asserted its demand for arbitration pursuant to Mr. Hagerty's employment documents.

In August 2015, Mr. Hagerty filed a Motion Seeking Leave to file a Second Amended Complaint responding to certain deficiencies noted by the District Court when dismissing claims in his First Amended Complaint alleging that Cyberonics submitted, or caused the submission of false claims under the False Claims Act. On 4 September 2015, Cyberonics filed our Brief in Opposition to Hagerty's Motion for Leave to file a Second Amended Complaint. Mr. Hagerty filed a Reply Brief in support of his Motion for Leave to file a Second Amended Complaint on 11 September 2015. On 16 September 2015, the District Court heard oral arguments on (a) Mr. Hagerty's motion seeking to amend his complaint, and (b) Cyberonics' pending motion demanding arbitration on the claims relating to wrongful and retaliatory discharge. On 17 November 2015, the District 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 ("FCA") 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 ("Appeals Court"). Both Mr. Hagerty and the Company filed written briefs with the Appeals Court and on 8 November 2016, the First Circuit Court of Appeals held oral arguments before the Court. On or about 16 December 2016, the Court issued its opinion in the matter, upholding the district court's dismissal of the FCA claims. Mr. Hagerty did not seek panel rehearing or en banc reconsideration of that opinion on or before 9 January 2017 and the First Circuit issued a mandate sending the case back to the district court for final disposition. Mr. Hagerty did not file a petition for Writ of Certiorari with the U.S. Supreme Court before 16 March 2017, and accordingly, the matter is concluded.

Tax Litigation

In a tax audit report notified on 30 October 2009, the Regional Internal Revenue Office of Lombardy (the "Internal Revenue Office") informed Sorin Group Italia S.r.l. that, among several issues, it was disallowing in part (for a total of €102.6 million, or $107.7 million) a tax-deductible write down of the investment in the U.S. company, Cobe Cardiovascular Inc., which Sorin Group Italia S.r.l. recognized 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 denied at the first jurisdictional level. These decisions were appealed by the Company. The appeal submitted against the first-level decision for 2004 was accepted. The second-level decision related to the 2004 notice of assessment was appealed to the Italian Supreme Court (Corte di Cassazione) by the Internal Revenue Office on 3 February 2017. The Supreme Court's decision is pending. The appeal submitted against the first-level decision for 2005 was rejected. The second-level decision (relating to the 2005 notice of assessment) has been appealed to the Italian Supreme Court (Corte di Cassazione), where LivaNova will argue that the assessment should be deemed null, void and illegitimate because of inappropriate interpretation and application of regulations. This litigation is still pending before the Italian Supreme Court. The appeal filed against the second-level decision for 2006 was rejected; LivaNova will file an appeal of this decision to the Italian Supreme Court within 28 April 2017.

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. In that matter the Internal Revenue Office claims 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 subsequently utilized in 2007 and 2008. Both notices of assessment were challenged within the statutory deadline. The Provincial Tax Court of Milan has stayed its decision for years 2007 and 2008 pending resolution of the litigation regarding years 2004, 2005 and 2006.

The total amount of losses in dispute is €62.6 million or $65.7 million. LivaNova has continuously reassessed its potential exposure in this matter, taking into account the recent general adverse trend to taxpayers in this type of litigation. Although LivaNova's defensive arguments are strong, the negative Court decisions experienced so far (five negative judgments versus one positive judgment received to date) has led LivaNova to leave unchanged the previously recognized risk provision of €16.9 million for $17.7 million.

Other Litigation

Additionally, we are the subject of various pending or threatened legal actions and proceedings that arise in the ordinary course of our business. These matters are subject to many uncertainties and outcomes that are not predictable and that may not be known for extended periods of time. Since the outcome of these matters cannot be predicted with certainty, the costs associated with them could have a material adverse effect on our consolidated net income, financial position or cash flows.

Lease Agreements

We have operating leases for facilities and equipment. Rent expense from all operating leases amounted to approximately $26.1 million, $5.2 million, $0.8 million and $0.9 million for the year ended 31 December 2016, for the transitional period from 25 April 2015 to 31 December 2015 and for the fiscal years ended 24 April 2015 and 25 April 2014, respectively.

Future minimum lease payments for operating leases as of 31 December 2016 (in thousands):

No later than 1 year	$	18,839
Later than 1 year and no later than 5 years		54,910
Later than 5 years		22,891

Note 24. Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the net profit attributable to attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table sets forth the computation of basic and diluted net earnings per share of common shares, (in thousands except per share data):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Numerator:		
Loss attributable to owners of the parent	$ (194,606)	$ (28,278)
Denominator:		
Basic weighted average shares outstanding	48,860	32,741
Add effects of share options[1]	—	—
Diluted weighted average shares outstanding	48,860	32,741
Basic loss per share	$ (3.98)	$ (0.86)
Diluted loss per share	$ (3.98)	$ (0.86)

(1) Excluded from the computation of diluted EPS were average outstanding dilutive instruments (options, stock appreciation rights ("SARs") and restricted shares and restricted share units) to purchase 154,000 and 221,000 ordinary shares of LivaNova because to include them would be anti-dilutive due to the net loss during the year ended 31 December 2016 and the transitional period April 25, 2015 to 31 December 2015, respectively.

Note 25. Geographic and Segment Information

We identify operating segments based on the way we manage, evaluate and internally report our business activities for purposes of allocating resources and assessing performance.

Upon completion of the Mergers, we reorganized our reporting structure and aligned our segments and the underlying divisions and businesses. LivaNova was then comprised of three principal Business Units: Cardiac Surgery, Neuromodulation and Cardiac Rhythm Management, corresponding to three main therapeutic areas. The historical Cyberonics operations were included under the Neuromodulation Business Unit, and the historical Sorin businesses were included under the Cardiac Surgery and Cardiac Rhythm Management Business Units. Corporate activities included corporate business development and New Ventures. The New Ventures group was created with contributions from both Cyberonics and Sorin. This change had no impact on our consolidated results for prior periods presented.

In July 2016, we announced a new organizational structure and the introduction of new talent into the executive leadership team. We are transitioning the organization to a regional focus with regional leaders in the U.S., Europe, and the rest of world. Supporting the regions will be our three product franchises: Neuromodulation, Cardiac Surgery, and Cardiac Rhythm Management. The product franchise leaders will be responsible for product R&D and marketing on a global basis. We believe a regional focus will allow a number of tangible benefits, namely the ability to share resources, faster decision-making, improved market access capabilities, and greater focus on the needs of physicians, hospitals, and patients. Our new operating structure and the introduction of new talent into the leadership team will facilitate an evolution of our goals and decision making processes in the near to immediate term; accordingly, we will continue to monitor the way we manage, evaluate and internally report our business activities and the corresponding impact this could have on our segment reporting.

The Cardiac Surgery segment generates its revenue from the development, production and sale of cardiovascular surgery products. Cardiac Surgery products include oxygenators, heart-lung machines, autotransfusion, mechanical heart valves and tissue heart valves. The Cardiac Rhythm Management segment generates its revenue from the development, manufacturing and marketing of products for the diagnosis, treatment, and management of heart rhythm disorders and heart failure. Cardiac Rhythm Management products include high-voltage defibrillators CRT-D and low-voltage pacemakers. The Neuromodulation segment generates its revenue from the design, development and marketing of neuromodulation therapy for the treatment

of drug-resistant epilepsy and treatment resistant depression. Neuromodulation products include the VNS Therapy System, which consists of an implantable pulse generator, a lead that connects the generator to the vagus nerve, surgical equipment to assist with the implant procedure, equipment to enable the treating physician to set the pulse generator stimulation parameters for the patient, instruction manuals and magnets to suspend or induce stimulation manually.

Corporate expenses include shared services for finance, legal, human resources and information technology. Corporate business development ("New Ventures") which is focused on new growth platforms and identification of other opportunities for expansion. In the tables below, these organizations are reported together in "Other."

Net sales of our reportable segments include end-customer revenues from the sale of products they each develop and manufacture or distribute. We define segment income as operating income before merger and integration, restructuring and impairment.

Net sales and operating loss by segment are as follows (in thousands):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Revenue		
Cardiac Surgery	$ 611,715	$ 147,635
Cardiac Rhythm Management	249,067	52,470
Neuromodulation	351,406	214,761
Other	1,737	841
Total Revenue	$ 1,213,925	$ 415,707

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Income (loss) before merger, integration, restructuring expenses and impairment of assets:		
Cardiac Surgery	$ (15,487)	$ 7,441
Cardiac Rhythm Management	(27,628)	(13,293)
Neuromodulation	179,684	92,907
Other	(81,411)	(33,998)
Total Reportable Segments' Income before merger, integration and restructuring expenses	55,158	53,057
Merger and integration expenses	20,537	55,787
Restructuring expenses	55,943	11,323
CRM asset impairment	72,314	—
Impairment of AFS assets	—	5,062
Operating loss	$ (93,636)	$ (19,115)

The following tables present capital expenditures by reportable segment (in thousands):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Capital expenditures		
Cardiac Surgery	$ 21,190	$ 10,402
Cardiac Rhythm Management	3,809	4,954
Neuromodulation	8,098	1,418
Other	5,265	512
Total	$ 38,362	$ 17,286

Revenue of our reportable segments include end-customer revenues from the sale of products they each develop and manufacture or distribute. The segment income represents operating income before merger, integration and restructuring expenses. This measurement is included in the reporting package for the 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.

Geographic Information

We operate under three geographic regions: United States, Europe, and Rest of World. Accordingly, the geographic information for the prior years has been restated to present these regions.

Net sales to external customers by geography are determined based on the country the products are shipped from and are as follows (in thousands):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
United States	$ 490,506	$ 232,261
Europe[1] [2]	402,066	105,322
Rest of World	321,353	78,124
Total	$ 1,213,925	$ 415,707

(1) Net sales to external customers includes $37.3 million and $14.3 million in the United Kingdom, our country of domicile, for the year ended 31 December 2016 and the transitional period April 25, 2015 to 31 December 2015, respectively. Prior to the Mergers, we were domiciled in the United States. In addition, the only country (other than the U.S.) in which sales exceeded 10% of total sales, was France, at 10.4% of total sales for the year ended 31 December 2016.

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

No single customer represented over 10 percent of our consolidated revenue in the year ended 31 December 2016 and in the transitional period 25 April 2015 to 31 December 2015.

Property, plant, and equipment, net by geography are as follows (in thousands):

	31 December 2016	31 December 2015 (Restated)
United States	$ 58,679	$ 54,935
Europe[1]	116,385	136,357
Rest of World	31,465	39,419
Total	$ 206,529	$ 230,711

(1) Property, plant, and equipment, net included $3.0 million and $2.4 million in the United Kingdom as of 31 December 2016 and 31 December 2015, respectively. Prior to the Mergers, we were domiciled in the United States.

Note 26. Related Parties

Interests in subsidiaries are set out in "Note 10. Investments in associates, joint ventures and subsidiaries". Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

In the normal course of business the Company issues loans, purchases and sells goods and services from or to various related parties in which the Company typically holds a 50% or less equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

Prior to the Mergers the Company did not carry any transactions with related parties. The following receivable balances arose from sale and financing transactions with associates (in thousands):

Balance Sheet	31 December 2016	31 December 2015 (Restated)
Financial assets - non-current:		
Caisson Interventional LLC	$ 1,870	$ 713
	$ 1,870	$ 713
Trade receivables - current:		
Microport Sorin	$ 209	$ 1,204
Cardiosolution Inc	10	10
	$ 219	$ 1,214
Other financial assets - current:		
Highlife SAS	$ 6,852	$ 1,632
	$ 6,852	$ 1,632

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

Income Statement	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Revenue:		
Microport Sorin.	$ 1,704	$ 565
Financial income:		
Highlife SAS	$ 157	$ 3

Total compensation in respect of key management, who are defined as the Board of Directors and certain members of senior management, is considered to be a related party transaction.

The total compensation in respect of key management was as follows (in thousands):

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Salaries and short term benefits	$ 8,890	$ 4,076
Post-employment benefits	454	112
Termination benefits	2,066	3,589
Share-based compensation	15,967	5,952
	$ 27,377	$ 13,729

There were no other material related party transactions in the period.

