# REPORT ON OPERATIONS
# CONSOLIDATED FINANCIAL STATEMENTS
# STATUTORY FINANCIAL STATEMENTS OF SORIN SPA

# AT DECEMBER 31, 2010

SORIN S.p.A.
Share Capital: 470,731,144 euros
Tax I.D. No. 04160490969
VAT No. 04160490969

Registered and Administrative Offices:
20159 Milano
Via Benigno Crespi, 17
Milan Company Register,
REA No. 1730327

Tel.:+39 02 69969711
http://www.sorin.com

*Disclaimer*

*This document contains forward-looking statements, particularly in the section entitled "Business Outlook for 2009." By their very nature, forward-looking statements entail a certain degree of risk and uncertainty because they are predicted on the occurrence of future events and developments. Actual results could differ, even to a significant extent, from those projected, due to a number of factors, such as general macroeconomic conditions, changes in economic and regulatory framework in the countries where Sorin Group operates, success in developing and implementing new technologies and other changes in business conditions, including activities by the competition.*

CONTENTS

# CORPORATE GOVERNANCE BODIES AND COMMITTEES

## Board of Directors

| | | |
|---|---|---|
| **Chairman** | Rosario Bifulco | |
| **Deputy Chairman** | Giovanni Pavese | (6) |
| | Giovanni Gorno Tempini | (4) |
| **Chief Executive Officer** | André-Michel Ballester | |
| **Directors** | Claudio Albertini | |
| | Giuliano Asperti | (1) |
| | Paolo Baessato | (1) |
| | Andrea Bovone | |
| | Giorgio Fossa | (1) |
| | Pietro Guindani | (1) |
| | Ettore Morezzi | (1) |
| | Enzo Nicoli | |
| | Luigi Ragno | (1) |
| | Francesco Silva | |
| | Massimo Tononi | (5) |
| | Claudio Agostino Zulli | |

## Board of Statutory Auditors

| | | |
|---|---|---|
| **Chairman** | Cesare Piovene Porto Godi | (3) |
| | Marco Spadacini | (2) |
| **Statutory Auditors** | Paolo Gualtieri | (3) |
| | Diego Rivetti | (2) |
| | Andrea Zaglio | |

## Independent Auditors

Reconta Ernst & Young S.p.A.

(1) Independent Director.
(2) Until April 28, 2010.
(3) Since April 28, 2010.
(4) Until May 13, 2010.
(5) Coopted by the Board of Directors on June 15, 2010 and elected by the Shareholders' Meeting of September14, 2010.
(6) Already serving as a Director, he was appointed Deputy Chairman on July 29, 2010.

## Executive Committee

Provides support to the Chairman and the Board of Directors in connection with major decisions involving the Group. Its members are:

| | | |
|---|---|---|
| Rosario Bifulco | | *Chairman* |
| André-Michel Ballester | | |
| Andrea Bovone | | |
| Giovanni Gorno Tempini | (3) | |
| Massimo Tononi | (4) | |

## Internal Control Committee

Provides consulting support and makes recommendations regarding internal control. Its members are:

| | |
|---|---|
| Claudio Agostino Zulli | *Chairman* |
| Giuliano Asperti | |
| Paolo Baessato | |

## Compensation Committee

Provides consulting support with regard to the fees received by Directors, the compensation of top management and the Company's overall compensation policies. Its members are:

| | | |
|---|---|---|
| Giovanni Pavese | | *Chairman* |
| Paolo Baessato | | |
| Pietro Guindani | (2) | |
| Enzo Nicoli | (1) | |

## Related-party Transaction Committee (5)

Renders an opinion on the Company's procedure prior to its approval and detailed opinions on individual related-party transactions. Its members are:

| | |
|---|---|
| Giuliano Asperti | *Chairman* |
| Paolo Baessato | |
| Luigi Ragno | |

(1) Until February 10, 2010.

(2) Since February 10, 2010.

(3) Until May 13, 2010,

(4) From June 15 to September 14 and since October 26, 2010.

(5) Since July 29, 2010.

SORIN GROUP

Sorin Group is **Europe's largest medical technology group specializing in the treatment of cardiovascular diseases.** Sorin Group is a world leader in the production of cardiac surgery systems (Cardiopulmonary), with a significant and consolidated position in the market for implantable prostheses (Heart Valves), and offers innovative therapies for cardiac rhythm dysfunctions (Cardiac Rhythm Management).

## CARDIOPULMONARY (CP)

Heart-lung machines

Oxygenators

Autotransfusion systems

| | |
|---|---|
| Systems for extracorporeal circulation during heart surgery and disposable biomedical devices. Endoscopic vessel harvesting systems in coronary surgery. | - Cardiopulmonary systems (oxygenators, custom packs)<br>- Heart-lung machines<br>- Autotransfusion systems and disposables<br>- Endoscopic vessel harvesting systems |

## CARDIAC RHYTHM MANAGEMENT (CRM)

Heart-failure management systems


Tachyarrhythmia management systems


Bradyarrhythmia management systems


| | |
|---|---|
| Implantable devices, monitoring systems and accessories to treat cardiac rhythm dysfunctions. | - Pacemakers<br>- Implantable defibrillators<br>- Systems to treat heart failure (CRT-D)<br>- Programmers<br>- Electrodes<br>- Electrophysiology leads<br>- Holter monitors |

## HEART VALVES (HV)

Tissue valves

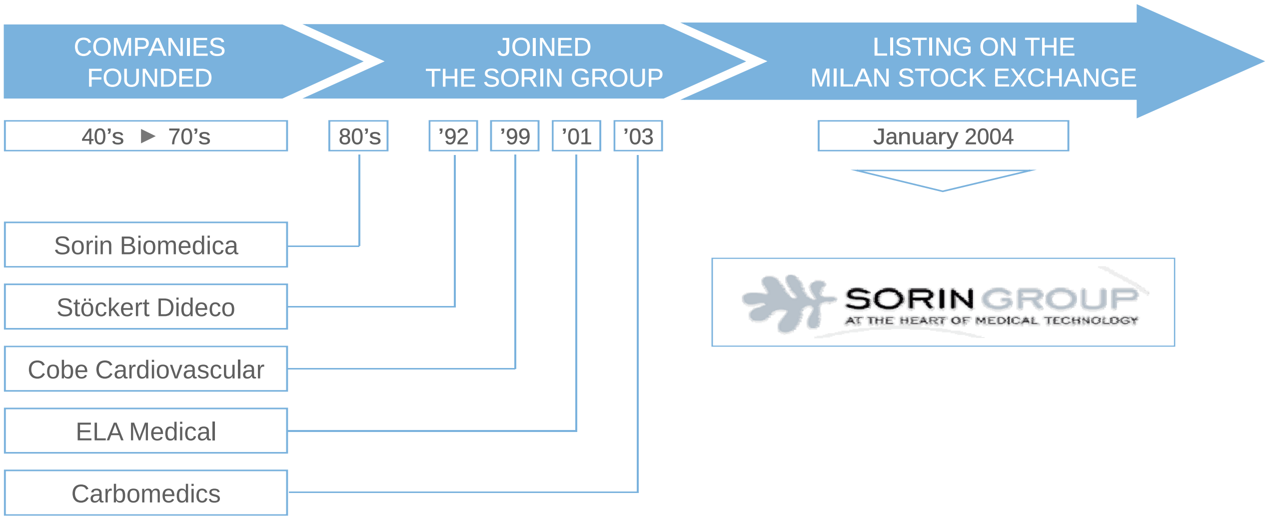
Mechanical valves

Annuloplasty rings

| | |
|---|---|
| Implantable prostheses to replace or repair native heart valves. | - Mechanical heart valves<br>- Tissue heart valves<br>- Annuloplasty rings |

Focused on three business units (Cardiopulmonary, Cardiac Rhythm Management, Heart Valves), Sorin Group has a global presence and its expertise, developed in over a decade of activity, is recognized throughout the global medical community.

Listed on the Milan Stock Exchange since January 2004, Sorin Group is the result of the integration of successful brands, such as Sorin Biomedica, Dideco, Stöckert, Cobe Cardiovascular, Ela Medical and Carbomedics.

