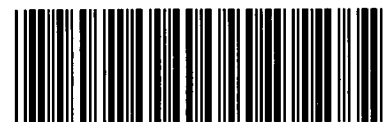


Registration number: 05164784

**LIVANOVA UK LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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## **LIVANOVA UK LIMITED**

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**LIVANOVA UK LIMITED**

**COMPANY INFORMATION**

<b>Directors</b>	P Vodden AH Neumann
<b>Registered office</b>	1370 Montpellier Court Gloucester Business Park Gloucester GL3 4AH
<b>Bankers</b>	BNP Paribas 10 Harewood Avenue London NW1 6AA
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP 1 Kingsway Cardiff CF10 3PW

## **LIVANOVA UK LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their strategic report for the year ended 31 December 2017.

#### **Business Review**

As of the beginning of 2017 our business consists of 3 pillars; Cardiac Surgery (cardiopulmonary products for open heart surgery and heart valve repair or replacement products), Cardiac Rhythm Management (implantable devices to manage cardiac rhythm disorders) and Neuromodulation (implantable devices to treat drug-resistant epilepsy, depression, heart failure and other chronic disorders).

CP sales decreased by 3%. Sales of Oxygenators was flat in 2017 and Auto Transfusion performed quite well with a sales increase of 10%. The sales of Heart Lung Machines (HLM) and Heater Coolers reported a decline of 33% and 48% respectively compared to 2016.

HV sales were relatively flat compared to 2016 (-3%). The sales of Perceval Suture less valves (+9%) is still performing very well and offset the difficult year for Mechanical and Tissue valves. Rings also performing very well at +74% over 2016.

The CRM business had a very positive year (+7%) reversing the negative trend of recent years. A very aggressive pricing strategy and product acceptance by customers impacted our Brady (pacemakers) business severely. Our Tachy (defibrillators) sales however increased with 11.11% due to the launch of the CRT-P PM for heart failure and the new ICD/CRT-D platform Platinum.

#### **Future developments**

On November 20th 2017 LivaNova Plc announced to have entered into a binding Letter of Intent ("LOI") for the sale of LivaNova's Cardiac Rhythm Management ("CRM") Business Franchise to MicroPort. The transaction is expected to close in the second quarter of 2018 which will have an impact on forecasted results for 2018.

#### **2018 Review to date and outlook**

The CP business is a mature business and will continue to show a stable performance, leveraging on their market share and aiming at continued sales growth in the ATS segment. The sales of HLM's are expected to be growing due to the life cycle of S3 replacements.

The HV business aims at further penetration of the Perceval Suture less valve and continuing the success of Memo 3D ReChord ring, while protecting market shares in Tissue and Mechanical valves.

The NM sales will be influenced by the launch of SenTiva the latest VNS therapy device incorporating Seizure Response technology with further features allowing for individual patient treatment. Sales are expected to be growing at low single digits.

#### **Borrowings and Covenants**

LivaNova UK Limited has no current borrowings or covenants and does not expect any in the foreseeable future.

#### **Principal risks and uncertainties**

The company's operations expose it to a variety of financial risks that include liquidity risk and foreign exchange risk.

##### **Liquidity Risk**

The company is able to borrow funds as required from the ultimate parent company, LivaNova PLC.

##### **Foreign Exchange Risk**

Foreign exchange risk is managed by the company's ultimate parent company, LivaNova PLC.

The group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposure to price, credit, liquidity and cash flow risk are described in the analysis above.

##### **Credit Risk**

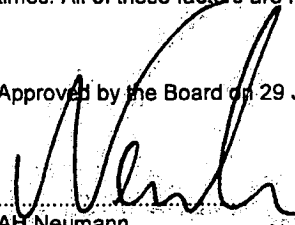
The company has implemented policies that require appropriate credit checks on potential customers before services are provided. Where debt finance is utilised, this is subject to pre-approval of the group treasury function.

## LIVANOVA UK LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and business sectors. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook and the austerity packages being applied specifically to the NHS and other Government departments which we fully expect to result in reduced average selling prices across all divisions and increased payment times. All of these factors are fully represented in our budgets for 2018.