Note 27. Consolidated Statements of Income - Expenses by Nature

(in thousands)	Year Ended 31 December 2016	Transitional Period 24 April 2015 to 31 December 2015 (Restated)
Revenue	$ 1,213,925	$ 415,707
Other revenues and income	12,828	1,907
Change in inventories of work-in-process, semi-finished and finished goods	(24,038)	(39,452)
Increase in fixed assets for internal work	5,275	1,623
Cost of raw materials and other materials	(272,896)	(53,808)
Cost of services used	(251,233)	(56,821)
Personnel expense	(460,264)	(166,662)
Other operating costs	(73,479)	(91,503)
Amortisation, depreciation and impairment	(175,387)	(19,456)
Additions to provisions	(68,367)	(5,588)
Interest expense	(10,616)	(1,509)
Interest income	1,698	392
Impairment of AFS assets	—	(5,062)
Foreign exchange	3,491	(7,522)
Share of loss from equity method investments	(22,612)	(3,308)
Loss before tax	(121,675)	(31,062)
Income tax expense (benefit)	72,931	(2,784)
Loss attributable to owners of the parent	$ (194,606)	$ (28,278)

Note 28. Employee and Key Management Compensation Costs

Employee costs

(in thousands)	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
Wages and salaries	$ 353,154	$ 126,841
Share-based payments[1]	27,064	19,264
Other employee costs	80,046	20,557
	$ 460,264	$ 166,662

(1) Represents share-based payments included in personnel expense. Refer to Note 20. "Share-Based Incentive Plans" for total share-based compensation expense.

Details of directors' remuneration are included in pages 63 to 76 of the Directors' Remuneration Report, which forms part of these financial statements.

Employee numbers

The average monthly employee numbers on a full-time equivalent basis, excluding employees of associated and joint venture undertakings and including executive directors were 4,674, 4,660 and 661 for the year ended 31 December 2016, for the period 19 October 2015 to 31 December 2015 (transitional period subsequent to the Mergers), and for the period 25 April 2015 to 18 October 2015 (transitional period prior to the Mergers), respectively.

Note 29. Exceptional Items

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

	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015 (Restated)
Merger and integration expenses	$ 20,537	$ 55,787
Restructuring expenses	55,943	11,323
CRM impairment	72,314	—
Impairment of AFS assets	—	5,062
Total exceptional items	$ 148,794	$ 72,172

Merger Expenses. Merger expenses consisted of expenses directly related to the Mergers, such as professional fees for legal services, accounting services, due diligence, a fairness opinion and the preparation of registration and regulatory filings in the United States and Europe, as well as investment banking fees. Refer to "Note 6. Business Combinations" for more details.

Integration Expenses. Integration expenses consisted primarily of consultation with regard to our systems integration, organization structure integration, finance, synergy and tax planning, the transition to U.S. GAAP for Sorin activity, our London Stock Exchange listing and certain re-branding efforts.

Restructuring Expenses. After the consummation of the Mergers between Cyberonics with Sorin in October 2015, we initiated several restructuring plans to combine our business operations. We identify costs incurred and liabilities assumed for the restructuring plans. The restructuring plans are intended to leverage economies of scale, eliminate duplicate corporate expenses, streamline distributions and logistics and office functions in order to reduce overall costs.

CRM Impairment. During the year ended 31 December 2016, we recorded a $72.3 million impairment related to intangible and tangible assets of the CRM franchise. Refer to "Note 9. Goodwill and Intangible Assets" for further details.

Impairment of AFS assets. During the transitional period 25 April 2015 to 31 December 2015 an impairment of $5.1 million in equity investment in Cerbomed GmbH was recorded. Refer for details to "Note 4. Fair Value Measurements".

Note 30. Auditors' Remuneration

(in thousands)	Year Ended 31 December 2016	Transitional Period 25 April 2015 to 31 December 2015
LivaNova auditors		
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	$ 2,617	$ 2,172
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	1,725	1,613
Total audit fees payable to the Company's auditor	$ 4,342	$ 3,785
Taxation compliance services	$ 29	$ —
Taxation advisory services	—	66
Other non-audit services	543	410
Total fees payable to the Company's auditor	$ 4,914	$ 4,261

Note 31. New Accounting Pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all

three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

IFRS 16 Leases. In January 2016, the IASB issued final accounting guidance on leases which provides a new model for lease accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortization of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, *IFRS 15 Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

The Company does not expect to adopt IFRS 9 or IFRS 15 before 1 January 2018 and has not yet determined its date of adoption for IFRS 16. The Company has not yet completed its evaluation of the effect of adoption of these standards. The EU has not yet adopted IFRS 9, IFRS 15 or IFRS 16 and consequently these standards are not yet available for early adoption to the Company.

There are no other standards and interpretations in issue but not yet adopted that the management anticipate will have a material effect on the reported income or net assets of the Company.

Note 32. Events after the Reporting Period

We announced on 23 February 2017 our voluntary cancellation of our standard listing of ordinary shares with the London Stock Exchange ("LSE"). We have taken this action due to the low volume of our ordinary share trading on the LSE. Trading ceased at the close of business on 4 April 2017. We will continue to serve our shareholders through our listing on the NASDAQ Stock Market, where the vast majority of trading of our ordinary shares occurs. This decision has no bearing on our status as a UK company and our commitment to invest in the European market.

On 31 March 2017, we announced the resignation of Vivid Sehgal, our Chief Financial Officer, effective 31 May 2017. We are currently engaged in an ongoing effort to identify and hire a successor.

In March 2017, we committed to a plan to sell our Suzhou Industrial Park facility in Shanghai, China, an emerging market greenfield project for the local manufacture of Cardiopulmonary disposable products in Suzhou Industrial Park in China. As a result of this exit plan we recorded an impairment of the building and equipment of $4.6 million and accrued $0.5 million of additional costs, primarily related to employee severance, during the three months ended March 31, 2017. In addition, the remaining $13.1 million carrying value of the land, building and equipment will be classified as Assets Held for Sale.

On May 2, 2017, LivaNova acquired the remaining outstanding interests in Caisson Interventional, LLC ("Caisson"), in support of LivaNova's strategic growth initiatives. Based in Maple Grove, Minn., Caisson is a privately held clinical-stage medical device company focused on the design, development and clinical evaluation of a novel transcatheter mitral valve replacement (TMVR) implant with a fully transvenous delivery system. LivaNova has been an investor in Caisson since 2012 and has agreed to pay up to $72 million, net of $6 million of debt forgiveness, to acquire the remaining 51 percent of the company. The first payment of $18 million will be made at closing with the balance paid on a schedule driven primarily by regulatory approvals and sales earn outs. As a result of the acquisition, LivaNova expects to recognize a pre-tax non-cash gain during the second quarter on the $15 million book value of its existing investment in Caisson.

Independent auditors' report to the members of LivaNova PLC

Report on the parent company financial statements

Our opinion

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

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the company balance sheet as at 31 December 2016;
- the company statement of income and company statement of comprehensive income for the year then ended;
- the company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' responsibility statement set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

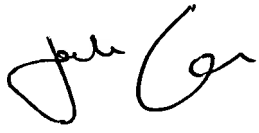
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of LivaNova PLC for the year ended 31 December 2016.



Jonathan Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 May 2017

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

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LIVANOVA PLC
COMPANY STATEMENT OF INCOME
(In thousands)

	Note	Year Ended 31 December 2016	From Inception to 31 December 2015
Revenue	16	$ 15,915	$ 1,764
Net operating expenses		(56,515)	(8,932)
Operating loss before exceptional items		(40,600)	(7,168)
Exceptional items	18	(45,510)	(4,106)
Operating loss		(86,110)	(11,274)
Income from subsidiary undertakings		270,474	—
Interest income		1,867	199
Interest expense		(9,540)	(1,807)
Foreign exchange		(17,304)	(6,867)
Loss before tax		159,387	(19,749)
Income tax expense	13	2,023	4,629
Income (loss) for the period		$ 157,364	$ (24,378)

LIVANOVA PLC

COMPANY STATEMENT OF COMPREHENSIVE INCOME

(In thousands)

	Note	Year Ended 31 December 2016	From Inception to 31 December 2015
Income (loss) for the period		$ 157,364	$ (24,378)
Items of other comprehensive income (loss) that will subsequently be reclassified under profit:			
Cash flow hedges for interest rate fluctuations	8	543	124
Tax impact		(296)	(41)
Foreign currency translation differences		606	(22,665)
Total items of other comprehensive income (loss) that will subsequently be reclassified under profit		853	(22,582)
Items of other comprehensive income (loss) that will not subsequently be reclassified under profit:			
Remeasurements of net liability (asset) for defined benefits	13	(6)	(8)
Tax impact		1	3
Total items of other comprehensive income (loss) that will not subsequently be reclassified under profit		(5)	(5)
Total other comprehensive income (loss), net of taxes		848	(22,587)
Total comprehensive income (loss) for the period, net of taxes		$ 158,212	$ (46,965)

LIVANOVA PLC
COMPANY BALANCE SHEET
(In thousands)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current Assets			
Property, plant and equipment	3	$ 1,127	$ 434
Intangible assets	4	1,034	1,086
Investments in subsidiaries	5	3,195,829	3,476,708
Deferred tax assets	13	1,514	5,088
Other assets		15,094	4,288
Total non-current Assets		$3,214,598	$3,487,604
Trade receivables	7	14,345	3,847
Other receivables		6,652	14,495
Financial derivative assets	8	8,269	—
Other financial assets	6	250,172	88,054
Tax assets		8,789	8,098
Cash and cash equivalents		25,832	10,102
Total current assets		$ 314,059	$ 124,596
Total assets		$3,528,657	$3,612,200
LIABILITIES AND EQUITY			
Equity			
Share capital	9	74,578	$ 75,444
Merger relief reserve	9	66,446	2,649,592
Share premium	9	9,684	1,673
Capital reduction reserve	9	1,257	—
Treasury shares	9	(4,500)	—
Accumulated other comprehensive loss	9	(21,739)	(22,587)
Retained earnings (deficit)		2,690,870	(22,614)
Total equity		$2,816,596	$2,681,508
Non-current liabilities			
Financial derivative liabilities	8	$ 1,392	$ 1,786
Financial liabilities	10	172,458	192,375
Provision for employee severance indemnities and other employee benefit provisions		1,017	285
Deferred tax liabilities	13	38	—
Total non-current liabilities		$ 174,905	194,446
Current liabilities			
Trade payables		$ 12,905	$ 10,186
Other payables	11	10,673	9,471
Provisions		1,180	—
Financial derivative liabilities	8	942	1,798
Other financial liabilities	10	503,313	709,961
Tax payable		8,143	4,830
Total current liabilities		$ 537,156	$ 736,246
Total liabilities and equity		$3,528,657	$3,612,200

Registration number 09451374

The financial statements on pages 160 to 194 were approved by the Board of Directors and were signed on its behalf on 2 May 2017 by:

DAMIEN MCDONALD
CHIEF EXECUTIVE OFFICER & DIRECTOR

2 May 2017

LIVANOVA PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
(In thousands)

	Note	Ordinary Shares Number of Shares	Ordinary Shares Share Capital	Merger Relief Reserve	Share Premium	Capital Reduction Reserve	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Equity
Opening balance at 20 February 2015		—	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Issuance of LivaNova ordinary shares	9	50	75	—	—	—	—	—	—	75
Cancellation of LivaNova ordinary shares	9	(50)	(75)	—	—	—	—	—	—	(75)
Issuance of LivaNova ordinary shares	9	48,719	75,218	2,649,592	—	—	—	—	—	2,724,810
Share-based compensation plans	12	149	226	—	1,673	—	—	—	1,764	3,663
Total transactions with owners, recognised directly in shareholders' equity		48,868	75,444	2,649,592	1,673	—	—	—	1,764	2,728,473
Loss for the period		—	—	—	—	—	—	—	(24,378)	(24,378)
Other comprehensive loss	9	—	—	—	—	—	—	(22,587)	—	(22,587)
Total comprehensive loss for the period		—	—	—	—	—	—	(22,587)	(24,378)	(46,965)
Balance at 31 December 2015		48,868	$ 75,444	$2,649,592	$ 1,673	$ —	$ —	$ (22,587)	$ (22,614)	$ 2,681,508
Capital Restructuring	9	—	—	(2,583,146)	—	—	—	—	2,583,146	—
Share repurchases	9	(993)	(1,257)	—	—	1,257	(4,500)	—	(49,987)	(54,487)
Share-based compensation plans	12	282	391	—	8,011	—	—	—	22,961	31,363
Total transactions with owners, recognised directly in shareholders' equity		(711)	(866)	(2,583,146)	8,011	1,257	(4,500)	—	2,556,120	(23,124)
Income for the period		—	—		—	—	—	—	157,364	157,364
Other comprehensive income	9	—	—	—	—	—	—	848	—	848
Total comprehensive income for the period		—	—	—	—	—	—	848	157,364	158,212
Balance at 31 December 2016		48,157	$ 74,578	$ 66,446	$ 9,684	$ 1,257	$ (4,500)	$ (21,739)	$ 2,690,870	$ 2,816,596

Note 1. Nature of Operations

Company information. LivaNova PLC (the "Company", "LivaNova", "we", or "our") is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 09451374). The Company is domiciled in the United Kingdom and its registered address is 20 Eastbourne Terrace, London, W2 6LG, United Kingdom.

The principal legislation under which LivaNova operates is the Companies Act 2006, and regulations made thereunder. As at 31 December 2016, LivaNova Shares were admitted to listing on the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for standard listings. LivaNova complies with Listing Principles 1 and 2 as set out in Chapter 7 of the Listing Rules, as required by the Financial Conduct Authority.