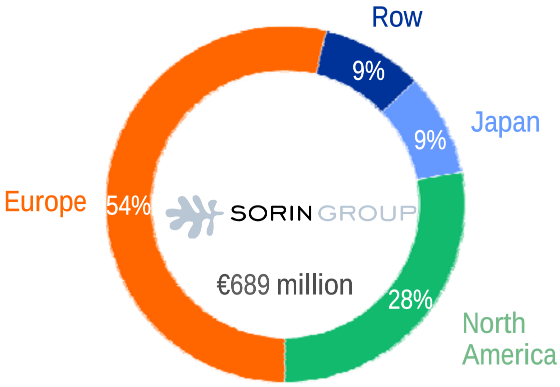



Sorin Group has a unique wealth of innovative technologies:

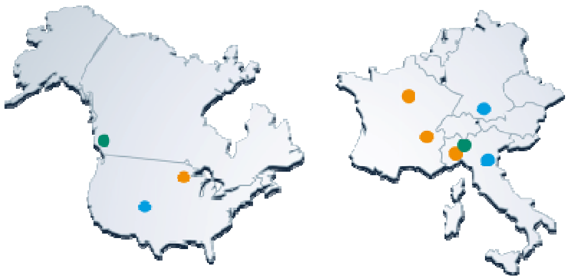
- **2009** ► Delivery of the 1000th S5 heart lung machine
- **2008** ► World's FIRST CRT-D with hemodynamic sensors: PARADYM™
- **2006** ► FIRST semi rigid ring with unique 3D motion (Memo 3D™)
- **2002** ► FIRSToxygenator with integrated arterial filter – SORIN* Synthesis™
  ► World's FIRST sensor to optimize patient hemodynamics
- **1998** ► FIRST dual chamber adult oxygenator – DIDECO* Avant™
- **1995** ► World's FIRST dual-chamber ICD implant: ELA Medical* DEFENDER™
- **1994** ► World's FIRST implant of a bi-ventricular pacing system (ELA Medical)
- **1993** ► FIRST neonatal oxygenator – DIDECO Lilliput™
- **1982** ► FIRST implant of a stented tissue heart valve (MITROFLOW*™)
- **1981** ► World's FIRST microcomputer within an ELA Medical's pacemaker
- **1973** ► FIRST modular heart lung machine by STOECKERT*

Sorin Group has a **global presence**, with activities in all regions of the world, serving over 5,000 public and private health institutions. Each year, over one million people are treated with products and therapies developed by Sorin Group.

Sales By Geography



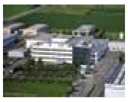

Current R&D and Manufacturing Locations



CARDIOPULMONARY

CARDIAC RHYTHM MANAGEMENT (CRM)

HEART VALVES


Mirandola (Italy)


Munich (Germany)


Denver (USA)


Clamart (France)


Minneapolis (USA)


Meylan (France)


Saluggia (Italy)


Vancouver (Canada)

Sorin Group is driven by **an unwavering commitment to health.**

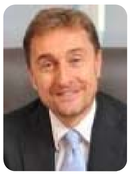
- **67 million euros dedicated to R&D** equal to 9% of sales revenues
- **14% of employees work in R&D** in North America, France, Italy and Germany
- Numerous partnerships with **cardiology specialists** and **cardiac surgeons** as well **as world-renowned universities** and **research centers**
- Relying on **"engineer-physician intelligence networks"** to develop innovative therapeutic solutions
- **A portfolio of more than 2,000 patents**

## Sorin Group's Vision

Sorin Group wants to be recognized by the medical community, patients, shareholders, the financial community, the biomedical industry, government agencies and its employees not only as a top player in the heart valve and cardiopulmonary fields, but also as a world leader in the overall cardiovascular market and as a true innovator in the area of cardiac rhythm management.

Sorin Group's **organizational structure** is based on three **business units** — Cardiopulmonary, Cardiac Rhythm Management and Heart Valves — supported by corporate functions and led by a management team with international experience in the medical industry. The Group's executive leadership team is presented below:

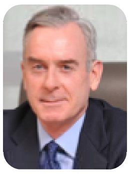
André-Michel BALLESTER
Chief Executive Officer



Davide BIANCHI
Pres. Heart Valves

Michel DARNAUD
Pres. Cardiopulmonary & Intercontinental

Stefano DI LULLO
Pres. Cardiac Rhythm Management



Edward ANDRLE
Vice Pres. Business Development

Stéphane BESSETTE
Vice Pres. Human Resources

Demetrio MAURO
Chief Financial Officer

Brian SHERIDAN
General Counsel

Kieran TUITE
Vice Pres. Operations

INVESTOR RELATIONS

Sorin maintains an ongoing dialog with the financial community through an active communication policy managed by the Investor Relations Department. The Company's goal is to deliver a constant flow of information to its shareholders, institutional investors, financial analysts and the financial markets in general, while complying fully with the principles of transparency and equal treatment for everyone.

During the year, the Investor Relations Department continued to perform the activities required to organize and coordinate events providing opportunities to interact with the financial community. As in previous year, the annual meeting of the Company's top management with financial analysts and institutional investors for the presentation of the 2010-2014 Strategic Plan was held at the Group's headquarters on March 22, 2010. The topics addressed at this meeting, which could also be followed in teleconferencing mode, included the strategic positioning of the Group, its industrial and product strategies and the Company's expectations in terms of operating and financial results. In addition, the Investor Relations Department organized conference calls on a regular basis, in connection with the release of annual and interim results, during which management commented the results and answered questions. Audio recordings of these events are available on the Company website.

In line with best international practices, the Investor Relations Department attended industry conferences, meetings and presentations, with the objective of increasing awareness about the Company and meet interested investors. The events attended in 2010 included the *Mediobanca Italian Conference 2010* in Paris, the *Morgan Stanley European Medtech & Services Conference* in London, the *Jefferies 2010 Global Lifesciences Conference* in New York and London and the *ESN Mid & Small Cap Conference* in London. The Investor Relations Department also organized several roadshows to provide a direct interaction with the investing community at major financial centers, such as Boston, London, New York and Paris, as well as in Edinburgh, Vienna and Copenhagen.

In 2010, the Group continued to deliver information to the financial markets and the public in general by constantly updating the Company website *www.sorin.com*, which was completely overhauled in 2010 to make access to information even more clear and easy. The Investor Relations page has been updated, providing access to the data contained in end-of-period financial reports, press release and Company presentations, It also includes up-to-date information about periodic publications, statistics about Sorin's stock and a wealth of other useful information to fully understand the Company and the Group.

As for the coverage of Sorin's stock by market and industry analysts, the Investor Relations Department worked actively to further increase the quantity and quality of published information. Another two major securities dealers began coverage of Sorin, joining the three dealers who covered the stock last year. Numerous highly detailed reports about the Company's ongoing performance and the valuation of Sorin's stock were published during the year. In all cases, the Company received positive valuations.
Consistent with the ongoing implementation of the strategy pursued during the past two years to ensure that the expectations of the financial markets match as closely as possible its actual results, the Company continued to provide guidance about its projected operating and financial results, both on an annual and quarterly basis. In 2010, as in the past, reported interim and annual results always matched or beat the guidance provided earlier to the market, further strengthening Sorin Group's credibility and image in the financial community.

The Investor Relations Department can be reached using the following contact information:

Investor Relations
Tel.: +39-02-69969716
Fax: +39-02-69969788
E-mail: investor.relations@sorin.com

Sorin's stock price rose from 1.335 euros at December 31, 2009 to 1.702 euros at December 31, 2010. This positive performance was accompanied by a significant increase in average daily trading volume.

The chart below tracks the performance of Sorin's stock (SRN) compared with the FTSE all shares Italia index in 2010.


The strong performance of Sorin's stock, in a highly volatile market, reflects the positive operating and financial results reported by the Group and the Company's growing credibility.

At December 31, 2010, the Company's share capital was comprised of 470,432,144 shares, par value 1 euro each. On September 14, 2010, the Shareholders' Meeting approved a Stock Grant Plan reserved for the Chairman, the Chief Executive Officer and employees of the Sorin Group, which would be carried out either through a bonus share capital increase, pursuant to Article 2349 of the Italian Civil Code, or using the treasury shares purchased with the buyback program, conveying to the Board of Directors all necessary or appropriate powers to establish and implement the Plan. The Plan, which is designed to incentivize and increase the loyalty of management and further align the interests of management with those of the shareholders and achieve the medium/long-term objectives of the Strategic Plan, is based and conditional on the Company achieving specific EBITDA margin and consolidated net profit targets.

Major shareholders (with equity stakes equal to more than 2% of the share capital) at December 31, 2010, determined based on the information received by the Company, are listed below:

| Name of filer | Direct shareholder | |
|---|---|---|
| | Name | % interest in voting capital |
| TETHYS S.p.A | BIOS S.p.A. | 19.196 |
| EQUINOX TWO S.c.a. | TOWER 6 BIS S.a.r.l. | 6.693 |
| BANCA MONTE DEI PASCHI DI SIENA S.p.A. | BANCA MONTE DEI PASCHI DI SIENA S.p.A. | 7.314 |
| HOLMO S.p.A. | UGF ASSICURAZIONI S.p.A. | 4.645 |
| GENERAL ELECTRIC COMPANY | BIOS INTERBANCA S.p.A. | 7.546 |

A Shareholders' Agreement concerning the shares of Sorin S.p.A., signed by Mittel S.p.A., Equinox Two S.c.A., Hopa S.p.A., MPS Investments S.p.A. and Unipol Gruppo Finanziario S.p.A., each for the respective equity stake held directly or indirectly in Sorin S.p.A., became effective on November 18, 2009. The Agreement, which applies to the shares held through BIOS S.p.A., Tower 6 Bis S.a.r.l., MPS Investments S.p.A. and Smallpart S.p.A., triggered the obligation to promote a mandatory tender offer for any and all Sorin S.p.A. shares. When the share tender period ended on January 22, 2010, a total of 275,948 Sorin S.p.A. common shares, equal to 0.0587% of its share capital, had been tendered.