Approved by the Board on 29 June 2018 and signed on its behalf by:

  
AH Neumann  
Director

**LivaNova**

LivaNova UK Ltd.  
Alexander H. J. Neumann  
Managing Director

## **LIVANOVA UK LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

#### **Principal activities**

The principal activity of the company is that of the development of medical technologies for cardiac surgery and innovative therapies for cardiac rhythm dysfunction, heart failure and neuromodulation.

Livanova UK Limited is a UK market leader in Cardiac Surgery and a leading player in Cardiac Rhythm Management. Livanova's breakthrough, proprietary technology has the potential to create a new industry benchmark in Vascular Intervention. A unique technical expertise in advanced and innovative Haemodynamics and Haemoelectronics is applied to meet patient needs and to advance cardiovascular medicine.

#### **Directors of the company**

The directors who held office during the year were as follows:

P Vodden

AH Neumann

#### **Result for the year**

The profit for the financial year amounted to £545,137 (2016 - £1,584,233).

#### **Dividends**

Dividends amounting to £5,000,000 were paid to LivaNova Nederland NV in the year (2016 - £nil).

#### **Future developments**

Our goal is to maximise the value of our operations for the company and minimise any impact on customers. With average selling prices continuing to decline, our primary challenge now is revenue growth. This year the management team analysed every aspect of our technology, products and operations and developed a strategic plan that focuses on the company's areas of competitive advantage.

#### **Research and development**

Livanova UK Limited is committed to sustaining continuous innovation through interdisciplinary research and development organisations that can help create products and processes that systematically integrate scientific and technical advances in biology, medicine, materials science, electronics, information technology and engineering. The primary goal of this approach is to introduce to the marketplace products that are increasingly effective and safe for patients, while enhancing the efficiency of health professionals.

#### **Going concern**

The business activities of Livanova UK Limited, together with the factors likely to affect future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposure to price, credit, liquidity and cash flow risk are described in the strategic report.

Livanova UK Limited has considerable financial resources together with tender awarded contracts spread over a large customer base and has suppliers across different geographical areas. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors of Livanova UK Limited have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

## LIVANOVA UK LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

#### *Statement of Directors' Responsibilities*

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law 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 company and of the profit or loss of the company for that period. In preparing the 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 United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Disclosure of information to the auditors**

Each director has taken the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

#### **Reappointment of independent auditors**

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 29 June 2018 and signed on its behalf by:

AH Neumann  
Director

**LivaNova**

LivaNova UK Ltd.  
Alexander H. J. Neumann  
Managing Director

## LIVANOVA UK LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIVANOVA UK LIMITED

#### Report on the audit of the financial statements

##### Opinion

In our opinion, LivaNova UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
  - the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.
- However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

##### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.



## LIVANOVA UK LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIVANOVA UK LIMITED

#### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

##### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### **Use of this report**

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

#### **Other required reporting**

##### **Companies Act 2006 exception reporting**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

*Stuart Couch*

Stuart Couch (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cardiff

Date: 5 JULY 2018

**LIVANOVA UK LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £	2016 £
Turnover	3	28,325,253	27,608,442
Cost of sales		<u>(18,344,199)</u>	<u>(16,825,747)</u>
Gross profit		9,981,054	10,782,695
Administrative expenses		(9,760,432)	(9,545,663)
Other operating income	4	<u>925,810</u>	<u>362,771</u>
Operating profit	5	<u>1,146,432</u>	<u>1,599,803</u>
Interest receivable and similar income	6	6,467	12,130
Interest payable and similar expenses	7	<u>(81,428)</u>	<u>-</u>
		<u>(74,961)</u>	<u>12,130</u>
Profit before taxation		1,071,471	1,611,933
Tax on profit	9	<u>(526,334)</u>	<u>(27,700)</u>
Profit for the financial year		<u>545,137</u>	<u>1,584,233</u>

The above results were derived from continuing operations.