Background. LivaNova was incorporated in England and Wales on 20 February 2015 (the "Inception date") for the purpose of facilitating the business combination of Cyberonics, Inc., a Delaware corporation ("Cyberonics") and Sorin S.p.A., a joint stock company organized under the laws of Italy ("Sorin"). As a result of the business combination, LivaNova became the holding company of the combined businesses of Cyberonics and Sorin. This business combination (the "Mergers") became effective on 19 October 2015, at which time LivaNova's ordinary shares were listed for trading on the NASDAQ Global Market ("NASDAQ") and on the London Stock Exchange (the "LSE") as a standard listing under the trading symbol "LIVN". On 23 February 2017, we announced our voluntary cancellation of our standard listing of ordinary shares with the London Stock Exchange due to the low volume of our ordinary share trading on the London Stock Exchange. Trading ceased at the close of business on 4 April 2017.

As part of the Mergers Sorin undertook a cross-border legal entity merger with LivaNova (the "Sorin merger") under which LivaNova was the surviving ultimate holding company. The Company elected to apply predecessor accounting to this common control business combination and as a result of the Sorin merger the assets and liabilities of Sorin were transferred to LivaNova and recorded in the Company's books using the predecessor book values in the amount of $903.0 million as at the date of the transfer. All shares of Sorin were cancelled and LivaNova issued 22,673 thousands shares to the Sorin shareholders. As a result of the Sorin merger a merger relief reserve was recorded in the amount of $867.9 million.

Immediately following the Sorin merger, each issued and outstanding Cyberonics common shares was converted into LivaNova ordinary shares. As a result of the share conversion, LivaNova issued 26,046 thousands shares to the Cyberonics shareholders in exchange for Cyberonics shares. The investment in Cyberonics was recorded at cost, being the fair value of consideration transferred which is calculated by reference to the fair value of Cyberonics's closing share price of $69.95 per share on 16 October 2015, the last business day prior to the date of the share exchange. As a result of the share exchange transaction the Company recognised a merger reserve in the amount of $1,781.7 million, equal to the difference between the fair value of the increase in the investment carrying value and the aggregate nominal value of the shares issued. Since the shares issued by LivaNova as part of the Cyberonics merger were issued with nominal value equal to fair value on that basis the shares were not issued at a premium, therefore, no share premium was recognised.

In respect of both of these share issues, the Company took merger relief in line with the Companies Act 2006 and recognised a merger relief reserve instead of share premium.

Description of the business. LivaNova is a global medical device company focused on the development and delivery of important therapeutic solutions for the benefit of patients, healthcare professionals, and healthcare systems throughout the world. Working closely with medical professionals throughout the world in the field of Cardiac Surgery, Neuromodulation and Cardiac Rhythm Management, we design, develop, manufacture and sell innovative therapeutic solutions that are consistent with our mission to improve our patients' quality of life, increase the skills and capabilities of healthcare professionals and minimize healthcare costs.

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

Basis of Preparation. The separate financial statements of LivaNova have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments and share based payments awards that have been measured at fair value in accordance with the Companies Act 2006. The financial statements are presented in United States (U.S.) dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

The financial statements of LivaNova have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). The change in basis of preparation has enabled LivaNova to take advantage of the applicable disclosure exemptions permitted by FRS 101 in the financial statements, which are summarised below:

Standard Disclosure	Exemption
IFRS 7, 'Financial Instruments: Disclosures'	Full exemption
IFRS 13, 'Fair Value Measurement'	para 91-99 – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities
IAS 7, 'Statement of Cash Flows'	Full exemption
IAS 24, 'Related Party Disclosures'	para 17 – key management compensation
	The requirements to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

Fiscal Year-End. The periods presented include the year ended 31 December 2016 and the period from inception date to 31 December 2015.

Investments. Investments in subsidiaries, associates and joint ventures are accounted for at cost less any provision for impairment.

Foreign currencies. The U.S. dollar (US$) is the functional currency of the Company and presentation currency of LivaNova separate financial statements. Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of income (loss) except when deferred in other comprehensive income (loss) as qualifying cash flow hedges.

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

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

	Weighted average rate GBP	Closing rate GBP
For the year ended 31 December 2016	0.741130	0.812240
For the period from inception to 31 December 2015	0.650364	0.678578

All exchange differences are presented as part of "Foreign exchange" on the statement of income (loss).

Financial Instruments

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

(a) *Financial assets*

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

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

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

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

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The receivables balance consists of trade receivables from subsidiaries and third party customers. We maintain an allowance for doubtful accounts for potential credit losses based on our estimates of the ability of customers to make required payments, historical credit experience, existing economic conditions and expected future trends. We write off uncollectible accounts against the allowance when all reasonable collection efforts have been exhausted. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. The losses arising from impairment are recognised in the statement of income or loss in net operating expenses. Refer to "Note 7. Trade Receivables and Allowance for Bad Debt" for further information.

Available-for-sale (AFS) financial investments. AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have financial instruments classified as AFS.

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of its continuing involvement in it. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(b) *Financial liabilities*

Initial recognition and measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings (bank debt), payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and bank debt including bank overdrafts, and derivative financial instruments.

The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains or losses on liabilities held-for-trading are recognised in the statement of income or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings (bank debt). After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of income or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts. Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of income or loss.

Derivative financial instruments and hedge accounting. We use currency exchange rate derivative contracts and interest rate derivative instruments, to manage the impact of currency exchange and interest rate changes on income statement and cash flows. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. We evaluate hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in income statement. Cash flows from derivative contracts are reported as operating activities in the statements of cash flows.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

In order to minimize income statement and cash flow volatility resulting from currency exchange rate changes, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities and of some revenue. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on

the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassed into income statement to offset exchange differences originated by the hedged item or to adjust the value of operating income (expense). We do not enter into currency exchange rate derivative contracts for speculative purposes.

We use interest rate derivative instruments designated as cash flow hedges to manage the exposure to interest rate movements and to reduce the risk of increase of borrowing costs by converting floating-rate debt into fixed-rate debt. Under these agreements, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to agreed-upon notional principal amounts. The interest rate swaps are structured to mirror the payment terms of the underlying loan. The fair value of the interest rate swaps is reported in the balance sheets financial assets or liabilities (current or non-current) depending upon the gain or loss position of the contract and the maturity of the future cash flows of the fair value of each contract. The effective portion of the gain or loss on these derivatives is reported as a component of accumulated other comprehensive income (loss). The non-effective portion is reported in interest expense in income statement.

Cash and Cash Equivalents. Cash and cash equivalents include all cash balances highly liquid investments with an original maturity of three months or less, which approximate their fair value.

Borrowing costs. General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

Property, Plant and Equipment ("PP&E"). PP&E is carried at cost, less accumulated depreciation and any accumulated impairment losses. Maintenance and repairs, and minor replacements are charged to expense as incurred, while significant renewals and improvements are capitalised. We compute depreciation using the straight-line method over estimated useful lives. Where an item of PP&E comprises several parts with different useful lives, each part is recognised as a separate item and depreciated over its useful life. Useful life and residual value of PP&E are reviewed at each period-end. As necessary, the occurrence of changes to the useful life or residual value is recognised prospectively as a change in accounting estimates.

Leasehold improvements are depreciated over the shorter of the useful life of an asset or the lease term. Capital improvements to the building are added as building components and depreciated over the useful life of the improvement or the building, whichever is less.

The estimated useful lives for our depreciable PP&E as of 31 December 2016 are as follow:

	Lives in years
Building and building improvements	up to 10
Equipment, furniture, fixtures	up to 8

Where there are any internal or external indications that the value of an item of PP&E may be impaired, the recoverable amount of the group of cash generating units (CGUs) to which it belongs is calculated. If the recoverable amount is less than the carrying amount of the group of CGUs, a provision for impairment is recorded. PP&E is reviewed for impairment annually on 1st of October.

Intangible Assets. Intangible assets shown on the balance sheet are finite-lived assets that are carried at cost less accumulated amortisation. We amortise our intangible assets over their useful lives using the straight-line method. We evaluate our intangible assets each reporting period to determine whether events and circumstances indicate either a different useful life or impairment. If we change our estimate of the useful life of an asset, we amortize the carrying amount over the revised remaining useful life.

Impairment of Intangible Assets. The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's CGU's fair value less costs of disposal and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Revenue. Revenue largely consists of intercompany re-charges, services and management fees. Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met.

Defined Benefit Pension Plans and Other Post-Employment Benefits. The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), defined contribution savings plans and termination indemnity plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the balance sheet with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date on which the Company recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under 'Net operating expenses' in the statement of income (loss):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Provision for severance indemnity (TFR) is mandatory for Italian companies and is considered:

- a defined benefit plan with respect to amounts vested up to 31 December 2006 and amounts vesting as from 1 January 2007 for employees who have chosen to maintain the TFR at the company, for companies with 50 or fewer employees;
- a defined contribution plan with respect to amounts vesting as from 1 January 2007 for employees who have opted for supplementary pensions or who have chosen to maintain the TFR at the company, for companies with more than 50 employees.

As a defined benefit plan, the TFR is measured using the unit credit projection method based on actuarial assumptions (financial assumptions: discount rate, benefit growth rate). The increase in the present value of the TFR is included in net operating expenses, with the exception of the revaluation of the net liability, which is recorded among items of other comprehensive income. The cost of TFR accrued up to 31 December 2006 no longer includes a component related to future salary increases. Payments of TFR, as a defined contribution plan, are also included in personnel expense, and until they are settled financially, they have a balancing entry in the statement of financial position in the form of current payables.

Share-Based Compensation

We grant share-based incentive awards to directors, officers, key employees and consultants during each fiscal year. We measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair market value of the award. The cost of equity-settled transactions is recognised in employee benefits expense, together with a corresponding increase in equity ("Retained earnings (deficit)") over the period in which the service and the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. We issue new shares upon share option exercise, share appreciation right ("SAR") exercise, the award of restricted share and at our election, on vesting of a restricted share unit. The social security contributions on employee share-based payment awards are accrued over the service period.

The following share-based incentive awards are offered by the Company:

- *Share Appreciation Rights.* A share appreciation right ("SAR") confers upon an employee the contractual right to receive an amount of cash, share, or a combination of both that equals the appreciation in the Company's common share from an award's grant date to the exercise date. SARs may be exercised at the employee's discretion during the exercise period and do not give the employee an ownership right in the underlying share. The SARs may be settled in LivaNova shares and/or cash, as determined by LivaNova and as set forth in the individual award agreements. SARs do not involve payment of an exercise price. We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of SARs. We determine the expected volatility on historical volatility.

- *Restricted Share and Restricted Share Units.* We grant restricted share and restricted share units at no purchase cost to the grantee, which typically vest over four years or cliff-vest in one or three years. Unvested restricted share entitles the grantees to dividends, if any, and voting rights for their respective shares. Sale or transfer of the share and share units are restricted until they are vested. We issue new shares for our restricted share and restricted share unit awards. We have the right to elect to pay the cash value of vested restricted share units in lieu of the issuance of new shares. Under our share-based compensation plans we repurchase a portion of these shares from our employees to permit our employees to meet their minimum statutory tax withholding requirements on vesting of their restricted share.

- *Service-Based Restricted Share and Restricted Share Units.* The fair market value of service-based restricted share and restricted share units are determined using the market closing price on the grant date, and compensation is expensed ratably over the vesting period. Calculation of compensation for restricted share awards requires estimation of employee turnover and forfeiture rates.

- *Market and Performance-Based Restricted Share and Performance-Based Restricted Share Units.* We may grant restricted share and restricted share units subject to market or performance conditions that vest based on the satisfaction of the conditions of the award. The fair market values of market condition-based awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilised must be estimated, including the derived service period, which is estimated based on our judgement of likely future performance and our share price volatility. The fair value of performance-based awards is determined using the market closing price on the grant date. Derived service periods and the periods charged with compensation expense for performance-based awards are estimated based on our judgement of likely future performance and may be adjusted in future periods depending on actual performance.

Income Taxes. The tax expense for the period comprises current and deferred tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes are recognised by the liability method for temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax base. They are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Adjustments to deferred taxes resulting from changes in tax rates are recognised in profit or loss. However, when the deferred tax relates to items recognised in equity, the adjustment is also recognised in equity. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. At each period-end, the Company reviews the recoverable value of deferred tax assets of tax entities holding significant loss carryforwards. This value is based on the strategy for recoverability of the tax loss carryforwards. Deferred taxes are charged or credited directly to equity when the tax relates to items that are recognised directly in equity, such as gains and losses on cash flow hedges and actuarial

gains and losses on defined benefit plan obligations. Deferred tax assets and liabilities are set off when they are levied by the same taxation authority and the entity has a legally enforceable right of set off. Deferred taxes are recognised for all temporary differences associated with investments in subsidiaries and associates, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax balances are not discounted.