On March 22, 2010, Sorin S.p.A. received a request to perform due diligence activities, on an exclusive basis, for the purpose of assessing the possibility of promoting a voluntary tender offer for the entire share capital of Sorin S.p.A. on behalf of a consortium of investors that included Ares Life Sciences AG, Essex Woodlands Health Ventures UK Ltd, Intesa SanPaolo S.p.A. and Alpha Private Equity Funds (the "Consortium"). Negotiations started on an exclusive basis between the Consortium, Equinox Two S.c.A. and Mittel S.p.A. did not lead to an agreement between the parties. Consequently, on April 21, 2010, Sorin was informed that the Consortium did not intend to continue with the due diligence activities (in any case, still in a very preliminary phase) that the Board of Directors of Sorin S.p.A. authorized, on March 25, 2010, on a limited and non-exclusive basis.

SORIN GROUP
AT THE HEART OF MEDICAL TECHNOLOGY

# CONSOLIDATED FINANCIAL HIGHLIGHT

| | | 12/31/10 | 12/31/09 |
|---|---|---|---|
| **Income Statement Data** | | | |
| Net revenues [(1)] | | 745.8 | 689.0 |
| EBITDA before special items | | 120.2 | 99.4 |
| EBIT | | 71.5 | 51.5 |
| EBIT before special items | | 78.4 | 58.6 |
| Profit (Loss) before taxes | | 59.9 | 41.2 |
| Net profit (loss) from continuing operations | | 42.4 | 26.6 |
| Net profit (loss) from divested operations | | (3.3) | (3.4) |
| Net profit (loss) | | 39.1 | 23.2 |
| **Statement of Financial Position Data** | | | |
| Net invested capital | | 582.8 | 586.7 |
| Net indebtedness [(2)] | | (128.8) | (181.6) |
| Shareholders' equity | | 454.0 | 405.1 |
| **Other Data** | | | |
| Number of employees at end of the year | | 3,749 | 3,665 |
| Average number of employees for the year | | 3,738 | 3,631 |
| **Data per Share** (in euros) | | | |
| Profit (loss) per share: | | | |
| - basic and diluted, based on the net profit (loss) for the year | | 0.083 | 0.049 |
| - basic and diluted, based on the net profit (loss) from continuing operations | | 0.090 | 0.057 |
| Dividend per share | | -- | -- |
| Shareholders' equity per share | | 0.965 | 0.861 |
| Stock market price (average for the period) | | 1.512 | 0.905 |
| **Key Indicators** | | | |
| *EBITDA before special items/Net revenues* | *(%)* | *16.1* | *14.4* |
| *EBIT/Net revenues* | *(%)* | *9.6* | *7.5* |
| *EBIT before special items/Net revenues* | *(%)* | *10.5* | *8.5* |
| *EBIT/Average net invested capital* | *(%)* | *12.2* | *8.3* |
| *Net profit (loss)/Net revenues* | *(%)* | *5.2* | *3.4* |
| *Net profit (loss)/Average shareholders' equity* | *(%)* | *9.1* | *5.9* |
| *Net indebtedness/Shareholder's equity* | | *0.28* | *0.45* |

(in millions of euros)

(1) Includes sales and service revenues and cost recoveries.

(2) A breakdown of net indebtedness is provided after the consolidated statement of financial position.

## Foreword

The financial statements at December 31, 2010 were prepared in accordance with the international financial reporting standards (IFRS) published by the International Accounting Standards Board (IASB) and approved by the European Union and comply with the provisions enacted to implement Article 9 of Legislative Decree No. 38/2005. The abbreviation IFRS also stands for the International Accounting Standards (IAS) currently still in effect and all of the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), including earlier interpretations issued by the Standing Interpretations Committee (SIC). The international accounting principles adopted are the same as those applied to prepare the consolidated financial statements at December 31, 2009, except as noted in Note 1 to the Consolidated Financial Statements.

As of January 1, 2010, in accordance with the requirements of IAS 39, the Group adopted the tools needed to apply hedge accounting treatment to financial derivatives that hedge the risk of fluctuations in exchange rates on commercial transactions in a foreign currency that qualify as highly probable (cash flow hedges). In 2009, the Group adopted the necessary tools to apply hedge accounting treatment to derivative hedging interest rate risk (interest rate swaps – IRS).

The financial statements at December 31, 2010 were prepared on a going concern basis. Specifically, the Group concluded that, despite the current challenging economic and financial environment, there are no material uncertainties (as defined in Paragraph 25 of IAS 1) as to the Company's ability to continue as a going concern, owing in part to the actions already taken to address perceived risks and adapt the Group's operating and financial structure to the new economic environment.

As required by IFRS 5, the residual result attributable to the Vascular Therapy and Renal Care business operations, which were divested at the end of 2008, is shown separately in the income statement as "Profit (Loss) from divested operations."

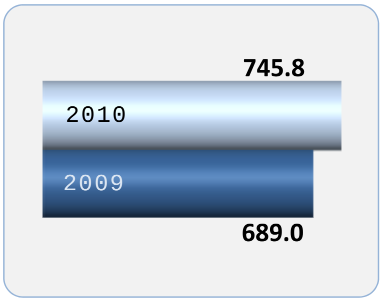
In the first half of 2010, the Group completed the divestment of the Angel® (whole blood separation system) and activAT® (autologous thrombin preparation system) product lines to Cytomedix Inc., a company engaged in the development of biologically active regenerative therapies for wound care, inflammations and angiogenesis.
During the same period, as part of the programs implemented to strengthen the direct sales network, the Austrian subsidiary acquired the business operations of a major distributor that operates mainly in Austria.
Lastly, early in June 2010, the Group completed the acquisition of Gish Biomedical Inc., a U.S. company based in California that develops and manufactures medical devices for cardiovascular surgery.
The residual impact of these transactions on the income statement and the statement of financial position is described in the Report on Operations and the Notes to the Consolidated Financial Statements.

In this document, amounts are in millions of euros, with one decimal, in the Report on Operations, and in thousands of euros in the consolidated financial statements and the separate financial statements of Sorin S.p.A. As a result, some rounding of figures may be reflected in some schedules.

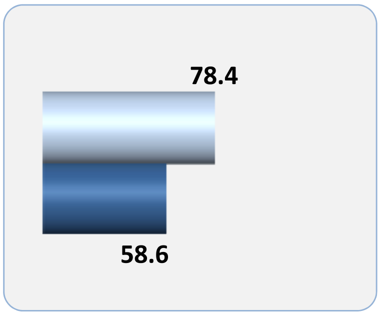
REPORT ON OPERATIONS AT DECEMBER 31, 2010

## 2010 at a Glance

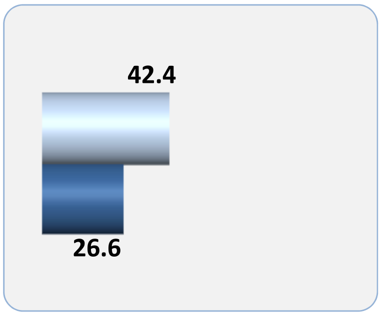
**Revenues** totaled 745.8 million euros, or 4.5% more than in 2009, at constant exchange rates.



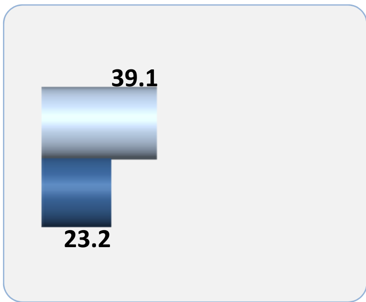

**Net of special items, EBIT** grew to 78.4 million euros, for a gain of 33.8% compared with the 58.6 million euros earned in 2009.



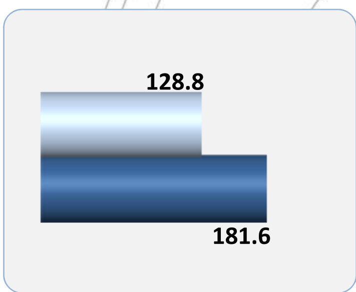

The **net profit from continuing operations** totaled 42.4 million euros, up from 26.6 million euros in 2009. Special items, before taxes, had a negative impact of 6.9 million euros, compared with a negative impact of 7.1 million euros in 2009.




The **net profit** for the year amounted to 39.1 million euros, compared with a net profit of 23.2 million euros in 2009.




**Net indebtedness** decreased to 128.8 million euros, down significantly compared with the 181.6 million euros owed at December 31, 2009, thanks to increased profitability and a more efficient management of working capital.