**LIVANOVA UK LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Profit for the financial year</b>	<b>545,137</b>	<b>1,584,233</b>
<b>Total comprehensive income for the year</b>	<b>545,137</b>	<b>1,584,233</b>

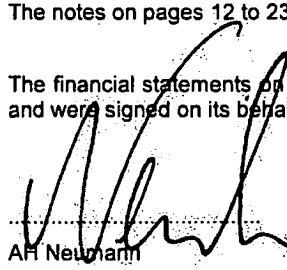
**LIVANOVA UK LIMITED**

(REGISTRATION NUMBER: 05164784)  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2017**

	Note	2017 £	2016 £
<b>Fixed assets</b>			
Intangible assets	11	910,082	991,641
Tangible assets	12	976,403	1,224,715
Investments	13	16,510,046	-
		<u>18,396,531</u>	<u>2,216,356</u>
<b>Current assets</b>			
Stocks	14	1,887,657	1,790,894
Debtors	15	7,229,814	11,591,607
		9,117,471	13,382,501
<b>Creditors: Amounts falling due within one year</b>	20	<u>(6,926,873)</u>	<u>(6,974,833)</u>
<b>Net current assets</b>		2,190,598	6,407,668
<b>Total assets less current liabilities</b>		20,587,129	8,624,024
<b>Creditors: Amounts falling due after more than one year</b>	20	<u>(16,510,046)</u>	<u>(92,078)</u>
<b>Net assets</b>		<u>4,077,083</u>	<u>8,531,946</u>
<b>Capital and reserves</b>			
Called up share capital	16	1,540,001	1,540,001
Retained earnings	17	2,537,082	6,991,945
<b>Total equity</b>		<u>4,077,083</u>	<u>8,531,946</u>

The notes on pages 12 to 23 are an integral part of these financial statements.

The financial statements on pages 8 to 23 were authorised for issue by the Board of directors on 29 June 2018 and were signed on its behalf by:

  
**LivaNova**  
 LivaNova UK Ltd.  
 Alexander H. J. Neumann  
 Managing Director  
 AH Neumann  
 Director

**LIVANOVA UK LIMITED**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>Called up Share capital £</b>	<b>Retained earnings £</b>	<b>Total equity £</b>
At 1 January 2017	1,540,001	6,991,945	8,531,946
Profit for the financial year	-	545,137	545,137
Total comprehensive income	-	545,137	545,137
Dividends	-	(5,000,000)	(5,000,000)
At 31 December 2017	1,540,001	2,537,082	4,077,083

	<b>Called up Share capital £</b>	<b>Retained earnings £</b>	<b>Total equity £</b>
At 1 January 2016	1,540,001	5,407,712	6,947,713
Profit for the financial year	-	1,584,233	1,584,233
Total comprehensive income for the year	-	1,584,233	1,584,233
At 31 December 2016	1,540,001	6,991,945	8,531,946

## **LIVANOVA UK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **1 General information**

The company is a private company limited by share capital incorporated and domiciled in England and Wales.

The address of its registered office is:

1370 Montpellier Court  
Gloucester Business Park  
Gloucester  
GL3 4AH

The principal activity of Livanova UK Limited is that of the development of medical technologies for cardiac surgery and innovative therapies for cardiac rhythm dysfunction, heart failure and neuromodulation.

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Statement of compliance**

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

##### **Basis of preparation**

These financial statements have been prepared on a going concern basis under the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The preparation of the financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the companies accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The presentational currency of the financial statements is Pounds Sterling, being the functional currency of the primary economic environment in which the company operates. Monetary amounts in these financial statements are rounded to the nearest Pound.

##### **Summary of disclosure exemptions**

The company, as a qualifying entity, has taken advantage of the following:

- i) to not prepare a statement of cash flows in accordance with paragraph 1.12 of FRS 102.
- ii) to not disclose related party transactions in accordance with paragraph 1.12 of FRS 102.
- iii) to not disclose key management personnel compensation in accordance with paragraph 33.7 of FRS 102.

##### **Name of parent of group**

These financial statements are consolidated in the financial statements of LivaNova PLC.

The financial statements of LivaNova PLC may be obtained from 20 Eastbourne Terrace, London, W2 6LG.

##### **Revenue recognition**

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

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 for each of the company's activities. Revenue related to consignment stock is recognised when the goods are implanted.

## LIVANOVA UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 2 Accounting policies (continued)

##### Goodwill

Goodwill is amortised over its useful life, which shall not exceed five years if a reliable estimate of the useful life cannot be made.

##### Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Acquired intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

##### Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Goodwill	10% per annum
Software and licences	20% per annum
Cyberonics Customer Base	20% per annum

##### Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

##### Tangible assets

Tangible assets is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

##### Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Plant and machinery	10-20% per annum

##### Financial assets

Financial assets relate to investments in group companies, which are stated at cost less, where appropriate, any provision for impairment.