Leases. We account for leases that transfer substantially all benefits and risks incident to the ownership of property as an acquisition of an asset and the incurrence of an obligation, and we account for all other leases as operating leases. Certain of our leases provide for tenant improvement allowances that have been recorded as deferred rent and amortized, using the straight-line method, over the life of the lease as a reduction to rent expense. In addition, scheduled rent increases and rent holidays are recognised on a straight-line basis over the term of the lease.

Equity. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Contingencies. The Company is subject to product liability claims, government investigations and other legal proceedings in the ordinary course of business. Legal fees and other expenses related to litigation are expensed as incurred and included in Selling, general and administrative expenses in the Statement of Income (Loss). Contingent accruals are recorded when the Company determines that a loss is both probable and reasonably estimable. Due to the fact that legal proceedings and other contingencies are inherently unpredictable, our assessments involve significant judgement regarding future events.

Critical Estimates and Judgements. The preparation of our financial statements in conformity with FRS101 requires management to make estimates and judgements that affect the amounts reported in such financial statements and accompanying notes. These estimates and judgements are based on management's best knowledge of current events and actions we may undertake in the future. Actual results could differ materially from those estimates. Application of the following accounting policies requires certain judgements and estimates that have the potential for the most significant impact on our financial statements:

- *Commitments and Contingencies.* We record accruals for contingencies when it is probable that a liability has been incurred and the amount can be reliably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. Expected legal defense costs are accrued when the amount can be reliably estimated. Provisions relating to estimated future expenditure for liabilities do not usually reflect any insurance or other claims or recoveries, since these are only recognized as assets when the amount is reasonably estimable and collection is virtually certain.

- *Retirement and Other Post-Employment Benefit Plans.* We sponsor pension and other post-employment benefit plans in various forms that cover a significant portion of our current and former associates. For post-employment plans with defined benefit obligations, we are required to make significant assumptions and estimates about future events in calculating the expense and the present value of the liability related to these plans. These include assumptions about the interest rates we apply to estimate future defined benefit obligations and net periodic pension expense as well as rates of future pension increases. In addition, our actuaries provide management with historical statistical information such as withdrawal and mortality rates in connection with these estimates. Assumptions and estimates used by the Company may differ materially from the actual results we experience due to changing market and economic conditions, higher or lower withdrawal rates, and longer or shorter life spans of participants among other factors. For more information on obligations under retirement and other post-employment benefit plans and underlying actuarial assumptions.

- *Taxes.* We prepare and file our tax returns based on an interpretation of tax laws and regulations, and record estimates based on these judgements and interpretations. Our tax returns are subject to examination by the competent taxing authorities, which may result in an assessment being made requiring payments of additional tax, interest or penalties. Inherent uncertainties exist in our estimates of our tax positions. We believe that our estimated amounts for current and deferred tax assets or liabilities, including any amounts related to any uncertain tax positions, are appropriate based on currently known facts and circumstances.

- *Share-based payments.* Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.

- *Exceptional items.* Exceptional items are expense or income items recorded in a period which have been determined by management as being material and non-recurring in nature and are presented separately within the results of the Company. The determination of which items are disclosed as exceptional items will affect the presentation of profit measures and requires a degree of judgement. Details relating to exceptional items reported during the period are set out in "Note 18. Exceptional items".

Note 3. Property, Plant and Equipment

(in thousands)	Building and building improvements	Equipment, other, furniture, fixtures	Total
At 31 December 2015			
Gross amount	$ 267	$ 2,994	$ 3,261
Accumulated depreciation and impairment	(68)	(2,759)	(2,827)
Net amount	$ 199	$ 235	$ 434
At 31 December 2016			
Gross amount	$ 1,062	$ 2,955	$ 4,017
Accumulated depreciation and impairment	(143)	(2,747)	(2,890)
Net amount	$ 919	$ 208	$ 1,127

Changes during the year in the net amount of each category of property, plant and equipment are indicated below (in thousands):

	Building and building improvements	Equipment, other, furniture, fixtures	Total
Net amount at Inception	$ —	$ —	$ —
Additions	90	2	92
Acquisitions	117	260	377
Depreciation	(3)	(16)	(19)
Currency translation losses	(5)	(11)	(16)
Net Amount at 31 December 2015	$ 199	$ 235	$ 434
Additions	799	49	848
Depreciation	(78)	(70)	(148)
Currency translation losses	(1)	(6)	(7)
Net Amount at 31 December 2016	$ 919	$ 208	$ 1,127

Note 4. Intangible Assets

(in thousands)	Patents	Trademarks and trade names	Software	Total
At 31 December 2015				
Gross amount	$ 7,230	$ 1,302	$ 5,224	$ 13,756
Accumulated amortisation and impairment	(7,230)	(1,273)	(4,167)	(12,670)
Net amount	$ —	$ 29	$ 1,057	$ 1,086
At 31 December 2016				
Gross amount	$ 7,019	$ 1,196	$ 5,645	$ 13,860
Accumulated amortisation and impairment	(7,019)	(1,196)	(4,611)	(12,826)
Net amount	$ —	$ —	$ 1,034	$ 1,034

The changes in the net carrying value of each class of intangible assets during the year are indicated below (in thousands):

	Patents	Trademarks and trade names	Software	Total
Inception	$ —	$ —	$ —	$ —
Additions	—	—	227	227
Acquisitions	—	34	982	1,016
Amortisation	—	(3)	(110)	(113)
Currency translation losses	—	(2)	(42)	(44)
Net Amount at 31 December 2015	$ —	$ 29	$ 1,057	$ 1,086
Additions	—	—	507	507
Amortisation	—	(29)	(539)	(568)
Currency translation gains	—	—	9	9
Net Amount at 31 December 2016	$ —	$ —	$ 1,034	$ 1,034

Amortisation costs charged to the statement of income (loss) totaled ($0.6 million) and $0.1 million and was recorded within net operating expenses for the year ended 31 December 2016 and the period from inception to 31 December 2015, respectively.

The amortisation periods for our finite-lived intangible assets as of 31 December 2016 and 31 December 2015:

	Minimum Life in years	Maximum life in years
Trademarks and trade names	4	4
Software	3	5

Note 5. Investments in Subsidiaries

(in thousands)	Cost
Beginning balance at Inception date	$ —
Additions	3,476,708
Net Amount at 31 December 2015	$ 3,476,708
Distribution of reserves	(222,904)
Capital conferral	212
Impairment	(35,510)
Currency translation	(22,677)
Net Amount at 31 December 2016	$ 3,195,829

(in thousands)	31 December 2016	31 December 2015
Gross amount	$ 3,195,829	$ 3,476,708
Accumulated impairment	—	—
Net book value	$ 3,195,829	$ 3,476,708

We review for impairment when events or changes in circumstances indicate that a potential impairment exists. The investments in subsidiaries were reviewed for impairment as a result of the $72.3 million impairment related to the CRM franchise that was recorded at the LivaNova group. For further information, refer to "Note 9. Goodwill and Intangible Assets" of LivaNova PLC and Subsidiaries consolidated financial statements.

The detail of investments in subsidiary undertakings as at 31 December 2016 is shown as follows (in thousands, except ownership percent):

	% Ownership	31 December 2016	31 December 2015
Sorin CRM SAS	100.00	$ 228,931	$ 264,441
Livanova Switzerland SA	100.00	6,312	6,312
LivaNova Nederland NV	100.00	61,287	61,287
Sorin Group USA Inc.	100.00	886,268	886,268
LivaNova Canada Corp	100.00	111,013	111,013
Livn UK Holdco Limited	100.00	217,878	217,878
Livn US 1, LLC	100.00	147,330	147,330
Livn Luxco Sarl	100.00	3,000	3,000
Livn Irishco 1 UC	100.00	1,000,212	1,000,000
Sorin Group Italia S.r.l.	90.37	516,538	761,605
LivaNova Site Management S.r.l.	86.42	17,060	17,574
		$ 3,195,829	$ 3,476,708

During the Mergers in October 2015 the Company issued its shares to the Cyberonics and Sorin shareholders in exchange for Cyberonics shares and Sorin net assets. For further details of these transactions refer to discussion in "Note 1. Nature of Operations".

The Company had the following directly and indirectly owned subsidiaries and associates as of 31 December 2016:

	REG. ADDRESS	FUNCTIONAL CURRENCY	% CONSOLIDATED GROUP OWNERSHIP	NAME	% OWNERSHIP
LivaNova PLC (Italian Branch)	Via Benigno Crespi 17 20159 Milan, Italy	EUR	100		
Alcard Indústria Mecânica Ltda	Rua Liege, 54 – Vila Vermelha, 04298-070 – São Paulo - SP - Brasil	BRL	100	Sorin Group Italia S.r.l.	100
Caisson Interventional LLC	10900 73rd Ave N Ste 116, Maple Grove, MN 55339 USA	USD	49	Sorin Group USA Inc.	49
California Medical Laboratories (CalMed) Inc.	1570 Sunland LN, Costa Mesa, CA 92626 USA	USD	100	Sorin Group USA Inc.	100
Cardiosolutions Inc.	375 West Street, West Bridgewater, MA 02379 USA	USD	35	Sorin Group USA Inc.	35
Cyberonics France Sarl	3 place Giovanni da Verrazzano 69009 Lyon, France	EUR	100	LivaNova Nederland NV	100
Cyberonics Holdings LLC	100 Cyberonics Boulevard, Houston, TX 77058 USA	USD	100	Cyberonics Inc	100
Cyberonics Inc.	100 Cyberonics Boulevard, Houston, TX 77058 USA	USD	100	LIVN US Holdco LTD	100
Cyberonics Latam SRL	Edificio B49, 51 Ave O, Zona Franca Coyo, Coyo-Alajeuela, Costa Rica 20113	CRC	100	Cyberonics Spain S.L.	100
Cyberonics Netherlands CV	100 Cyberonics Boulevard, Houston, TX 77058 USA	EUR	100	Cyberonics Inc	99
				Cyberonics Holdings LLC	1
Cyberonics Spain SL	100 Cyberonics Boulevard, Houston, TX 77058 USA	EUR	100	Cyberonics Netherlands C.V.	100
Enopace Biomedical Ltd	15 Alon Hatavor St, Caesaria 38900 Israel	USD	32	Sorin CRM SAS	32
Highlife SAS	331 B rue Saint Augustin 75002 Paris, France	EUR	38	LivaNova Holding SAS	38
ImThera Medical, Inc.	12555 High Bluff Dr, Ste 310, San Diego, CA 92130 USA	USD	16	Cyberonics Inc	16

	REG. ADDRESS	FUNCTIONAL CURRENCY	% CONSOLIDATED GROUP OWNERSHIP	NAME	% OWNERSHIP
La Bouscarre S.C.I.	Route de Revel 31450 Fourquevaux France	EUR	50	LivaNova France SAS	50
LivaNova Australia PTY Limited	16-18 Hydrive Close - Dandenong South - Victoria 3175, Australia	AUD	100	LivaNova Nederland NV	100
LivaNova Austria GmbH	Donau City Strasse 11/16 1220 Wien, Austria	EUR	100	LivaNova Nederland NV	100
LivaNova Belgium NV	Ikaroslaan 83, 1930 Zaventem, Belgium	EUR	100	LivaNova Nederland NV	100
LivaNova Canada Corp.	280 Hillmount Road, Unit 8, Markham, ON L6C 3A1 Canada	CAD	100	LivaNova PLC	100
LivaNova Colombia Sas	Avenida Calle 80 No. 69-70 Bodega 37, Bogotá, Colombia	COP	100	Sorin Group Italia S.r.l.	100
LivaNova Espana, S.L.	Avenida Diagonal 123, planta 10, 08005, Barcelona, Spain	EUR	100	LivaNova Nederland NV	57
				Sorin CRM SAS	43
LivaNova Finland OY	c/o Kalliolaw Asianajotoimisto Oy, Södra kajen 12, 00130 Helsinki, Finland	EUR	100	Sorin Group Italia S.r.l.	100
LivaNova France SAS	4 avenue Reaumur 92134 Clamart, France	EUR	100	Sorin CRM SAS	100
LivaNova Holding S.r.l.	Via Benigno Crespi, 17 - 20159 Milano, Italy	EUR	100	Sorin Group Italia S.r.l.	100
LivaNova Holding SAS	4 avenue Reaumur 92134 Clamart, France	EUR	100	LivaNova PLC	100
LivaNova India Private Limited	Barakhamba Road 110001 New Delhi, India	INR	100	LivaNova Nederland NV	100
LivaNova IP Limited	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	EUR	100	LivaNova PLC	100
LivaNova Japan K.K.	11-1 Nagatacho 2 chome, Chiyoda-ku, Tokyo, 100-6110 Japan	JPY	100	LivaNova Nederland NV	100
LivaNova Nederland N.V.	Westerdoksdijk 423, 1013 BX, Amsterdam, Netherlands	EUR	100	LivaNova PLC	100
LivaNova Norway AS	c/o AmestoAccounthouse AS, Smeltedigelen 1, 0195 Oslo, Norway	NOK	100	Sorin Group Italia S.r.l.	100
LivaNova Poland Sp. Z o.o.	Park Postepu Bud A Ul. Postepu 21 PL-02 676 Warszawa, Poland	PLN	100	LivaNova Nederland NV	100
LivaNova Portugal, Lda	Edificio Zenith, Rua Dr. António L. Borges n. 9/9 a - 6a - Miraflores - 1495-131 Algés, Portugal	EUR	100	Sorin CRM SAS	100
LivaNova Scandinavia AB	Djupdalsvägen 16, 192 51 Sollentuna, Scandinavia	EUR	100	Sorin Group Italia S.r.l.	100
LivaNova Singapore Pte Ltd	The Adelphi, 1 Coleman Street, #10-07, Singapore 179803	SGD	100	Sorin Group Italia S.r.l.	100
LivaNova Site Management S.r.l.	Via Benigno Crespi 17 20159 Milan, Italy	EUR	100	Sorin Group Italia S.r.l.	14
				LivaNova PLC	86
LivaNova Switzerland SA	WTC Av. Grattapaille 2 1018 Lausanne CH, Switzerland	EUR	100	LivaNova PLC	100
LivaNova UK Limited	1370 Montpellier Court, Gloucester Business Park, Gloucester, Gloucestershire, GL3 4AH, United Kingdom	EUR	100	LivaNova Nederland NV	100
Livn Irishco 2 UC	70 Sir John Rogerson's Quay, Dublin 2, Ireland	EUR	100	LIVN UK Holdco LTD	100
Livn Irishco 3 Unlimited Company	70 Sir John Rogerson's Quay, Dublin 2, Ireland	EUR	100	LivaNova PLC	100