A Letter to Shareholders

*Dear shareholders:*

*Sorin Group achieved highly positive results in 2010, both in terms of operating and financial performance and in terms of market positioning and commercial penetration of the main international markets. An unwavering commitment to innovation translated into a further enrichment of the product pipeline during the course of the year, and 2010 was characterized by major commercial announcements. The management team was strengthened, specifically with regard to the commercial and development areas.*

*The beneficial effect of these positive results on shareholder value is reflected by the stock market performance of Sorin's stock, which increased in value by 28.8% in 2010, while the FTSE MIB Index declined by 13.2% and the STOXX 600 Healthcare Index grew by 4.3% (source: Bloomberg). This positive trend continued during the first two months of 2011, as further evidence of the ongoing support of the financial community.*

*With regard to operating and financial results, the Group matched and, in some cases, exceeded the guidance provided to the market, after revising it upward when announcing the data for the first half of 2010.*

*Revenues were up 8.2% (+4.5%, net of the translation effect), reflecting a positive performance by all three business units. This gain is even more impressive when viewed against the backdrop of international markets characterized by weaker growth rates.*

*The performance of the Cardiopulmonary business unit benefited from strong growth in the heart-lung machine segment in the main European markets and the United States, supported by the availability of new models. Sorin's market share in this area is more than 70% globally and its products are now viewed as the industry's gold standard. The Group's oxygenator business also performed well in 2010, benefiting from the acquisition of Gish Biomedical in the United States, which was consolidated in the second quarter of 2010 and contributed 4.4 million euros to the business unit's revenue growth. The manufacturing and commercial integration of Gish Biomedical into the business unit was completed in 2010, with the permanent relocation of production to the Group's plants in Arvada, in the United States, and Mirandola, in Italy, and the closure of the California production facility. Commercial, administrative and support activities were fully integrated, with the completion of the process of switching customers to Sorin-brand products. Lastly, the results in the autotransfusion segment, which, starting in 2011, will benefit from the availability of the next-generation Xtra™ system, held relatively steady in 2010. During the year, the Cardiopulmonary business unit completed the divestment of North American business operations that included the non-strategic Angel® and activAT® product lines.*

*In 2010, the Cardiac Rhythm Management business unit was once again the engine driving the Group's growth, as it reported an 8.4% increase in revenues, at constant exchange rates, that reflected strong performances in the United States (+15.6%) and the European countries where the Group has traditionally enjoyed a strong presence, such as Italy (+8.8%), France (+6.6%) and Spain (+14.0%). This performance is particularly gratifying when considering that the reference market experienced contracting growth rates in the more developed countries, the United States in particular.*

*Lastly, the Heart Valves business unit reported a 3.4% revenue increase, at constant exchange rates, that reflects a further gain in market share by the Mitroflow valve, particularly in the United States, where sales were up 17.9% in 2010. In Europe, where the Group recently announced the market launch of the new Perceval sutureless valve, revenues were substantially in line with 2009.*

*Geographically, the work carried out in 2010 provided the foundations for further international expansion, focusing on the emerging countries, which, in the future, will provide major growth opportunities for the medical industry. Specifically, the Group implemented programs to strengthen its direct and indirect sales organizations in China and Brazil, and reorganized its distribution arrangements in Russia and some Eastern European countries.*

*When the data are analyzed by geographic region and restated at constant exchange rates, the Group's revenues show increases of 6.0% in the United States, 3,3% in Europe and 5.7% in the emerging countries, and virtually no change (-0.1%) in Japan.*

*Insofar as profitability is concerned, the Group exceeded expectations in 2010. The gross profit increased by 14.3% in absolute terms, rising from 384.3 million euros to 439.3 million euro, and its ratio to revenues improved by 310 basis points. This positive performance reflects the impact of a number of projects implemented to boost manufacturing efficiency, including the new Clamart plant, which completed its first full year of activity, and the relocation of the production of autotransfusion systems from Mirandola to Munich, which has become the Group's center of excellence for all hardware production processes.*

*The performance of the industrial operations benefited from a better product and geographic mix and, lastly, from more favorable exchange rate trends, chief among them a decline in the value of the euro, which is the currency in which most of the Group's industrial costs are denominated.*

*At the operating level, selling, general and administrative expenses increased both in absolute terms and as a percentage of revenues. However, net of the effect of the adoption of hedge accounting (IAS 39, calling for recognition among operating expenses of the effect on EBIT of currency translation hedges), these expenses decreased as a percentage of revenues. The increase in absolute terms reflects additional investments made in 2010 to strengthen the sales organizations of the Cardiac Rhythm Management and Heart Valve business units in the United States and the preparatory work to launch the Perceval valve in Europe. The investment required to switch from an indirect distribution system to a direct sales network in the Netherlands and Austria was also a factor.*

*Research and development expenditures continued to increase both in absolute terms (rising from 59.0 million euros to 66.9 million euros) and as a percentage of revenues (up from 8.6% to 9.0%). Noteworthy new initiatives included the development of the new LinOx family of oxygenators by the Cardiopulmonary business unit and a project for a remote monitoring platform, currently being developed jointly with the Orange Group by the Cardiac Rhythm Management business unit.*

*Lastly, among the main achievements of the Group's research and development activities, the Company is pleased to report that, in February 2011, the Perceval valve was awarded the CE mark, limited to some of the sizes in which it is available.*

*Financial expense increased, due exclusively to the effect of foreign exchange and interest rate hedging transactions, which was positive by 4.3. million euros in 2009 and negative by 1.2 million euros in 2010. Restated net of this effect, financial expense shows a decrease, due to a substantial reduction in average indebtedness and a decrease in debt service cost generated by the ratchet mechanism associated with medium/long-term financing facilities.*

*A decrease in the tax rate from 35.4% to 29.2% contributed marginally to the increase in net profit, which was achieved thanks to a more homogenous performance by the various legal entities of the Group and an overall improvement in actual and projected profitability.*

*The gain in operating profitability enabled the Group to improve its balance sheet and financial position. A development worth mentioning, in addition to the reduction in indebtedness referred to above, is a further contraction in working capital, achieved through a faster turnover both of receivables and inventories. In our opinion, this improvement continues to reflect the positive effect of the organizational change implemented in 2008, which made the business units and the Finance Department responsible for inventory management and receivables management, respectively.*

*We believe that the best indicators of the positive effect of the developments discussed above is the reduction in the financial leverage ratio, measured as net indebtedness/EBITDA, from 1.8 to 1.1 (it was 3.6 in 2007) and the improvement in ROI, measured as EBIT/net invested capital, from 9.6% to 13.4% (it was 4.2% in 2007).*

*Business Outlook*

*We believe that the market's reference scenario is changing and that we are entering a period of slower growth than in the past, particularly in the countries that enjoyed faster economic expansion. Having already strengthened the Group's financial structure and significantly improved the makeup of its income statement, we believe that we must increasingly turn our attention to growing the revenue base in 2011. Specifically, the Group plans to focus on a long-term growth project, driven by a constant commitment to innovation and the penetration of new geographic markets and product segments as its primary development guidelines. This growth strategy will be pursued while remaining firmly focused on continuously improving the Group's profitability and cash generating capacity.*

*In conclusion, we believe that guidance for 2011 should reflect expectations of a revenue increase of 3% to 5% compared with 2010, at comparable exchange rates. This growth, coupled with the continuing implementation of efficiency programs, should boost the ratio of EBITDA to net revenues to about 17% and generate revenues of about 49-53 million euros, up 25-35% over 2010, at comparable exchange rates. Lastly, the free cash flow generated in 2011 should be roughly equal in amount to the net profit.*

*Milan, March 17, 2011*

*Rosario Bifulco*
*Chairman*

*André-Michel Ballester*
*Chief Executive Officer*

## Alternative Performance Indicators

In order to allow a more meaningful assessment of the operating and financial performance of Sorin Group at December 31, 2010, the Report on Operations and the Consolidated Financial Statements include certain income statement, balance sheet and financial position items, which are used as part of the decision making process, both when reviewing actual data and formulating budgets and plans, and in presentations to financial analysts and investors. These indicators should not be viewed as alternative to the conventional indicators provided in the international accounting principles (IAS, IFRS) and, for all intents and purposes, simply constitute an additional disclosure.

- EBIT (earnings before interest and taxes) and EBITDA (earnings before interest, taxes, depreciation and amortization) are indicators of operating performance. They are computed as follows:

  Profit (Loss) before taxes and profit (loss) from divested operations

  \+ Financial expense
  \- Financial income
  -/+ Currency translation gains/losses
  -/+ Income from/Expenses on investments in associated companies
  = EBIT

  \+ Depreciation, amortization and writedowns
  \+ Additions to provisions for risks and charges
  -/+ Gains/Losses from sale of investments in subsidiaries
  \+ Restructuring charges and provisions
  = EBITDA

- Percentage changes in net sales revenues, EBIT and EBITDA compared with the same items in prior periods provided for comparison purposes are computed on a comparable basis, which means using the same scope of consolidation and/or the same exchange rate versus the euro. This approach provides a more effective means of depicting the operating performance of the Group and its business units.

- Net invested capital and Net financial assets/Net indebtedness are indicators of financial performance that are computed as follows:

  \+ Property, plant and equipment
  \+ Goodwill and Other intangible assets
  \+ Investments in associated companies
  \+ Investments in other companies (1)
  = Capital invested in non-current assets

  \+ Inventories
  \+ Trade accounts receivable
  \- Trade accounts payable
  \+ Other assets (2) /– Other liabilities (3)
  = Working capital

- Provision for severance indemnities and other employee-benefit provisions
- Provisions for risks and charges (4)

= Net invested capital (Capital invested in non-current assets + Working capital – Provision for severance indemnities and Other employee-benefit provisions – Provisions for risks and charges)

+ Non-current financial assets (5)
+ Assets from financial derivatives
+ Other current financial assets
+ Cash and cash equivalents
- Non-current financial liabilities
- Liabilities from financial derivatives
- Other current financial liabilities

= Net financial assets (Net indebtedness)

(1) Included among Non-current financial assets.
(2) This item includes: Deferred-tax assets, Miscellaneous non-current assets, Other current receivables and Tax credits.
(3) This item includes: Miscellaneous non-current liabilities, Deferred-tax liabilities, Other current liabilities, Government grants and Taxes payable.
(4) This item is comprised of provisions included among non-current and current liabilities.
(5) Excluding Investments in other companies included in Net invested capital.