## **LIVANOVA UK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **2 Accounting policies (continued)**

##### **Impairment assets**

As at each balance sheet date, the company tests whether there are any indications of assets being subject to impairment. If any such indications exist, the recoverable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash-generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount exceeds its recoverable amount; the recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is directly expensed in the income statement.

If it is established that a previously recognised impairment loss no longer applies or has declined, the increased carrying amount of the assets in question is not set any higher than the carrying amount that would have been determined had no asset impairment been recognised.

In addition, investments in startup companies are carried at cost; the first impairment is performed as from the fourth year following incorporation, unless within this period objective extraordinary indicators arise that show that the recoverable amount is not expected to exceed the at cost value within a reasonable period.

##### **Research and development**

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

##### **Trade debtors**

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. All trade debtors are repayable within one year and hence are included at the undiscounted cost of cash expected to be received. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtors.

##### **Stocks**

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

##### **Trade creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **Leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.



## **LIVANOVA UK LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **2 Accounting policies (continued)**

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### **Defined contribution pension obligation**

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as an employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

The group operates 4 defined contribution personal pension schemes for certain qualifying employees. Employee contributions of varying amounts together with employer contributions of up to 25% are paid monthly to the scheme providers.

##### **Dividends**

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

##### **Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

##### **Financial instruments**

###### **Classification**

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other receivables and payables, loans from related parties and investments in non-puttable ordinary shares.

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability on the balance sheet. The corresponding dividends relating to the liability component are charged as interest expenses in the profit and loss account.

Debt instruments like loans and other receivables and payables are initially measured at present value of the future payments and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms of financed at a rate of interest that is not a market rate or in case of an outright short-term loan not at market rate, the financial asset or liability is measured, initially and subsequently, at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

## 2 Accounting policies (continued)

### **Recognition and measurement**

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in profit or loss. For financial assets measured at amortised cost, the impairment loss is measured as the difference between an assets carrying value and the present value of estimated cash flows discounted at the assets original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an assets carrying amount and the best estimate, which is an approximation, of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount recognised in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### **Impairment**

At each reporting date non-financial assets not carried at fair value, such as property, plant and equipment are reviewed to determine whether there is an indication that an asset may be impaired. If there is an indication of possible impairment, the recoverable amount of any asset or group of related assets, which is the higher of value in use and the fair value less costs to sell, is estimated and compared with its carrying amount. If the recoverable amount is lower, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised immediately in profit or loss.

Inventories are also assessed for impairment at each reporting date. The carrying amount of each item of inventory, or group of similar items, is compared with its selling price less costs to complete and sell. If an item is found to be impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss recognised immediately in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset or group of related assets is increased to the revised estimate of its recoverable amount, but not to exceed the amount that would have been determined had no impairment loss been recognised for the asset or group of related assets in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

### **Employee benefits**

i) Short term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the service is received.

## 2.1 Critical accounting judgements and estimation uncertainty

### **Revenue recognition**

Management considers the detailed criteria for the recognition of revenue from the sale of goods and services set out in FRS 102, in particular whether the significant risks and rewards of ownership of the goods have transferred to the buyer.

Significant judgements have been made by management in relation to the following areas:

#### **• Useful economic lives of fixed and intangible assets**

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives of the assets. the useful economic lives are re-assessed and amended when necessary to reflect current estimates, based in technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 11 & 12 to the financial statements for the carrying amount of fixed assets.

#### **• Stock provision**

The company develops and manufactures devices used for cardiac surgery, neuromodulation and cardiac rhythm management and is subject to changing demands and technological developments. As a result it is necessary to consider the recoverability of the cost of inventory and required provision.

# LIVANOVA UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 2 Accounting policies (continued)

When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around saleability of finished goods and future usage of raw materials. See note 14 to the financial statements for the net carrying amount and associated provision.

#### • Bad debt provision

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors and historical experience. See note 15 to the financial statements for the net carrying amount and associated impairment provision.