	REG. ADDRESS	FUNCTIONAL CURRENCY	% CONSOLIDATED GROUP OWNERSHIP	NAME	% OWNERSHIP
Livn Irishco Unlimited Company	70 Sir John Rogerson's Quay, Dublin 2, Ireland	EUR	100	LivaNova PLC	100
Livn Luxco 2 Sarl	15 Rue Edward Steichen L-2540 Luxembourg	EUR	100	LIVN UK Holdco LTD	100
Livn Luxco Sarl	15 Rue Edward Steichen L-2540 Luxembourg	EUR	100	LivaNova PLC	100
Livn UK 2 Co Limited	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	EUR	100	LIVN US 1 LLC	100
Livn UK 3 Co Limited	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	EUR	100	LIVN US LP	100
Livn UK Holdco Limited	20 Eastbourne Terrace, London, England W2 6LG, United Kingdom	EUR	100	LIVN UK 2 CO LTD	51
				LivaNova PLC	49
Livn US 1, LLC	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USD	100	LivaNova PLC	100
Livn US 3 LLC	2711 Centerville Road, Suite 400, Wilmington, DE 19808 USA	USD	100	Sorin Group USA Inc.	100
Livn US Holdco, Inc.	1209 Orange Street, Wilmington, DE 19801 USA	USD	100	LIVN US LP	56
				LIVN UK 3 CO LTD	44
Livn US Lp	2711 Centerville Road, Suite 400, Wilmington, DE 19808 USA	USD	100	Sorin Group USA Inc.	83
				LIVN US 3 LLC	17
MD START I KG	Lauensteiner Str. 37 , D- 01277 Dresden, Germany	EUR	23	Sorin Group Italia S.r.l.	23
MD START SA	Parc scientifique EPFL, 1015 Lausanne, Schweiz, Switzerland	CHF	21	Sorin Group Italia S.r.l.	21
MicroPort Sorin CRM (Shanghai) Co. Ltd	Room 101 Bleg 2 501 Newtone Rd 201203 Shanghaî, China	CNY	49	LivaNova Holding SAS	49
Respicardia, Inc.	Whitewater Drive 55343 Minnetonka, MN USA	USD	20	Sorin CRM SAS	20
Sobedia Energia	Via Crescentino sn 13040 Saluggia (VC), Italy	EUR	75	LivaNova Site Management S.r.l.	25
				Sorin Group Italia S.r.l.	50
Sorin CRM SAS	4 avenue Reaumur 92134 Clamart, France	EUR	100	Sorin CRM SAS	100
Sorin CRM USA Inc.	14401 W. 65th Way - Arvada, CO 80004 USA	USD	100	Sorin Group USA Inc.	100
Sorin Group Czech Republic	Na poriçi 1079/3a Nové Mesto Praha 110 00 Praha 1, Czech Republic	EUR	100	Sorin Group Italia S.r.l.	—
Sorin Group Deutschland GmbH	Lindberghstrasse 25, D - 80939 München, Germany	EUR	100	Sorin Group Italia S.r.l.	100
Sorin Group DR, S.r.l.	Edificio I-3Zona Franca Industrial de las Americas, Autopista Las Americas Km 22 Z.F. Santo Domingo Este, Dominican Republic	USD	100	Sorin CRM SAS	100
Sorin Group Italia S.r.l.	Via Benigno Crespi, 17 - 20159 Milano, Italy	EUR	100	LivaNova PLC	90
				LivaNova Site Management S.r.l.	7
				Sorin CRM SAS	3
Sorin Group Rus LLC	Marshal Proshlyakov str. 30 office 304 123458 Moscow, Russia	RUB	100	Sorin Group Italia S.r.l.	100

	REG. ADDRESS	FUNCTIONAL CURRENCY	% CONSOLIDATED GROUP OWNERSHIP	NAME	% OWNERSHIP
Sorin Group USA Inc.	14401 W. 65th Way - Arvada, CO 80004 USA	USD	100	LivaNova PLC	100
Sorin Medical (Shanghai) Co. Ltd	Room 218, 2nd Floor, No. 56 Meisheng Road, China (Shanghai) Pilot Free Trade Zone	CNY	100	Sorin Group Italia S.r.l.	100
Sorin Medical Devices (Suzhou) Co. Ltd	No. 130, Weihe Road, Suzhou Industrial Park, Jiangsu Province, PRC	CNY	100	Sorin Group Italia S.r.l.	100

Note 6. Other Financial Assets

Our current financial assets in the balance sheet include receivables from subsidiaries. These represent loans and current receivable balances due from our subsidiaries and are repayable on demand.

(in thousands)	31 December 2016	31 December 2015
Financial receivables due from subsidiaries	$ 250,172	$ 88,600
Other	—	(546)
	$ 250,172	$ 88,054

Note 7. Trade Receivables and Allowance for Bad Debt

Trade receivables consisted of the following (in thousands):

	31 December 2016	31 December 2015
Trade receivables due from third parties	$ 260	$ 257
Trade receivables due from LivaNova subsidiaries	14,328	3,840
Allowance for bad debt	(243)	(250)
	$ 14,345	$ 3,847

Trade receivables are reported net of the allowance for bad debt provision, the changes in which are provided below (in thousands):

	31 December 2016	31 December 2015
Beginning of period	$ (250)	$ —
Additions	—	(261)
Currency translation gains/losses	7	11
End of period	$ (243)	$ (250)

Note 8. Derivative Financial Instruments

We enter into derivative instruments, principally foreign exchange forward and interest rate swaps contracts for the purpose of hedging the risk of fluctuations in foreign exchange and interest rates. For additional details refer to our accounting policy "Derivatives" included within "Note 2. Basis of Preparation, Use of Accounting Estimates and Significant Accounting Policies".

Freestanding derivative forward contracts

Freestanding derivative forward contracts are used to offset the exposure to the change in value of our foreign currency denominated financial intercompany transactions (current accounts and loans) of certain long-term loans and the hedging of net revenues denominated in JPY and GBP of LivaNova subsidiaries. The gross notional amount of these contracts not designated as hedging instruments, outstanding at 31 December 2016 and 31 December 2015 was $489.1 million and $321.3 million, respectively.

The amount and location of the gains (losses) in the statements of income (loss) related to derivative instruments, not designated as hedging instruments are as follows (in thousands):

Derivatives Not Designated as Hedging Instruments	Location	Year Ended 31 December 2016	From Inception to 31 December 2015
Foreign currency exchange rate contracts	Foreign exchange	10,960	(11,974)

The net gains for the year ended 31 December 2016 were primarily on the forward contracts hedging our intercompany financing arrangements and our medium-long term loan denominated in Euro with European Investment Bank. The Foreign currency exchange gains on the above mentioned forward contracts are mainly due to the devaluation of the Euro against the U.S. dollar and other currencies.

Interest rate swaps

As discussed in "Note 10. Financial Liabilities" upon successful completion of the Mergers, the Company assumed the long-term loan from a European Investment Bank ("EIB") that bears floating-rate interest rate. To minimize the impact of changes in interest rates on its interest payments under the EIB loan, the Company entered into interest rate swap agreements to swap floating-rate interest payments for fixed-rate interest payments. The outstanding notional amount at 31 December 2016 and 31 December 2015 was equivalent to $63.2 million and equivalent to $79.6 million, respectively. The interest rate swap agreements mature in June 2021 and have periodic interest settlements. The interest rate swap agreements were designated as a cash flow hedge of the variability of interest payments under the EIB long-term loan agreement due to changes in the floating interest rates by converting from Euribor 3 month floating-rate to a fixed-rate loan.

The interest rate swaps fixed rates were structured to mirror the payment terms of the loan. The effective portion of the gain or loss on these derivatives is reported as a component of accumulated other comprehensive income. On interest rate swap contracts we had an effective portion of $85,000 in after-tax net unrealised gains, and an ineffective portion for the amount of $458,000 reported in the line item interest expense in statement of income (loss).

Presentation in Financial Statements

The amount of gains (losses) and location of the gains (losses) in the statements of income and accumulated other comprehensive income ("OCI") related to interest rate swap derivative instruments designated as cash flow hedges are as follows (in thousands):

	Year Ended 31 December 2016		
	Gross Gains Recognised in OCI on Effective Portion of Derivative	Effective Portion of Gains (Losses) on Derivative Reclassified from:	
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount
Interest rate swap contracts	$ 85	Interest expense	$ 458
Total	$ 85		$ 458

	Inception to 31 December 2015		
	Gross Gains Recognised in OCI on Effective Portion of Derivative	Effective Portion of Gains (Losses) on Derivative Reclassified from:	
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount
Interest rate swap contracts	$ 124	Interest expense	$ 124
Total	$ 124		$ 124

The following tables summarize the location and fair value amounts of derivative instruments reported in the Company's balance sheet as of 31 December 2016 (in thousands):

	Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts		$ —	Non-current financial derivative liabilities	$ 1,392
Interest rate contracts		—	Current financial derivative liabilities	942
Total derivatives designated as hedging instruments		—		2,334
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Current financial derivative assets	8,269	Current financial derivative liabilities	—
Total derivatives not designated as hedging instruments		8,269		—
Total derivatives		$ 8,269		$ 2,334

The following tables summarize the location and fair value amounts of derivative instruments reported in the Company's balance sheet as of 31 December 2015 (in thousands):

	Liability Derivatives	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value**
Interest rate contracts	Current financial derivative liabilities	$ 1,090
Interest rate contracts	Non-current financial derivative liabilities	1,786
Total derivatives designated as hedging instruments		2,876
Derivatives not designated as hedging instruments		
Foreign currency exchange rate contracts	Current financial derivative liabilities	1,547
Foreign currency exchange rate contracts	Non-current financial derivative liabilities	(839)
Total derivatives not designated as hedging instruments		708
Total derivatives		$ 3,584

Note 9. Equity

Share capital.

The Company's authorised share capital is as follows:

(in number of shares)	**31 December 2016**	**31 December 2015**
Authorised share capital, ordinary shares of £1 each, unlimited shares authorized		
Issued - fully paid	48,156,690	48,868,305
Outstanding	48,156,690	48,868,305

Merger relief reserve. On 19 October 2015 pursuant to the Mergers the merger relief reserve of $2,649.6 million was recorded in respect of the excess of Sorin and Cyberonics mergers with and into the Company. Further information relating to the Mergers is detailed in "Note 1. Nature of Operations".

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 was structured to enable us to buy back up to $30 million of ordinary shares on NASDAQ in the period ended 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. In November 2016, the share repurchase plan was amended to authorize the repurchase up to $50 million of ordinary shares through 31 December 2016 (instead of the

originally authorized $30 million). Ordinary shares repurchased under the repurchase plan are canceled. As of 31 December 2016, we purchased 993,339 shares under this plan at a cost of $50.0 million at an average price per share of $50.32. All the repurchased shares have been canceled and are no longer considered issued or outstanding.

Capital Reduction. In March 2016 the Company capitalised $2,583.1 million of the Merger Reserve in order to create distributable reserves in the accounts of the Company. The reserves may be used for any corporate purpose of the Company for which realized profits are required.