- Average Net invested capital and average Shareholders' Equity are computed as the arithmetic average of the corresponding amounts at the end of the period and at December 31 of the previous year.

- Free cash flow is an indicator that depicts an entity's cash generating capacity. It is computed as follows:

+ Net profit
+ Depreciation, amortization and writedowns

+/- Change in working capital

- Capital expenditures

= Free cash flow

Because the composition of the alternative performance indicators described above is not governed by generally accepted accounting principles, the computation criteria adopted by the Group could be different from those adopted by other companies and, consequently, not comparable.

The Group presents its income statement in accordance with a format with expenses broken down by type. In addition, it has developed and uses for internal reporting and business management purposes an income statement format in which costs are broken down by function (also known as "cost of sales" or "by destination" income statement). The Group's management believes that the disclosure of additional information in accordance with such a function-based presentation format provides an additional tool to assess more effectively its operating and financial performance. Moreover, the income statement reclassified in accordance with such a format, which was not reviewed by the Independent Auditors, is more consistent with the data presentation format used by the main operators in the global market for medical devices, which is also the Group's target market. The two income statement presentation formats (by type and by function/destination) show the same data for net revenues and EBIT.

The economic indicators provided by the income statement presentation format by function/destination include the following:

- Gross profit, which is an indicator of performance at the industrial level and is computed by deducting the cost of sales from net revenues;
- Research and development (R&D) operating expenses, which represent the amount corresponding to the operating costs (personnel expense, cost of materials and services used, depreciation and amortization) incurred by the departments responsible for research and development (net of costs capitalized as development costs);
- Selling, general and administrative (SG&A) operating expenses, which represent the amount corresponding to the operating costs (personnel expense, cost of materials and services used, depreciation and amortization) incurred by the departments responsible for sales, marketing, administration and management and the other operating costs and revenues and additions to provisions that are not included in cost of sales or research and development expenditures.

Sorin's management measures the performance of the Group and its business units without taking into account the impact of special items on EBIT, EBITDA and net indebtedness. Material income statement and balance sheet items are classified as special items when (i) they arise from events or transactions that are not recurring or from transactions or situations that do not occur frequently in the normal course of business, or (ii) they arise from events or transactions that are not indicative of the Group's regular business activity. The international accounting principles (IFRS) do not provide a definition for special items. Consequently, information about special items should be viewed as a supplemental disclosure provided for the purpose of measuring more effectively the actual result from regular operations. Material income statement and balance sheet items that arise from non-recurring operations are shown separately in the comments provided by management and in the financial disclosures included in this Report.

## Operating Performance

The Group's reference macroeconomic scenario was characterized by a continuation of a serious financial and economic crisis that has been lingering for some years, made worse by the repercussions of the crisis in Greece and structural weakness in other euro-zone countries. The industry within which the Group operates has been affected only marginally by the current crisis. However, it seems reasonable to expect that, in the future, governments may take action to reduce budget deficits, swollen by programs to boost the economy, by curtailing health care spending.

The sharp contraction of the credit markets did not have a material impact on the Group, as it showed that it was able to continue generating cash and that it has achieved an optimum level of flexibility, thanks not only to its liquidity reserves, but also to committed and unused credit lines.

The exchange rates for the main currencies fluctuated widely in 2010, particularly for the U.S. dollar and the Japanese yen. However, the resulting impact on the Group's profitability was mitigated by the adoption of hedge accounting. More specifically, as of January 1, 2010, in accordance with the requirements of IAS 39, the Group adopted the tools required to apply hedge accounting treatment to financial derivatives that hedge the risk of fluctuations in exchange rates on commercial transactions denominated in a foreign currency that qualify as highly probable (cash flow hedges). The purpose of applying hedge accounting rules to instruments that hedge currency risks is to reduce any volatility of the Group's earnings caused by foreign exchange fluctuations and make earnings more predictable. Hedging derivatives are no longer measured at fair value through profit or loss. Instead, in the case of cash flows deriving from commercial transactions in a foreign currency that qualify as highly probable, under IAS 39, the effective portion of changes in the fair value of the derivative is recognized in equity (only the ineffective portion, if any, is recognized immediately in profit or loss). Changes in fair value initially recognized in equity are derecognized from shareholders' equity and reflected in the income statement concurrently with the hedged cash flows. This method provides a better correlation and matching of gains or losses on the derivative and gains or losses on the hedged item.

Salient events concerning Sorin Group that occurred in 2010 included the following:

- Conclusion of an agreement with *Associazione Bambini Cardiopatici nel Mondo* (a non-profit association that helps needy children with heart diseases) by which Sorin Group pledged to support the Association's humanitarian missions by donating 600,000 euros, over three years, and contributing life-saving devices made by the Group and the personal involvement of Sorin employees who choose to participate as volunteers in the Association's activities.
- Approval by the U.S. Food and Drug Administration (FDA) and first implantation of the Paradym™ CRT Model 8750, a device that represents the next-generation of cardiac resynchronization therapy defibrillators (CRT-D). Featuring a new, state-of-the-art battery technology, the Paradym™ CRT delivers 37 Joules, the highest energy of any implantable defibrillator currently available.
- Launch of the Paradym™ family of next-generation, single and dual chamber implantable cardioverter defibrillators (ICD) on the Japanese market, following its introduction in Europe in 2009.
- FDA clearance for Sorin Group's new C5 heart-lung machine, a sophisticated medical device that provides blood oxygenation and circulation to organs and the brain while the patient's heart and lungs are temporarily stopped during heart surgery.
- Presentation of the Group's 2010-2014 strategic plan to the financial community.
- On February 25, 2010, acquisition of the business operations of a major Austrian distributor involving an initial outlay of 1.4 million euros, a deferred consideration based on sales targets for three years, from 2010 to 2013, estimated at 2.1 million euros, the buyback of 2.1 million euros in finished goods and the recognition of intangible assets (customer list) valued at 3.3 million euros, with the concurrent launch of a Group Austrian affiliate.
- On April 9, 2010, sale for US$7 million (5.2 million euros), payable over two and half years, of the Angel® and activAT® product line to Cytomedix, Inc., a company engaged in the development of biologically active regenerative therapies for wound care, inflammations and angiogenesis. The divestment of these product lines generated net proceeds of 1.8 million euros. These products, which were part of the Cardiopulmonary business unit, generated revenues of 3.5 million euros in 2009 and 2.3 million euros in 2010.

- Signing of a distribution agreement, effective May 1, 2010, with CardioMedical GmbH that made Sorin Group CardioMedical's reference partner for the distribution of the entire portfolio of MIS Cardio Vision™ products, which includes a full catalog of minimally invasive cardiac surgery tools and accessories to repair or replace heart valves.
- On June 8, 2010, acquisition of Gish Biomedical Inc. from Ventizz Capital Partners, a private equity group specialized in technology companies, at a price of 0.1 million euros and assumption of 0.7 million euros in debt. Gish Biomedical, a U.S. company based in California (USA), develops and produces medical devices for cardiovascular surgery, with special emphasis on perfusionists. The acquisition of net assets of 1.2 million euros generated a gain of 1.0 million euros, after direct acquisition costs 0.8 million euros and 1.0 million euros in restructuring charges. In 2009, Gish Biomedical generated revenues of US$13.5 million. In October 2010, production was stopped at the California (USA) plant of Gish Biomedical Inc. and all manufacturing activities were relocated at Sorin's production facilities in Arvada (Denver, USA) and Mirandola (Modena, Italy).
- On September 14, 2010, approval by the Shareholders' Meeting of a Stock Grant Plan reserved for the Chairman, the Chief Executive Officer and Sorin Group employees, to be carried out either through a bonus share capital increase, pursuant to Article 2349 of the Italian Civil Code, or using the treasury shares purchased with the buyback program, conveying to the Board of Directors all necessary or appropriate powers to establish and implement the Plan. The Plan, which is designed to incentivize and increase the loyalty of management and further align the interests of management with those of the shareholders and achieve the medium/long-term objectives of the Strategic Plan, is based and conditional on the Company achieving specific EBITDA margin and consolidated net profit targets.
- Presentation at the 24th edition of the EACTS Annual Convention in Geneva of the short-term clinical results for the first 180 patients implanted with the Perceval S aortic heart valve. The patients were enrolled in two consecutive clinical trials in nine European centers aimed at demonstrating the safety and effectiveness of the valve in high risk patients.
- Also at the EACTS Annual Convention in Geneva, commercial launch of the Xtra™ next-generation autotransfusion system, which later received FDA clearance.
- In October, settlement with the U.S. Department of Justice in connection with an investigation into alleged violation of regulations under a U.S. federal health care program by the Ela Medical Inc. subsidiary and some of its previous sales agents. This settlement, under which Sorin agreed to pay US$10 million in October 2010 (equal to 7.2 million euros, already fully recognized in the approved financial statements at December 31, 2009) without admitting any violation of any law, was not related in any way whatsoever with any product licensing or safety issues.
- Start of the project to relocate the production of autotransfusion systems from the Mirandola plant, in Italy, to the Munich facility, in Germany, with the aim of rationalizing the Group's manufacturing organization and make it more efficient.