### 3 Turnover

The analysis of the company's turnover for the year from continuing operations is as follows:

	2017 £	2016 £
Sale of goods	26,332,049	25,819,943
Rendering of services	1,993,204	1,788,499
	<u>28,325,253</u>	<u>27,608,442</u>

The analysis of the company's turnover for the year by market is as follows:

	2017 £	2016 £
UK	28,079,626	27,597,262
Rest of world	245,627	11,180
	<u>28,325,253</u>	<u>27,608,442</u>

### 4 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2017 £	2016 £
Recharges to group companies	<u>925,810</u>	<u>362,771</u>

### 5 Operating profit

Arrived at after charging/(crediting):

	2017 £	2016 £
Operating lease expense - plant and machinery	111,743	121,362
Operating lease expense - other	133,724	132,123
Auditors remuneration - The audit of the company's financial statements	19,000	19,695
Foreign exchange (gains)/losses	(207,768)	18,769
Loss on disposal of property, plant and equipment	177,297	10,952
Depreciation expense	350,431	369,710
Amortisation expense	298,173	238,154
Research and development cost	<u>136,722</u>	<u>268,621</u>

### 6 Interest receivable and similar income

	2017 £	2016 £
Interest from group companies	<u>6,467</u>	<u>12,130</u>

**LIVANOVA UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**7 Interest payable and similar expenses**

	2017 £	2016 £
Interest payable to group companies	<u>81,428</u>	<u>-</u>

**8 Staff costs**

The aggregate payroll costs (including directors' remuneration) were as follows:

	2017 £	2016 £
Wages and salaries	4,659,244	4,017,672
Social security costs	533,366	428,238
Other pension costs	<u>431,748</u>	<u>385,500</u>
	<u>5,624,358</u>	<u>4,831,410</u>

The emoluments of the directors are paid by fellow group companies, which make no recharge to the company as it is not possible to make an accurate apportionment.

The monthly average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2017 No.	2016 No.
Sales and administration	<u>62</u>	<u>60</u>

The Directors, as disclosed above, do not consider any employee to fall into the category of Key Management Personnel.

**9 Tax on profit**

Tax charged in the profit and loss account

	2017 £	2016 £
<b>Current taxation</b>		
UK corporation tax	454,409	384,636
UK corporation tax adjustment to prior periods	<u>145,100</u>	<u>(86,167)</u>
	<u>599,509</u>	<u>298,469</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of timing differences	(47,359)	(45,985)
Effect of changes in tax rates	<u>(25,816)</u>	<u>(224,784)</u>
Total deferred taxation	<u>(73,175)</u>	<u>(270,769)</u>
Total tax per income statement	<u>526,334</u>	<u>27,700</u>

The tax on profit before tax for the year is higher than (2016 - lower than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%).

**LIVANOVA UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**9 Tax on profit (continued)**

The differences are reconciled below:

	2017 £	2016 £
Profit before taxation	1,071,471	1,611,933
Corporation tax at standard rate	206,257	322,387
Effect of changes in tax rates	(28,495)	(224,784)
Effect of expense not deductible in determining taxable profit	203,472	16,264
Adjustments in respect of prior years	145,100	(86,167)
Total tax charge	526,334	27,700

The Finance Act 2016, which was substantially enacted on 6 September 2016 included legislation to reduce the main rate of corporation tax to 19% from 1 April 2017 to 17% from 1 April 2020.

The deferred tax balance has been calculated using a rate of 17%.

**10 Deferred tax**

	Deferred tax £
At 1 January 2017	178,230
P&L movements	73,175
At 31 December 2017	251,405

**11 Intangible assets**

	Goodwill £	Cyberonics customers £	Software and licences £	Total £
<b>Cost or valuation</b>				
At 1 January 2017	229,000	1,078,408	370,605	1,678,013
Additions acquired separately	-	-	260,114	260,114
Disposals	-	-	(48,000)	(48,000)
At 31 December 2017	229,000	1,078,408	582,719	1,890,127
<b>Accumulated Amortisation</b>				
At 1 January 2017	229,000	234,436	222,936	686,372
Amortisation charge	-	196,927	101,246	298,173
Amortisation eliminated on disposals	-	-	(4,500)	(4,500)
At 31 December 2017	229,000	431,363	319,682	980,045
<b>Carrying amount</b>				
At 31 December 2017	-	647,045	263,037	910,082
At 31 December 2016	-	843,972	147,669	991,641

The only individual intangible assets, which are material to the financial statements relates to the Cyberonics customer lists, which were acquired following the merger with the Cyberonics business. At 31 December 2017, the remaining amortisation period is 3 years.