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 (in thousands):

	Change in unrealised gain (loss) on derivatives	Foreign currency translation adjustments	Revaluation of net liability (asset) for defined benefits	Total
Balance from Inception	$ —	$ —	$ —	$ —
Reclassification of (gain)/loss from accumulated other comprehensive income, before tax	124	(22,665)	(8)	(22,549)
Tax effect	(41)	—	3	(38)
Reclassification of (gain)/loss from accumulated other comprehensive income, after tax	83	(22,665)	(5)	(22,587)
Net current-period other comprehensive income (loss), net of tax	—	—	—	—
Ending Balance - 31 December 2015	$ 83	$ (22,665)	$ (5)	$ (22,587)
Reclassification of (gain)/loss from accumulated other comprehensive income, before tax	85	606	(6)	685
Tax effect	(28)	—	1	(27)
Reclassification of (gain)/loss from accumulated other comprehensive income, after tax	57	606	(5)	658
Reclassification of (gain)/loss from accumulated other comprehensive income, before tax	458	—	—	458
Tax effect	(268)	—	—	(268)
Reclassification of (gain)/loss from accumulated other comprehensive income, after tax	190	—	—	190
Net current-period other comprehensive income (loss), net of tax	247	606	(5)	848
Ending Balance - 31 December 2016	$ 330	$ (22,059)	$ (10)	$ (21,739)

Note 10. Financial Liabilities

The outstanding principal amount of long-term debt consisted of the following (in thousands, except interest rates):

	Principal Amount at 31 December 2016	Principal Amount at 31 December 2015	Maturity	Effective Interest Rate in 2016
European Investment Bank	$ 78,987	$ 99,426	June 2021	0.96%
Loans payable to LivaNova subsidiaries	111,013	111,012		
Total long-term facilities	190,000	210,438		
Less current portion of long-term debt	17,542	18,063		
Total long-term debt	$ 172,458	$ 192,375		

The outstanding principal amount of short-term debt consisted of the following (in thousands, except interest rates):

	Principal Amount at 31 December 2016	Principal Amount at 31 December 2015	Effective Interest Rate in 2016
Intesa San Paolo Bank	$ —	$ 20,630	
BNL BNP Paribas	7,379	18,459	0.25%
Unicredit Banca	8,433	15,201	0.21%
Other short-term facilities	50	146	
Loans payable to LivaNova subsidiaries	469,909	637,462	
Total short-term facilities	485,771	691,898	
Current portion of long-term debt	17,542	18,063	
Total current debt	$ 503,313	$ 709,961	

During the Mergers the Company assumed the loan from the European Investment Bank ("EIB") loan that was previously provided to Sorin. The loan was originally issued in July 2014, has a seven-year term with interest paid in quarterly installments. The loan is guaranteed by Sorin Group Italia S.r.l. and Sorin CRM SAS, subsidiaries of LivaNova.

The EIB loan is subject to various terms and conditions:

- certain financial ratios calculated based on the LivaNova Consolidated financial statements;
- subordination clauses, based on which the loan cannot be subordinated to other loans, with the exception of loans given preference deriving from legal obligations;
- negative pledge clauses that place limits on the issue of collateral;
- other customary clauses for loans of this type, including limits on LivaNova's asset disposals.

LivaNova PLC, in the management of LivaNova centralized treasury and acting as in-house bank of the Group, receives excess cash from subsidiaries which generate cash.

In December 2015 LivaNova PLC issued a promissory note in favor of LIVN UK Holdco, in the amount of $111 million for the settlement of the purchase price of LivaNova Canada Corp. The promissory note bears a fixed interest rate of 0.56% p.a. and has an expiry date on 31 December 2022.

In December 2015 LivaNova PLC has issued a promissory note to Sorin Group Italia srl, for Euro 390 million ($423.5 million at 31 December 2015), for the settlement of the purchase price of Sorin Group USA Inc. The promissory note had a fixed interest rate of 1.5% p.a. The note was prepaid on 10 May 2016.

The total amount of the loans payable to LivaNova subsidiaries is $580.9 million at 31 December 2016.

Note 11. Other Payables

(in thousands)	31 December 2016	31 December 2015
Accrued expenses- employee-related charges	$ 3,211	$ 1,605
Other accrued expenses	2,916	2,219
Other current liabilities with subsidiaries	3,000	3,860
Other current liabilities	753	563
Other amounts due to health and social security institution	109	186
Amounts due to employees	684	1,037
Deferred income	—	1
Total	$ 10,673	$ 9,471

Note 12. Share-Based Incentive Plans

Share-Based Incentive Plans

Sorin awards exchanged for LivaNova awards

Prior to the Mergers, the Sorin Board of Directors adopted the Long-Term Incentive 2012-2014 (the "2012-2014 Plan), 2013-2015 (the "2013-2015 Plan") and 2014-2016 (the "2014-2016 Plan") share grant plans in April 2012, April 2013 and April 2014, respectively. The share grant plans authorised the issuance of share appreciation rights (2014-2016 Plan only), performance share units and restricted share units. The awards under these share grant plans were converted into LivaNova awards pursuant to the terms of the Mergers as described below and were accounted for as equity settled. Refer to "Note 1. Nature of Operations" for details related to the Mergers.

Pursuant to the Mergers, 3,815,824 share appreciation rights outstanding (2014-2016 Plan) and 3,365,931 restricted share units (2013-2015 and 2014-2016 Plans) and performance share units (2012-2014 Plan) that were unvested immediately prior to the Mergers were accelerated and vested upon the close of the Mergers and were converted into 180,076 LivaNova share appreciation rights and 158,716 LivaNova ordinary shares, respectively, in a manner designed to preserve the intrinsic value of such awards.

In addition, pursuant to the Mergers, 2,617,490 unvested performance share units granted under the 2014-2016 Plan and 2013-2015 Plan which were held by Sorin employees upon close of the Mergers were converted into 123,456 LivaNova ordinary shares in a manner designed to preserve the intrinsic value of such awards. For awards not yet earned based on performance achieved as of the date of the Mergers, a service requirement was added to the remaining awards and the performance conditions were removed, resulting in a modification to the award (see below for further details). A portion of the service awards vested on the date of the Mergers and of the remaining awards, 50% were paid on 26 February 2016 and 50% will be paid on 26 February 2017, in each case subject to continued employment. The awards will continue to be governed in accordance with the terms and conditions as were applicable immediately prior to the completion of the Mergers, with the exception of the modified terms pursuant to the Mergers. The modifications made to the performance share units granted under the 2014-2016 Plan and 2013-2015 Plan constituted modifications under the authoritative guidance for accounting for share compensation. The modification resulted in $8.6 million incremental costs of which $0.9 million was recognised on the acquisition date and the remaining $7.7 million will be recognised over the remaining service period of the award. The Company recognised $1.4 million share-based compensation expense related to these modifications from the date of the acquisition through the period ended 31 December 2015.

Further, pursuant to the Mergers, 1,721,530 deferred bonus shares held by Sorin employees that were outstanding immediately prior to the Mergers were accelerated and became vested upon the close of the Mergers, and were converted to 81,251 LivaNova ordinary shares in a manner designed to preserve the intrinsic value of such awards. The accelerated vesting and share conversion constituted a modification under the authoritative guidance for accounting for share-based compensation. This guidance requires the Company to revalue the award upon the transaction close and allocate the revised fair value between consideration paid and post-combination expense based on the ratio of service performed through the transaction date over the total service period of the award. The revised fair value allocated to post-combination services resulted in $0.3 million of incremental costs which was recognised on the acquisition date.

Cyberonics awards exchanged for LivaNova awards

Prior to the Mergers, Cyberonics issued share options and restricted share awards under its Amended and Restated New Employee Equity Inducement Plan and 2009 Share Plan. All of the awards under these plans were accounted for as equity settled and were accelerated and vested as a result of the Mergers. Cyberonics share options (except as described below) and restricted shares were converted into 813,794 LivaNova share options and 209,043 LivaNova ordinary shares, respectively, in a manner designed to preserve the intrinsic value of such awards. The share options will continue to become exercisable in accordance with the terms and conditions as were applicable immediately prior to the completion of the Mergers. Additionally, 146,105 Cyberonics share options held by executive officers that were outstanding immediately prior to the Mergers were settled in cash in the amount of $5.0 million.

LivaNova awards

On 16 October 2015, the sole shareholder of LivaNova approved the adoption of the Company's 2015 Incentive Award Plan (the "2015 Plan"), which was previously approved by the Board of Directors of the Company on 14 September 2015 subject to such shareholder approval. The Plan was adopted in order to facilitate the grant of cash and equity incentives to non-employee directors, employees (including our named executive officers) and consultants of the Company and certain of our affiliates and to enable the Company and certain of our affiliates to obtain and retain services of these individuals. The Plan became effective as of 19 October 2015. Incentive awards may be granted under the 2015 Plan in the form of share options, share appreciation rights, restricted share, restricted share units, other share and cash-based awards and dividend equivalents. As of 31 December 2015, there were approximately 8,047,364 shares available for future grants under the 2015 Plan.

Share Options and Share Appreciation Rights

	Year Ended 31 December 2016	
Options and SARs	**Number of Optioned Shares**	**Wtd. Avg. Exercise Price**
Exercised	8,742	$ 51.34
Outstanding - end of year	719,403	57.33

The weighted average remaining contractual life for the share options and SARs outstanding at 31 December 2016 is 6.64 years.

The aggregate intrinsic value of the options and SARs outstanding at 31 December 2016 is $104.7 million. The aggregate intrinsic value of options and SARs is based on the difference between the fair market value of the underlying share at the end of the period using the market closing share price, and exercise price for in-the-money awards.

The range of exercise prices for options and SARs outstanding at 31 December 2016 are categorised in exercise price ranges as follows:

Outstanding Options	**31 December 2016**
$21-30	3,340
$41-50	185,034
$51-60	285,446
$61-70	245,583
Total	719,403

	Year Ended 31 December 2016
Weighted average price of share option exercises during the period	$ 14.17
Aggregate intrinsic value of share option and SAR exercises during the fiscal year (in thousands)	$ 50

Restricted Share and Restricted Share Units Awards

The following tables detail the activity for service-based restricted share and restricted share unit awards, including activity from restricted share units assumed or issued as a result of the Mergers:

	Year Ended 31 December 2016	
	Number of Shares	**Wtd. Avg. Grant Date Fair Value**
Non-vested at end of year	308,219	$ 54.36

(in thousands)	**Year Ended 31 December 2016**
Aggregate fair value of service-based share grants that vested during the year	$ 2,856

The following tables detail the activity for performance-based and market-based restricted share and restricted share unit awards:

	Year Ended 31 December 2016	
	Number of Shares	Wtd. Avg. Grant Date Fair Value
Non-vested shares at end of year	52,083	$ 42.01

(in thousands)	Year Ended 31 December 2016
Aggregate fair value of performance-based share grants that vested during the year	$ —

Note 13. Income Taxes

Income tax expense (benefit) consists of the following (in thousands):

	Year Ended 31 December 2016	From Inception to 31 December 2015
Current tax	$ (1,094)	$ (9,279)
Deferred tax	3,117	13,908
	$ 2,023	$ 4,629

The following is a reconciliation of the statutory income tax rate to our effective income tax rate expressed as a percentage of income before income taxes:

	Year Ended 31 December 2016	From Inception to 31 December 2015
Statutory tax rate at U.K. Rate	20.00%	20.00%
Effect of Reduction in Italian Tax Rate	1.07	(6.10)
Permanent differences	5.83	(0.33)
Adjustment to Italian branch NOL deferred tax asset resulting from the merger	—	(29.10)
Adjustment to Italian branch NOL deferred tax asset from the Italian tax litigation	—	(18.73)
Italian branch tax rate differential	9.58	9.95
Distribution of subsidiary earnings	(44.10)	—
Change in unrecognized deferred tax assets	4.54	—
Other, net	4.35	0.87
Effective tax rate	1.27%	(23.44)%

Deferred income tax assets and liabilities are summarized as follows (in thousands):

	31 December 2016	31 December 2015
Deferred tax assets:		
Net operating loss carryforwards	$ —	$ 2,625
Accruals and reserves	1,409	1,337
Depreciation & amortisation	72	113
Other	33	1,013
Total deferred tax assets	1,514	5,088
Property, equipment & amortization	(38)	—
Total deferred tax liabilities	(38)	—
Total deferred tax asset (liability)	$ 1,476	$ 5,088

Deferred tax assets have not been recognized with respect of the following items (in thousands):

	31 December 2016	31 December 2015
Tax loss carryforwards	$ 61,613	$ 16,862
Other	—	(36,726)
	$ 61,613	$ (19,864)

Note 14. Commitments and Contingencies

Litigation and Regulatory Proceedings

3T Heater Cooler

FDA Warning Letter

On 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 27 August 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 stated 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.