A breakdown of **net revenues by business unit** and a comparison with the corresponding data for 2009 is provided below:

| | 2010 | 2009 | Change<br>% | Change at constant exchange rates<br>% |
|---|---|---|---|---|
| Cardiopulmonary | 337.8 | 316.7 | *+6.7%* | *+2.1%* |
| Heart Valves | 120.5 | 112.8 | *+6.8%* | *+3.4%* |
| Cardiac Rhythm Management | 284.6 | 255.6 | *+11.3%* | *+8.4%* |
| Sundry items | 2.9 | 3.9 | | |
| Total | 745.8 | 689.0 | *+8.2%* | *+4.5%* |

(in millions of euros)

Stated at constant exchange rates, revenues show an increase of 4.5% compared with 2009.

Sundry items include 1.0 million euros (2.0 million euros in 2009) for the goods and services supplied to the Datascope Group in connection with endovascular stents, a product line that was sold to InterVascular C.V. (Datascope Group) in June 2008. In addition, Sorin Group became a supplier of InterVascular C.V. for the carbofilm coating process, providing various services during a transition period that ended in March 2010.
With data restated on a comparable scope of consolidation basis, i.e., excluding the net revenues from the Angel® and activAT® product lines divested in 2010 and from the endovascular stent services, also ended in 2010, and at constant exchange rates, the year-over-year revenue gain is 4.9%.

Group EBIT totaled 71.5 million euros, up from 51.5 million euros in 2009. Group EBIT reflect the impact of special items, which provided a net negative contribution of 6.9 million euros in 2010 (net negative contribution of 7.1 million euros the previous year). Net of special items, EBIT amounted to 78.4 million euros, compared with 58.6 million euros in 2009.

The Group's interest in the consolidated net profit grew to 39.1 million euros, compared with 23.2 million euros the previous year. The net profit from continuing operations totaled 42.4 million euros, up from 26.6 million euros in 2009. The divested operations reported a net loss of 3.3 million euros, compared with a net loss of 3.4 million euros the previous year.

At December 31, 2010, net indebtedness totaled 128.8 million euros, or 52.8 million euros less than the 181.6 million euros owed at the end of 2009. Restated to eliminate the negative financial effect of special items, net indebtedness shows a year-over-year decrease of 53.2 million euros.

## Cardiopulmonary

The Cardiopulmonary (CP) Business Unit designs, manufactures and markets disposable biomedical devices and systems for extracorporeal circulation during surgery to treat cardiac patients.

In 2010, the Cardiopulmonary business unit completed the sale of the non-strategic Angel® and activAT® product lines to Cytomedix Inc. for a price of US$7 million (5.2 million euros), generating a gain of 1.8 million euros. Angel® consists of a blood processing device and disposable products used for separation of whole blood into red cells, platelet poor plasma and platelet rich plasma, while activAT® is a device designed to produce autologous thrombin serum from platelet poor plasma, providing a safe alternative to bovine-derived products. These two product lines generated combined revenues of 3.5 million euros in 2009 (2.3 million euros in 2010).

Also in 2010, the Group completed the acquisition of Gish Biomedical Inc. at a price of US$0.2 million and assumption of debt amounting to US$0.9 million in debt. Gish Biomedical, a U.S. company based in California (USA) that develops and produces medical devices for cardiovascular surgery, with special emphasis on perfusionists, contributed 4.4 million euros to the 2010 revenues.

In 2010, revenues totaled 337.8 million euros, or 6.7% more than the 316.7 million euros reported the previous year (+2.1% at constant exchange rates; on a comparable basis of consolidation, i.e., without the divested operations, the gain is 2.5%).

A breakdown of revenues by product segment is as follows:

| | 2010 | 2009 | Change at constant exchange rates % |
|---|---|---|---|
| Heart-lung machines | 69.1 | 63.2 | +5.7% |
| Oxygenators | 201.8 | 188.2 | +2.3% |
| Autotransfusion systems and devices | 58.9 | 56.4 | +0.2% |
| Sundry items | 8.0 | 8.9 | |
| Cardiopulmonary | 337.8 | 316.7 | +2.1% |

(in millions of euros)

In the Heart-lung Machine (HLM) product segment, the business unit continued to enjoy sustained growth in all of its markets in 2010, with particularly strong results in the United States, Europe and the emerging markets, where it reported double-digit rates of increase, thanks to the success of the new compact C5 system. The business unit's ability to meet customer needs with increasingly sophisticated configurations also contributed to this positive performance. In 2010, the business unit launched in the United States its new C5 compact machine, which combines leading-edge ergonomics with a configuration that targets the more price sensitive segment of the market.

In the Oxygenator segment (oxygenators and other disposable devices for extracorporeal circulation), sales held relatively steady overall, with a positive performance in the emerging markets and Japans, but a sales decrease in Europe, in line with the market trend. The acquisition of Gish Biomedical Inc. helped boost the business unit's market share, especially in the United States.

In the Autotransfusion segment, revenues were little changed compared with the previous year, with positive performances in the emerging markets and Japan. During the second half of 2010, the business unit began commercial distribution in Europe of the Xtra next-generation autotransfusion system, which was extremely well received. The system later received FDA clearance for the United States, where commercial distribution is scheduled to start in the first half of 2011. The business unit plans to use this innovative product line to strengthen its leadership position in this market segment.

At the industrial level, the business unit continued the successful implementation of programs to increase efficiency and optimize production site logistics.

The business unit continued to invest significant amounts in research and innovation, focusing specifically on the development of a new line of oxygenators that are on the cutting edge both technologically and industrially, with the aim of consolidating its leadership position in the oxygenation market over the long term.

## Heart Valves

The Heart Valves (HV) Business Unit designs, manufactures and markets implantable prostheses to replace or repair native heart valves.

In 2010, it reported revenues of 120.5 million euros, compared with 112.8 million euros in 2009, for a year-over-year gain of 6.8% (3.4% at constant exchange rates).
When the data are restated without revenues from Japan, which were affected in the first half of 2009 by the long-term agreement that Sorin Group signed with Japan Lifeline Co. Ltd. for exclusive distribution rights in Japan for the business unit's entire product portfolio, the 2010 revenues show an increase of 5.3% (at constant exchange rates).

A breakdown of revenues by product segment is as provided below:

| | 2010 | 2009 | Change at constant exchange rates % |
|---|---|---|---|
| Mechanical cardiac valves | 58.3 | 59.5 | *-5.0%* |
| Tissue cardiac valves | 55.6 | 47.2 | *+14.0%* |
| Sundry items | 6.6 | 6.1 | |
| Heart Valves | 120.5 | 112.8 | *+3.4%* |

(in millions of euros)

The market trend that characterized previous years continued in 2010, with rising sales of bovine pericardium tissue valves, which more than offset a limited decline in demand for mechanical valves.

The growth enjoyed by the business unit in 2010 was driven mainly by sales of the Mitroflow™ bovine pericardium tissue valve in the United States, the most important market in terms of size and profitability. The approval to market the Mitroflow™ valve in the United States provided by the U.S. Food and Drug Administration (FDA) at the end of 2007 enabled the business unit to round out the portfolio of products it offers in the U.S. market, where tissue valve penetration is greater than 70%.

The business unit is focusing its efforts on select research projects, the most important of which involves the development of prostheses made of bovine pericardium that can be implanted with less and less invasive procedures. The First In Man (FIM) clinical trial of the first device in this new family of products (Perceval), a sutureless implantable tissue valve (Perceval Sutureless), was completed in 2008. A clinical trial that resulted in the award of the CE mark, which is required before a product can be marketed in Europe, was completed in 2010. Another clinical trial designed to broaden the valve's indications for use and, consequently, its potential market, got under way in 2010, as the first step in the process of securing FDA approval to market this product in the United States. The CE mark was awarded on January 31, 2011.
Within the same project, the collaboration with the Mayo Clinic, in the United States, continued in accordance with contractual guidelines. The purpose of this collaborative effort is to develop a minimally invasive aortic valve replacement procedure that uses a heart valve elastically compressed inside a stent that can be implanted without sutures. This innovative approach could make it possible to further broaden the population of patients eligible for the replacement of a damaged native valve. Leveraging its wealth of knowhow, Sorin Group will work with the Mayo Clinic to develop not only the therapy described above, but also the equipment and techniques needed for the implantation and optimum positioning of the valve. Once the implantation procedure is completed, the Mayo Clinic will participate in the U.S. clinical trials.

In May 2010, Sorin Group entered into an exclusive agreement with CardioMedical GmbH for worldwide distribution of the entire range of Cardio Vision™ minimally invasive cardiac surgery tools that includes a full catalog of tools and accessories, such as retractors, clamps, scissors and needle holders. The acquisition of the Cardio Vision™ product portfolio is strategically highly significant because it rounds out the Group's broad range of heart valves and annuloplasty rings and for Perceval S, the self-expanding, suturless heart valve. This combined product line will enable surgeons to remove a damaged valance and replace it with a minimally invasive procedure.

In 2010, Sorin successfully continued enrollment in a clinical trial designed to obtain FDA approval to market in the United States the Freedom Solo tissue valve, which has been available in Europe for several years. The Freedom Solo valve is a stentless valve made exclusively of specially shaped bovine pericardium, without the reinforcement of a supporting stent. This type of construction makes the valve particularly "physiological" and provides superior hemodynamic performance. This valve will round out the tissue valve product line marketed in the United States that already includes the Mitroflow stented valve.