# LIVANOVA UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 12 Tangible assets

	Plant and machinery £
<b>Cost or valuation</b>	
At 1 January 2017	3,137,157
Additions	308,290
Disposals	(339,166)
At 31 December 2017	3,106,281
<b>Accumulated Depreciation</b>	
At 1 January 2017	1,912,442
Charge for the year	350,431
Eliminated on disposal	(132,995)
At 31 December 2017	2,129,878
<b>Carrying amount</b>	
At 31 December 2017	976,403
At 31 December 2016	1,224,715

### 13 Investments

	2017 £	2016 £
Investments in subsidiaries	16,510,046	-
<b>Subsidiaries</b>		£
<b>Cost</b>		
Additions		16,510,046
<b>Carrying amount</b>		
At 31 December 2017		16,510,046

### Details of undertakings

Details of the investments (including principal place of business of unincorporated entities) in which the company holds 5% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			2017	2016
Subsidiary undertakings				
LIVN UK Holdco Limited	England and Wales	Ordinary	6.93%	0%

The principal activity of LIVN UK Holdco Limited is a holding company

# LIVANOVA UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 14 Stocks

	2017 £	2016 £
Finished goods and goods for resale	<u>1,887,657</u>	<u>1,790,894</u>

Stock is stated after provision for impairment of £78,697 (2016 - £52,480).

The cost of stocks recognised as an expense in the year amounted to £17,277,775 (2016 - £17,176,477).

### 15 Debtors

	Note	2017 £	2016 £
Trade debtors		5,258,953	5,980,682
Amounts owed by group undertakings		1,500,503	4,890,490
Deferred tax assets	10	251,405	178,230
Prepayments and accrued income		<u>218,953</u>	<u>542,205</u>
Total current trade and other debtors		<u>7,229,814</u>	<u>11,591,607</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

### 16 Called up Share capital

#### Allotted, called up and fully paid shares

	2017 No.	£	2016 No.	£
Ordinary shares of £1 each	<u>1,540,001</u>	<u>1,540,001</u>	<u>1,540,001</u>	<u>1,540,001</u>

### 17 Reserves

#### Retained earnings

Retained earnings represents the accumulated profits, losses and distributions of the company.

### 18 Obligations under leases and hire purchase contracts

#### Operating leases

The total of future minimum lease payments is as follows:

	2017 £	2016 £
Not later than one year	287,409	200,313
Later than one year and not later than five years	449,226	577,964
Later than five years	<u>180,252</u>	<u>-</u>
	<u>916,887</u>	<u>778,277</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £261,240 (2016 - £213,714).

# LIVANOVA UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 19 Pension and other schemes

#### Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £431,748 (2016 - £385,500).

Contributions totalling £Nil (2016 - £Nil) were payable to the scheme at the end of the year and are included in creditors.

### 20 Creditors

	Note	2017 £	2016 £
<b>Amounts falling due within one year</b>			
Trade creditors		221,499	163,106
Amounts owed to group undertakings	22	3,278,882	3,984,790
Taxation and social security		922,554	1,049,976
Other creditors		312,248	88,853
Accruals and deferred income		2,191,690	1,688,108
		<u>6,926,873</u>	<u>6,974,833</u>
<b>Amounts falling due more than one year</b>			
Amounts owed to group undertakings		16,510,046	-
Other non-current financial liabilities		-	92,078
		<u>16,510,046</u>	<u>92,078</u>

Included within amounts owed to group undertakings falling due in more than one year is a loan of £16,510,046 advanced from Livanova PLC. The loan bears interest at a rate of 2.5% and falls due to be repaid, together with all accrued interest, in October 2019.

Other amounts owed to group undertakings falling due within one year are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

### 21 Dividends

	2017 £	2016 £
Dividends paid	<u>5,000,000</u>	<u>-</u>

### 22 Related party transactions

#### Summary of transactions with parent

The company is exempt from disclosing related party transactions with other companies that are wholly owned within the Group.



**LIVANOVA UK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**23 Parent and ultimate parent undertaking**

The company's immediate parent is LivaNova Nederland NV, incorporated in the Netherlands.

The ultimate parent is LivaNova PLC, incorporated in United Kingdom.

This is the smallest and largest group to consolidate these financial statements. Copies of the LivaNova PLC consolidated financial statements can be attained Fourth Floor, 20 Eastbourne Terrace, London, W2 6LG.