CDC and FDA Safety Communications and Company Field Safety Notice Update

On 13 October 2016 the Centers for Disease Control and Prevention ("CDC") and FDA separately released safety notifications regarding the 3T Heater Cooler devices. The CDC's Morbidity and Mortality Weekly Report ("MMWR") and Health Advisory Notice ("HAN") reported that tests conducted by CDC and its affiliates indicate that there appears to be genetic similarity between both patient and heater cooler strains of the non-tuberculous mycobacterium ("NTM") bacteria M. chimaera isolated in hospitals in Iowa and Pennsylvania. Citing the geographic separation between the two hospitals referenced in the investigation, the report asserts that 3T Heater Cooler devices manufactured prior to 18 August 2014 could have been contaminated during the manufacturing process. The CDC's HAN and FDA's Safety Communication, issued contemporaneously with the MMWR report, each assess certain risks associated with heater cooler devices and provide guidance for providers and patients. The CDC notification states that the decision to use the 3T Heater Cooler during a

surgical operation is to be taken by the surgeon based on a risk approach and on patient need. Both the CDC's and FDA's communications confirm that heater cooler devices are critical medical devices and enable doctors to perform life-saving cardiac surgery procedures.

Also on 13 October 2016, the Company issued a Field Safety Notice Update for U.S. users of 3T Heater Cooler devices to proactively and voluntarily contact facilities to facilitate implementation of the CDC and FDA recommendations. In the fourth quarter of 2016 the Company initiated a program to provide existing 3T users with a new loaner 3T device at no charge pending regulatory approval and implementation of additional risk mitigation strategies worldwide. This loaner program began in the U.S. and is being progressively made available on a global basis, prioritizing and allocating devices to 3T users based on pre-established criteria. We anticipate that this program will continue until we are able to address customer needs through a broader solution that includes implementation of one or more of the risk mitigation strategies currently under review with regulatory agencies.

Baker, Miller et al v. LivaNova PLC

On 12 February 2016, LivaNova was alerted that a class action complaint had been filed in the U.S. District Court for the Middle District of Pennsylvania with respect to the Company's 3T Heater Cooler devices, naming as evidence, in part, the Warning Letter issued by the FDA in December 2015. The named plaintiffs to the complaint are two individuals who underwent open heart surgeries at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center in 2015, and the complaint alleges that: (i) patients were exposed to a harmful form of bacteria, known as nontuberculous mycobacterium ("NTM"), from LivaNova's 3T Heater Cooler devices; and (ii) LivaNova knew or should have known that design or manufacturing defects in 3T Heater Cooler devices can lead to NTM bacterial colonization, regardless of the cleaning and disinfection procedures used (and recommended by the Company). Named plaintiffs seek to certify a class of plaintiffs consisting of all Pennsylvania residents who underwent open heart surgery at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center between 2011 and 2015 and who are currently asymptomatic for NTM infection (approximately 3,600 patients).

The putative class action, which has not been certified, seeks: (i) declaratory relief finding the 3T Heater Cooler devices are defective and unsafe for intended uses; (ii) medical monitoring; (iii) general damages; and (iv) attorneys' fees. On 21 March 2016, the plaintiffs filed a First Amended Complaint adding Sorin Group Deutschland GmbH and Sorin Group USA, Inc. as defendants. On 29 September 2016 the Court dismissed LivaNova PLC from the case, and on 11 October 2016, the Court denied the Company's motion to dismiss Sorin Group Deutschland GmbH and Sorin Group USA, Inc. from the lawsuit.

In addition to the Baker case addressed in the preceding section, the Company has received additional lawsuits from around the U.S. related to surgical cases in which a 3T Heater Cooler device was allegedly used. Thirty-six lawsuits have been filed against the Company in state and Federal courts in Pennsylvania, South Carolina, North Carolina, Iowa, South Dakota, California, Texas, Massachusetts, Illinois and Alabama and one case has been filed in Montreal, Canada. Two of the cases noted above are brought by plaintiffs seeking class action status: the case filed against the Company in Canada, which relates to surgical cases at the Montreal Heart Institute, and a single case relating to surgical cases performed at two hospitals in South Carolina.

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 relatively early stage of each of these matters, 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 these complaints or other related litigation in connection therewith will not have a material adverse effect on our business, results of operations, financial condition and/or liquidity.

Other Matters

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 €573 million, or $601.7 million), 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 SNIA debts and 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 €3.4 billion, or $3.6 billion, 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 the 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 Subsidiaries or SNIA 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 favorable decision pertaining to the case was delivered in Judgment No. 4101/2016 on 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 €300 thousand, or $315 thousand, as legal fees (of which €50,000 jointly with SNIA).

On 21 June 2016, the Public Administrations filed an appeal against the above decision before the Court of Appeal of Milan. The first hearing of the appeal proceedings was held on 20 December 2016 and the Court scheduled the final hearing for 16 May 2017. After such hearing the parties will file their final briefs and the Court is expected to render its decision in November 2017. SNIA appeared before the Court but did not file an appeal.

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 consolidated financial position, results of operations or cash flows.

Environmental Remediation Order

On 28 July 2015, Sorin and other direct and indirect shareholders of SNIA received an administrative order from the Italian Ministry of the Environment (the "Environmental Remediation Order"), directing them to promptly commence environmental remediation efforts at the Caffaro Chemical Sites (as described above). LivaNova believes that the Environmental Remediation Order is without merit. LivaNova (as successor to Sorin) believes that it should not be liable for damages relating to the Caffaro Chemical Operations pursuant to the Italian statute on which the Environmental Remediation Order relies because, 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 on 3 February 2016.

On 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.

Opposition to Merger Proceedings

On 28 July 2015, the Public Administrations filed an opposition proceeding to the proposed merger between Sorin and Cyberonics (the "Merger"), before the Commercial Courts of Milan, asking the Court to prohibit the execution of the Merger. In its initial decision on 20 August 2015 the Court authorized the Merger. Public Administrations did not appeal such decision. The proceeding then continued as a civil case, with the Public Administration seeking damages against LivaNova. The Commercial Court of Milan delivered a first instance decision on 6 October 2016 fully rejecting the Public Administrations' request and condemning the same to pay LivaNova €200 thousand in damages for frivolous litigation plus €200 thousand in legal fees. LivaNova has welcomed the decision, which has nonetheless been appealed by the Public Administrations before the Court of Appeal of Milan. The first hearing was held on April 4, 2017 and the Court scheduled a final hearing on 17 January 2018. The Court of Appeal is likely to take a decision around June 2018.

Andrew Hagerty v. Cyberonics, Inc.

On 5 December 2013, the United States District Court for the District of Massachusetts ("District Court") unsealed a qui tam action filed by former employee Andrew Hagerty against Cyberonics under the False Claims Act (the "False Claims Act") and the false claims statutes of 28 different states and the District of Columbia (*United States of America et al ex rel. Andrew Hagerty v. Cyberonics, Inc.* Civil Action No. 1:13-cv-10214-FDS). The False Claims Act prohibits the submission of a false claim or the making of a false record or statement to secure reimbursement from, or limit reimbursement to, a government-sponsored program. A "qui tam" action is a lawsuit brought by a private individual, known as a relator, purporting to act on behalf of the government. The action is filed under seal, and the government, after reviewing and investigating the allegations, may elect to participate, or intervene, in the lawsuit. Typically, following the government's election, the qui tam action is unsealed.

Previously, in August 2012, Mr. Hagerty filed a related lawsuit in the same court and then voluntarily dismissed that lawsuit immediately prior to filing this qui tam action. In addition to his claims for wrongful and retaliatory discharge stated in the first lawsuit, the qui tam lawsuit alleges that Cyberonics violated the False Claims Act and various state false claims statutes while marketing its VNS Therapy System, and seeks an unspecified amount consisting of treble damages, civil penalties, and attorneys' fees and expenses.

In October 2013, the United States Department of Justice declined to intervene in the qui tam action, but reserved the right to do so in the future. In December 2013, the District Court unsealed the action. In April 2014, Cyberonics filed a motion to dismiss the qui tam complaint, alleging a number of deficiencies in the lawsuit. In May 2014, the relator filed a First Amended Complaint. Cyberonics filed another motion to dismiss in June 2014, and the parties completed their briefing on the motion in July 2014. On 6 April 2015, the District Court dismissed all claims filed by Andrew Hagerty under the False Claims Act, but did not dismiss the claims for wrongful and retaliatory discharge. On 28 July 2015, Cyberonics filed its answer to the surviving claims in Mr. Hagerty's first Amended Complaint and asserted its demand for arbitration pursuant to Mr. Hagerty's employment documents.

In August 2015, Mr. Hagerty filed a Motion Seeking Leave to file a Second Amended Complaint responding to certain deficiencies noted by the District Court when dismissing claims in his First Amended Complaint alleging that Cyberonics submitted, or caused the submission of false claims under the False Claims Act. On 4 September 2015, Cyberonics filed our Brief in Opposition to Hagerty's Motion for Leave to file a Second Amended Complaint. Mr. Hagerty filed a Reply Brief in support of his Motion for Leave to file a Second Amended Complaint on 11 September 2015. On 16 September 2015, the District Court heard oral arguments on (a) Mr. Hagerty's motion seeking to amend his complaint, and (b) Cyberonics' pending motion demanding arbitration on the claims relating to wrongful and retaliatory discharge. On 17 November 2015, the District 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 ("FCA") 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 ("Appeals Court"). Both Mr. Hagerty and the Company filed written briefs with the Appeals Court and on 8 November 2016, the First Circuit Court of Appeals held oral arguments before the Court. On or about 16 December 2016, the Court issued its opinion in the matter, upholding the district court's dismissal of the FCA claims. Mr. Hagerty did not seek panel rehearing or en banc reconsideration of that opinion on or before 9 January 2017 and the First Circuit issued a mandate sending the case back to the district court for final disposition. Mr. Hagerty did not file a petition for Writ of Certiorari with the U.S. Supreme Court before 16 March 2017, and accordingly, the matter is concluded.

Tax Litigation

In a tax audit report notified on 30 October 2009, the Regional Internal Revenue Office of the Northern Italian Region of Lombardy (the "Internal Revenue Office") informed Sorin Group Italia S.r.l. that, among several issues, it was disallowing in part (for a total of €102.6 million, or $107.7 million) a tax-deductible write down of the investment in the U.S. company, Cobe Cardiovascular Inc., which Sorin Group Italia S.r.l. recognized in 2002 and had 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 denied at the first jurisdictional level. These decisions were appealed by the Company. The appeal submitted against the first-level decision for 2004 was accepted. The second-level decision relating to the 2004 notice of assessment was appealed to the Italian Supreme Court (Corte di Cassazione) by the Internal Revenue Office on 3 February 2017. The Supreme Court's decision is pending. The appeal submitted against the first-level decision for 2005 was rejected. The second-level decision (relating to the 2005 notice of assessment) has been appealed to the Italian Supreme Court (Corte di Cassazione), where LivaNova will argue that the assessment should be deemed null, void and illegitimate because of inappropriate interpretation and application of regulations. This litigation is still pending before the Italian Supreme Court. The appeal filed against the second-level decision for 2006 was rejected; LivaNova will file an appeal to the Italian Supreme Court within 28 April 2017.

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. In that matter the Internal Revenue Office claims 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 subsequently utilized in 2007 and 2008. Both notices of assessment were challenged within the statutory deadline. The Provincial Tax Court of Milan has stayed its the decision for 2007 and 2008 pending resolution of the litigation regarding years 2004, 2005 and 2006.

The total amount of losses in dispute is €62.6 million or $65.7 million. LivaNova has continuously reassessed its potential exposure in this matter, taking into account the recent general adverse trend to taxpayers in this type of litigation. Although the LivaNova's defensive arguments are strong, the negative Court decisions experienced so far (five negative judgments versus one positive judgment received to date) has led LivaNova to leave unchanged the previously recognized risk provision of €16.9 million for $17.7 million.

Other Litigation

Additionally, we are the subject of various pending or threatened legal actions and proceedings that arise in the ordinary course of our business. These matters are subject to many uncertainties and outcomes that are not predictable and that may not be known for extended periods of time. Since the outcome of these matters cannot be predicted with certainty, the costs associated with them could have a material adverse effect on our consolidated net income, financial position or cash flows.

Lease Agreements

We have operating leases for facilities and equipment. Rent expense from all operating leases amounted to approximately $2.4 million and $0.5 million for the year ended 31 December 2016 and the period from inception to 31 December 2015, respectively.

Future minimum lease payments for operating leases as of 31 December 2016 are as follows (in thousands):

No later than 1 year	$	1,551
Later than 1 year and no later than 5 years		6,204
Later than 5 years		246
Present value of minimum lease payments	$	8,001

Other commitments and contingencies. Certain potential commitments of LivaNova related to the funding of equity method investments are such that LivaNova invests in minority shares of companies with assets still in development that often require milestone and/or royalty payments to a third party, contingent upon the occurrence of certain future events. Milestone payments may be required, and are contingent upon the successful achievement of an important point in the development

life cycle of a product or upon certain pre-designated levels of achievement in clinical trials. A number of these arrangements give LivaNova the discretion to unilaterally make the decision to stop development of a product or cease progress of a clinical trial, which would allow LivaNova to avoid making the contingent payments. Although LivaNova is unlikely to cease development if a device successfully achieves clinical testing objectives, these are not considered contractual obligations because of the contingent nature of these payments and LivaNova's ability to avoid them if LivaNova decided to pursue a different path of development.