In 2010, the Heart Valves business unit was an active participant at several internationally significant conventions, including the STS, held in January in Fort Lauderdale, Florida; the AATS, held in May in Toronto, Canada; the ISMICS held in June in Berlin, Germany; and the EACTS held in September in Geneva, Switzerland. On each occasion, the Heart Valves business unit organized several events designed primarily to support the Mitroflow™ tissue valve and the upcoming commercial launch of the Perceval sutureless heart valve, eliciting interest and a highly positive response from heart surgeons.
In January 2010, the Heart Valves business unit promoted a scientific event in Vancouver, Canada, entitled "at the heart of evolution," which was attended by 85 heart surgeons, mostly from the United States.

In 2010, the business unit invested in its Saluggia manufacturing facility, doubling tissue valve production capacity from about 7,500 units a year to about 15,000 units a year. The upgraded facility will also be used to manufacture the innovative Perceval sutureless heart valve. Additional investments were made to increase production capacity at the Vancouver plant, where the Mitroflow™ valve is manufactured.
In 2010, the business unit continued to benefit from the efficiency gains generated by programs to cut manufacturing costs, an area that, in recent years, has been the focus of special attention throughout the Group. Some of the employees at Sorin Biomedica Cardio's Saluggia factory continued to be enrolled in the Special Layoff Benefits Fund, pursuant to an application approved by the Ministry of Welfare in September 2008.

## Cardiac Rhythm Management

The Cardiac Rhythm Management (CRM) Business Unit designs, manufactures and markets a number of implantable devices, monitoring systems and accessories, all of which are used for cardiac stimulation, i.e., to control and manage cardiac rhythm and treat patients with related diseases.

Revenues totaled 284.6 million euros in 2010, compared with 255.6 million euros the previous year. The year-over-year increase of 11.3% (8.4% at constant exchange rates) reflects positive performances in all geographic markets.

A breakdown of revenues by product segment is as follows:

| | 2010 | 2009 | Change at constant exchange rates % |
|---|---|---|---|
| High voltage (defibrillators and CRT-D) | 95.1 | 76.4 | *+21.6%* |
| Low voltage (pacemakers) | 179.0 | 170.2 | *+2.3%* |
| Sundry items | 10.5 | 9.0 | |
| Cardiac Rhythm Management | 284.6 | 255.6 | *+8.4%* |

(in millions of euros)

The High Voltage segment (defibrillators and CRT-D cardiac rhythm resynchronization devices) was the main driver of the business unit's positive performance in 2010, generating revenues of 95.1 million euros (+21.6% at constant exchange rates), while the revenues reported by the Low Voltage segment (pacemakers) totaled 179.0 million euros (+2.3% at constant exchange rates, in line with the market trend).

The business unit reported sales gains in all geographic regions, including Europe, where revenues grew at a faster rate than the market as a whole, and the United States, where, however, the Group's market share is still marginal, given the size of the market.
In 2010, the business unit expanded its direct sales network to the Netherlands and Austria, markets previously served through agents and distributors.

Noteworthy events of 2010 included the approval by the U.S. FDA, in February, and first implantation of the Paradym™ CRT Model 8750, a device that represents the next-generation of cardiac resynchronization therapy defibrillators (CRT-D). In the fourth quarter of 2010, the Paradym™ CRT Model 8750 was also approved by the relevant regulatory authority in Japan. Now that it has been approved in Japan, this device can be sold in all of the world's markets. This device has been designed to allow maximum flexibility in the management of cardiac resynchronization therapy and the delivery of anti-arrhythmia therapies in heart failure patients.

The approval in Japan of devices in the Holder family is also significant because it broadens the Group's growth opportunities in this market.

The main events attended by the business unit to promote the technological innovations of its products included the Heart Rhythm Society Convention, held in Denver, Colorado, and the Cardiostim, held in Nice, France, where Sorin presented the positive results of the CLEAR clinical trial. The results of this trial, in which 156 patients implanted with CRT devices equipped with a new technology called SonR were enrolled, showed a significant reduction in mortality and hospitalizations for heart failure. The SonR technology developed by Sorin Group consists of a sensor encapsulated inside the tip of an electrostimulation lead, which is implanted in the patient and is used to optimize the delivery of cardiac resynchronization therapy, with the rate of patients responding to the therapy increasing to 86%, compared with 62% for patients receiving the conventional therapy. Thanks to SonR, Sorin was honored at the convention with the prestigious Cardiostim Innovation award.

In the area of product development, the Business Unit, as part of its ongoing commitment to innovation, continued the development of the "remote monitoring" project, an innovative technology developed in partnership with Orange Business Services that enables medical personnel to access data from implanted devices while the patient is at home.

Lastly, achievements in the manufacturing and industrial areas included FDA approval for the manufacture of Reply pacemakers and Paradym™ defibrillators at the new production facility in Clamart (France), which is also home to the research and development excellence center of the CRM Business Unit. As a result, the plant in Montrouge, France, was permanently closed and production of the old Symphony and Ovatio implantable devices ended.

Net Revenues by Geographic Region of Destination

| | 2010 | % | 2009 | % | Change at constant exchange rates % |
|---|---|---|---|---|---|
| Italy | 80.8 | *10.8* | 78.4 | *11.4* | *+3.0* |
| Rest of Europe | 320.3 | *42.9* | 307.1 | *44.6* | *+3.5* |
| North America | 208.3 | *27.9* | 183.3 | *26.6* | *+6.2* |
| Rest of the world | 136.4 | *18.3* | 120.2 | *17.4* | *+5.8* |
| Total | 745.8 | *100.0* | 689.0 | *100.0* | *+4.5* |

(in millions of euros)

In 2010, the Group consolidated its presence in its home markets (Europe), with positive results reported in the main countries.

In North America, sales were up significantly for all product lines, both in the United States and Canada, with particularly strong demand for Mitroflow tissue valves.

The revenue increase in the Rest of the world was driven mainly by strong demand in Japan for the products of the Heart Valves and Cardiac Rhythm Management business units and by growth in the Chinese market.

## Operating Performance of the Main Group Companies

The data provided below are taken from the financial statements supplied by these companies for the preparation of the consolidated financial statements.

**Sorin Group Italia S.r.l.** (Sorin S.p.A. 87.92%, other Group companies 12.08%)
This company produces oxygenators and autotransfusion systems.
It is the company authorized to distribute Sorin Group's products in Italy.

| | 2010 | 2009 |
|---|---|---|
| Net revenues | 240.8 | 232.7 |
| EBIT | 44.5 | 31.0 |
| Net profit (loss) | 48.3 | 26.5 |

(in millions of euros)

**Sorin Group USA Inc.** (U.S.A.) (Sorin Group Italia S.r.l. 100%)
This company distributes Sorin Group's heart valves and cardiopulmonary products in the United States. In addition, custom packs for U.S. customers are assembled at its plant in Arvada, Colorado. Effective January 1, 2010, it absorbed its Carbomedics Inc. subsidiary.

| | 2010 | 2009 |
|---|---|---|
| Net revenues | 186.7 | 140.8 |
| EBIT | 10.8 | 10.4 |
| Net profit (loss) | 11.8 | 20.2 |

(in millions of U.S. dollars)

**Sorin Group Deutschland GmbH** (Germany) (Sorin Group Italia S.r.l. 100%)
This company produces heart-lung machines for extracorporeal circulation. It also distributes Sorin Group's products in Germany.

| | 2010 | 2009 |
|---|---|---|
| Net revenues | 84.5 | 81.0 |
| EBIT | 13.0 | 10.1 |
| Net profit (loss) | 7.3 | 6.0 |

(in millions of euros)

**Sorin Biomedica Cardio S.r.l.** (Sorin S.p.A. 100%)
This company produces heart valves.

| | 2010 | 2009 |
|---|---|---|
| Net revenues | 78.0 | 76.3 |
| EBIT | (2.6) | 1.0 |
| Net profit (loss) | 0.5 | (0.4) |

(in millions of euros)

Sorin CRM S.A.S. (France) (Sorin S.p.A. 100%)
This company produces pacemakers and defibrillators and cardiac rhythm resynchronization devices.

| | 2010 | 2009 |
|---|---|---|
| Net revenues | 176.3 | 159.1 |
| EBIT | 16.1 | (0.4) |
| Net profit (loss) | 2.8 | 2.2 |

(in millions of euros)

Sorin Group France S.A.S. (France) (Sorin CRM S.A.S. 100%)
It is the company authorized to distribute Sorin Group's products in France.

| | 2010 | 2009 |
|---|---|---|
| Net revenues | 118.2 | 112.8 |
| EBIT | (1.9) | 0.2 |
| Net profit (loss) | (2.7) | (1.2) |

(in millions of euros)

Sorin Biomedica CRM S.r.l. (Sorin CRM S.A.S. 100%)
This company manufactures leads and provides assembly, research and strategic marketing services to Sorin CRM S.A.S.

| | 2010 | 2009 |
|---|---|---|
| Net revenues | 38.2 | 30.8 |
| EBIT | 1.9 | -- |
| Net profit (loss) | 2.1 | (0.7) |

(in millions of euros)

Sorin Group Canada Inc. (Sorin Group USA Inc. 100%)
This company produces heart valves and distributes Sorin Group's products in Canada.