In the normal course of business, LivaNova periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of LivaNova's products or the negligence of LivaNova's personnel or claims alleging that its products infringe third-party patents or other intellectual property. LivaNova's maximum exposure under these indemnification provisions cannot be estimated, and LivaNova has not accrued any liabilities within LivaNova's financial statements, with the exceptions of those which will probably require the use of financial resources in an amount that can be estimated reliably.

Note 15. Related Parties

Interests in subsidiaries are set out in "Note 5. Investments In subsidiaries". In the normal course of business the Company issues loans, purchases and sells services from/to various related parties in which the Company typically holds a 50% or less equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

The Company provided LivaNova group companies with support and assistance for human resource development, financial management, legal, tax and corporate assistance.

Payment for the services rendered is made in arrears each month, and interest rates are at arm's length.

Note 16. Statement of Income (Loss) - Expenses by Nature

(in thousands)	Year Ended 31 December 2016	From Inception to 31 December 2015
Revenue	$ 15,915	$ 1,764
Other income	129	28
Cost of raw materials and other materials	(215)	(45)
Cost of services used	(39,621)	(9,363)
Personnel expense	(26,092)	(3,527)
Amortisation, depreciation and impairments	(36,226)	(131)
Interest expense	(9,540)	(1,807)
Interest income	272,341	199
Foreign exchange	(17,304)	(6,867)
Profit (loss) before taxes	159,387	(19,749)
Income tax expense	2,023	4,629
Profit (loss) for the period	$ 157,364	$ (24,378)

Note 17. Employee and Key Management Compensation Costs

Details of Directors' remuneration are included in pages 63 to 76 of the Directors' remuneration report, which forms part of these financial statements.

Employee numbers

The average monthly employee numbers on a full-time equivalent basis, including executive directors were 37 and 35 for the year ended 31 December 2016 and for the period from inception to 31 December 2015, respectively.

Note 18. Exceptional Items

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

	31 December 2016	From Inception to 31 December 2015
Integration expenses	$ 7,552	$ 2,650
Restructuring expenses	2,448	1,456
CRM investment impairment	35,510	—
	$ 45,510	$ 4,106

Integration Expenses. Integration expenses consisted primarily of consultation with regard to: our systems integration, organization structure integration, finance, synergy and tax planning, our London Stock Exchange listing and certain re-branding efforts.

Restructuring Expenses. After the consummation of the Mergers between Cyberonics with Sorin in October 2015, we initiated several restructuring plans to combine our business operations. We identify costs incurred and liabilities assumed for the Restructuring Plans. The Restructuring Plans are intended to leverage economies of scale, eliminate duplicate corporate expenses, streamline distributions and logistics and office functions in order to reduce overall costs.

CRM Investment Impairment. During the year ended 31 December 2016, we recorded a $35.5 million impairment related to the investment in the Sorin CRM SAS subsidiary. Refer to "Note 5. Investments in Subsidiaries" for further details.

Note 19. Auditors' Remuneration

(in thousands)	31 December 2016	From Inception to 31 December 2015
LivaNova auditors		
Fees payable to the Company's auditors and its associates for the audit of parent company financial statements	$ 65	$ 75
Total audit fees payable to the Company's auditors	$ 65	$ 75

Note 20. New Accounting Pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

IFRS 16 Leases. In January 2016, the IASB issued final accounting guidance on leases which provides a new model for lease accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortization of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Early application

is permitted, provided the new revenue standard, *IFRS 15 Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. The Company is evaluating the effect this standard will have on its financial statements and related disclosures.

The Company does not expect to adopt IFRS 9 or IFRS 15 before 1 January 2018 and has not yet determined its date of adoption for IFRS 16. The Company has not yet completed its evaluation of the effect of adoption of these standards. The EU has not yet adopted IFRS 9, IFRS 15 or IFRS 16 and consequently these standards are not yet available for early adoption to the Company.

There are no other standards and interpretations in issue but not yet adopted that the management anticipate will have a material effect on the reported income or net assets of the Company.

Note 21. Events After Reporting Period

We announced on 23 February 2017 our voluntary cancellation of our standard listing of ordinary shares with the London Stock Exchange ("LSE"). We have taken this action due to the low volume of our ordinary share trading on the LSE. Trading ceased at the close of business on 4 April 2017. We will continue to serve our shareholders through our listing on the NASDAQ Stock Market, where the vast majority of trading of our ordinary shares occurs. This decision has no bearing on our status as a UK company and our commitment to invest in the European market.

On 31 March 2017, we announced the resignation of Vivid Sehgal, our Chief Financial Officer, effective 31 May 2017. We are currently engaged in an ongoing effort to identify and hire a successor.

In March 2017, we initiated a plan to close our Suzhou Industrial Park facility in Shanghai, China, to be used for the local manufacture of cardiopulmonary disposable products. As a result of this exit plan we incurred exit charges of approximately $5.7 million, primarily due to impairment of plant and equipment, which we will include in our Cardiac Surgery segment restructuring expenses. We intend to sell the plant and certain equipment, while transferring other equipment to other facilities. We also plan on transferring approximately $13.1 million, which represents the carrying value of Suzhou assets after impairments, to Assets Held for Sale.

On May 2, 2017, LivaNova acquired the remaining outstanding interests in Caisson Interventional, LLC ("Caisson"), in support of LivaNova's strategic growth initiatives. Based in Maple Grove, Minn., Caisson is a privately held clinical-stage medical device company focused on the design, development and clinical evaluation of a novel transcatheter mitral valve replacement (TMVR) implant with a fully transvenous delivery system. LivaNova has been an investor in Caisson since 2012 and has agreed to pay up to $72 million, net of $6 million of debt forgiveness, to acquire the remaining 51 percent of the company. The first payment of $18 million will be made at closing with the balance paid on a schedule driven primarily by regulatory approvals and sales earn outs. As a result of the acquisition, LivaNova expects to recognize a pre-tax non-cash gain during the second quarter on the $15 million book value of its existing investment in Caisson.

GLOSSARY AND DEFINITIONS

The following definitions apply throughout this UK Annual Report (other than in the Financial Statements) unless the context requires otherwise:

"Affordable Care Act"	the US Patient Protection and Affordable Care Act, as amended by the Health Care and Educational Reconciliation Act;
"ART"	autonomic regulation therapy;
"Auditor"	PricewaterhouseCoopers LLP, the Company's independent UK statutory auditor;
"AV"	atrioventricular block;
"Board"	the Company's board of directors;
"BSE"	Bovine Spongiform Encephalopathy;
"Business Units"	LivaNova's three principal business units, Neuromodulation, Cardiac Surgery and CRM;
"Caisson"	Caisson Interventional LLC;
"CEO"	Chief Executive Officer;
"CE Mark"	certification demonstrating minimum standards of performance, safety and quality (i.e., the essential requirements) set out in the EU Medical Devices Directives (Council Directive 93/42/EEC on Medical Devices and Council Directive 90/385/EEC on Active Implantable Medical Devices);
"Cerbomed"	Cerbomed GmbH;
"CFO"	Chief Financial Officer;
"CMS"	the Centers for Medicare and Medicaid Services;
"Code"	the US Internal Revenue Code;
"Company"	LivaNova PLC, a company incorporated in England and Wales;
"Companies Act"	the Companies Act 2006 of England and Wales;
"COSO Framework"	the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission in the US;
"CRM"	cardiac rhythm management;
"CRT-Ds"	cardiac resynchronisation therapy devices;
"CSA"	central sleep apnoea;

"Cyberonics"	Cyberonics. Inc., a Delaware corporation, including (whether the context requires) its subsidiaries and subsidiary undertakings;
"Cyberonics Compensation Committee"	the compensation committee of the board of directors of Cyberonics;
"Cyberonics FY 2015"	the financial year for Cyberonics ended 24 April 2015;
"Cyberonics Merger"	the merger of Merger Sub with and into Cyberonics, with Cyberonics continuing as the surviving company and a wholly-owned subsidiary of the Company;
"DAB"	the Departmental Appeals Board of the US Department of Health and Human Services;
"DTRs"	the disclosure rules and transparency rules of the FCA;
"EBT"	LivaNova PLC Employee Benefit Trust;
"EEA"	the European Economic Area;
"EIB"	European Investment Bank;
"EU"	the European Union;
"Exchange Act"	the US Securities Exchange Act of 1934 (as amended);
"FCA"	the UK Financial Conduct Authority;
"FCPA"	the US Foreign Corrupt Practices Act of 1977;
"FSCAs"	field safety corrective actions;
"GCP"	Good Clinical Practice;
"ICDs"	implantable cardioverter defibrillators;
"IDE"	investigational device exemption;
"IFRS"	International Financial Reporting Standards, as adopted by the EU;
"ImThera"	ImThera Medical, Inc.;
"IRBs"	institutional review boards;
"ISO"	the International Standards Organisation;
"Italian Stock Exchange"	the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A.;
"Highlife"	Highlife S.A.S.;

"HIPAA"	the US Health Insurance Portability and Accountability Act of 1996;
"HITECH"	the US Health Information Technology and Clinical Health Act;
"Incentive Award Plan"	the LivaNova PLC 2015 Incentive Award Plan;
"IRS"	the US Internal Revenue Service;
"ISDA"	International Swaps and Derivatives Association, Inc.;
"KPI"	key performance indicator;
"Legacy Sorin Plans"	the legacy Sorin share plans;
"LivaNova"	the Company and its subsidiaries and subsidiary undertakings, including (where the context so requires) Cyberonics and Sorin prior to the Mergers becoming effective;
"LSE"	the London Stock Exchange plc;
"MDET"	medical device excise tax;
"Medical Devices Regulation"	proposed replacement for the Medical Devices Directive and the Active Implantable Medical Devices Directive as part of revision of the EU regulatory framework for medical devices;
"Merger Agreement"	the definitive transaction agreement entered into by the Company, Cyberonics, Sorin and Merger Sub, dated 23 March 2015;
"Merger Sub"	Cypher Merger Sub, Inc., a Delaware corporation;
"Mergers"	the Sorin Merger and the Cyberonics Merger;
"MRI"	magnetic resonance imaging;
"MHLW"	the Ministry of Health, Labour and Welfare of Japan;
"NASDAQ"	the NASDAQ Global Market;
"NASDAQ Rules"	NASDAQ Stock Market Rules;
"New Ventures"	LivaNova's New Ventures group;
"NTM"	nontuberculous mycobacterium;
"Official List"	the official list of listed securities maintained by the FCA;
"Ordinary Shares"	ordinary shares of £1.00 each in the capital of the Company;

"OSA"	obstructive sleep apnoea;
"PAC"	political action committee;
"PAL"	the Pharmaceutical Affairs Law of Japan;
"Pearl Meyer"	Pearl Meyer & Partners, LLC, an independent compensation consultant with an international scope;
"PMA"	pre-market approval;
"PMDA"	the Pharmaceutical and Medical Devices Agency of Japan;
"PRT"	phospholipid reduction treatment;
"QSR"	the US FDA's Quality System Regulation under section 520 of the US FDCA;
"Restructuring Plan"	the restructuring plan initiated by LivaNova after consummation of the Mergers in October 2015;
"R&D"	research and development;
"RSUs"	restricted stock units;
"SAM"	Sleep Apnoea Monitoring;
"SARs"	stock appreciation rights;
"SEC"	the US Securities and Exchange Commission;
"Section 4985 Excise Tax"	the tax imposed under section 4985 of the Code;
"Section 7874"	section 7874 of the Code;
"Section 7874 Percentage"	the per cent ownership requirements imposed by Section 7874 under which a company may be considered to be a corporation foreign to the US;
"SG&A"	selling, general and administrative;
"Sorin"	Sorin S.p.A., a joint stock company organised under the laws of Italy, including (where the context so requires), its subsidiaries and subsidiary undertakings;
"Sorin Merger"	the merger of Sorin with and into the Company, with the Company continuing as the surviving company;
"Transitional Period"	the results from operations for Cyberonics for the period 25 April 2015 to 31 December 2015 and the results of operations for Sorin for the period 19 October 2015 to 31 December 2015;
"TRD"	treatment resistant depression;

"UK Bribery Act"	the UK Bribery Act of 2010;
"UK Corporate Governance Code"	the UK Corporate Governance Code published by the Financial Reporting Council;
"US"	the United States of America;
"US Anti-Kickback Statute"	the US federal Anti-Kickback Statute;
"US False Claims Act"	the US federal False Claims Act;
"US FDA"	the US Food and Drug Administration;
"US FDCA"	the US federal Food, Drug and Cosmetic Act;
"US GAAP"	the accounting principles generally accepted in the US;
"VNS"	vagus nerve stimulation; and
"$"	US dollars.