| | 2010 | 2009 |
|---|---|---|
| Net revenues | 95.2 | 86.9 |
| EBIT | 28.2 | 18.0 |
| Net profit (loss) | 19.6 | 12.4 |

(in millions of Canadian dollars)

## Sorin Group's Operating and Financial Results

### Consolidated Operating Results

The 2010 reporting year ended with a net profit of 39.1 million euros, up from 23.2 million euros in 2009. The continuing operations reported a net profit of 42.4 million euros, compared with 26.6 million euros in 2009. The schedule below presents an **income statement** in the format with items classified **by type:**

| | 2010 | 2009 | Change (*) |
|---|---|---|---|
| Net revenues | 745.8 | 689.0 | *+56.8* |
| • Other revenues and income | 22.9 | 14.7 | *+8.3* |
| • Change in inventory | (9.8) | (4.1) | *-5.7* |
| • Increase in Company-produced additions to non-current assets | 28.8 | 21.9 | *+6.9* |
| • Cost of raw materials and services used and miscellaneous operating costs | (410.2) | (390.0) | *-20.2* |
| • Personnel expense | (257.6) | (231.1) | *-26.5* |
| EBITDA | 119.9 | 100.3 | *+19.6* |
| • Depreciation, amortization and writedowns | (39.9) | (39.5) | *-0.4* |
| • Additions to provisions for risks and charges | (4.0) | (9.3) | *+5.3* |
| • Restructuring charges and provisions | (4.5) | -- | *-4.5* |
| EBIT | 71.5 | 51.5 | *+20.0* |
| • Financial income (expense) | (11.6) | (10.3) | *-1.3* |
| Profit (Loss) before taxes | 59.9 | 41.2 | *+18.6* |
| • Income taxes | (17.5) | (14.6) | *-2.9* |
| Profit (Loss) from continuing operations | 42.4 | 26.6 | *+15.7* |
| Profit (Loss) from divested operations | (3.3) | (3.4) | *+0.2* |
| Net profit (loss) | 39.1 | 23.2 | *+15.9* |

(in millions of euros)

(*) The changes are shown as positive or negative based on their impact on the result for the year.

The **income statement** data, which in the previous schedule are broken down by type, can also be presented in accordance with a format **by function/destination**, as shown below:

| | 2010 | 2009 | Change (*) |
|---|---|---|---|
| Net revenues | 745.8 | 689.0 | +56.8 |
| • Cost of sales | (306.5) | (304.7) | -1.9 |
| Gross profit | 439.3 | 384.3 | +54.9 |
| *as a % of net revenues* | *58.9%* | *55.8%* | |
| • Selling, general and administrative expenses | (293.9) | (266.7) | -27.2 |
| *as a % of net revenues* | *(39.4%)* | *(38.7%)* | |
| • Research and development costs | (66.9) | (59.0) | -7.9 |
| *as a % of net revenues* | *(9.0%)* | *(8.6%)* | |
| • Special items | (6.9) | (7.1) | +0.1 |
| EBIT | 71.5 | 51.5 | +20.0 |
| • Financial income (expense) | (11.6) | (10.3) | -1.3 |
| • Income taxes | (17.5) | (14.6) | -2.9 |
| Profit (Loss) from continuing operations | 42.4 | 26.6 | +15.7 |
| Profit (Loss) from divested operations | (3.3) | (3.4) | +0.2 |
| Net profit (loss) | 39.1 | 23.2 | +15.9 |
| *as a % of net revenues* | *5.2%* | *3.4%* | |

(in millions of euros)

(*) The changes are shown as positive or negative based on their impact on the result for the year.

As mentioned earlier in this Report, due to the adoption of the hedge accounting treatment for financial derivatives that hedge the risk of fluctuations in exchange rates on commercial transactions (cash flow hedges), hedging derivatives are no longer measured at fair value through profit or loss. Instead, the effective portion of changes in the fair value of the derivative is recognized in equity. It is derecognized from shareholders' equity and reflected in the income statement concurrently with the cash flows from the hedged item, as miscellaneous operating costs (format by type) or as selling, general and administrative expenses (format by function) and financial expense (translation differences).

The schedule that follows shows the effect of applying hedge accounting to financial derivatives that hedge foreign exchange risks, compared with the previous treatment with changes in the fair value of derivatives recognized directly in profit or loss.

Effect of applying hedge accounting to financial derivatives that hedge foreign exchange risk:

| | 2010 | 2010 before hedge accounting | Effect (*) |
|---|---|---|---|
| Net revenues | 745.8 | 745.8 | -- |
| EBIT | 71.5 | 82.2 | *-10.7* |
| *as a % of net revenues* | *9.6%* | *11.0%* | |
| Financial income (expense) | (11.6) | (26.8) | *+15.2* |
| Income taxes | (17.5) | (16.2) | *-1.3* |
| Profit (Loss) from continuing operations | 42.4 | 39.2 | *+3.1* |
| Profit (Loss) from divested operations | (3.3) | (3.3) | -- |
| Net profit (loss) | 39.1 | 35.9 | *+3.1* |

| | | | |
|---|---|---|---|
| EBITDA | 120.2 | 131.0 | *-10.7* |
| *as a % of net revenues* | *16.1%* | *17.6%* | |
| EBIT before special items | 78.4 | 89.1 | *-10.7* |
| *as a % of net revenues* | *10.5%* | *12.0%* | |

(in millions of euros)

(*) The changes are shown as positive or negative based on their impact on the result for the year.

An analysis of the income statement data presented in the two different formats (by type and by function) is provided below.

The percentage of sales represented by the **gross profit** (presentation by function) improved from 55.8% in 2009 to 58.9% in 2010, due to an increase in manufacturing efficiency, a better product and geography mix and a positive translation effect.

The ratio of **selling, general and administrative expenses** to net revenues (presentation by function) increased from 38.7% in 2009 to 39.4% in 2010, due to the inclusion of a charge for the year arising from derivatives hedging foreign exchange risks, amounting to 10.7 million euros.

**Research and development costs** (presentation by function) increased by 7.9 million euros (+13.4% compared with 2009). This increase in this item, which is significant also in relative terms, with the ratio of R&D costs to revenues rising from 8.6% in 2009 to 9.0% in 2010, demonstrates the Group's constant commitment to innovation and development.

**Other revenues and income** (presentation by type) increased by 8.3 million euros compared with the previous year, reflecting the impact of extraordinary income of 4.5 million euros that included: 1.2 million euros from the sale of a building in Saluggia, 1.8 million euros from the divestment of the Angel® and activAT® product lines, 1.0 million euros from the Gish Biomedical Inc. acquisition and 0.3 million euros from the collection of an unexercised real estate put option.
In 2009, extraordinary items included net gains of 0.7 million euros on the acquisition of the Clearglide® Endoscopic Vessel Harvesting (EVH) product line and 1.0 million euros on the sale of intangible assets carried out within the framework of an agreement with Japan Lifeline Co. Ltd. (JLL) for the distribution in Japan of the products of the Heart Valves business unit.

In addition to the effect of an increase in the Group's staff, compared with 2009, personnel expense (presentation by type) includes provisions of 0.5 million euros, for the long-term incentive plan introduced the previous year (1.1 million euros in 2009), and 2.8 million euros, for the long-term incentive plan with grants of Sorin S.p.A. stock approved on September 14, 2010. This item also includes an extraordinary charge of 0.4 million euros (0.2 million euros in 2009) from the measurement in accordance with IAS 19 of the obligation under the defined-benefit plan for U.S. employees of the former SBI (Sorin Biomedical, Inc.).

An analysis of the income statement presented with items classified by type shows that the change in inventory had a negative impact of 9.8 million euros on the bottom line (-4.1 million euros in 2009). This item included a charge of 1.3 million euros for writedowns of inventories of finished goods purchased from distributors upon the termination of distribution contracts. The increase in Company-produced additions to non-current assets, which reflects primarily the capitalization of development costs and costs incurred to secure FDA clearance to sell products in the United States and, for a smaller amount, the capitalized cost of equipment and accessories provided to customers under gratuitous loan agreements, had a positive impact of 28.8 million euros (21.9 million euros in 2009). Depreciation, amortization and writedowns had a negative impact of 39.9 million euros (39.5 million euros in 2009). Additions to provisions for risks and charges, which also had a negative impact of 4.0 million euros (9.3 million euros in 2009), included extraordinary additions to provisions for risks and charges totaling 2.1 million euros (8.0 million euros in 2009 when they included 7.2 million euros for the settlement with the U.S. Department of Justice). Restructuring charges and provisions of 4.5 million euros, included 1.0 million euros to restructure Gish Biomedical Inc., following its acquisition in 2010, and 3.5 million euros for organizational and efficiency boosting programs at the Group level.

As a result of the items described above, EBIT increased from 51.5 million euros in 2009 to 71.5 million euros in 2010. Overall, the impact of special items on EBIT was negative by 6.9 million euros, compared with a negative impact of 7.1 million euros in 2009.

Special items included a gain of 1 million euros, net of directly attributable incidental expenses, on the sale of a building in Saluggia to GI Pharma, a company active in the market for radiopharmaceuticals.; expenses of 0.6 million euros to secure the storage facility for radioactive medical waste at the Saluggia plant; charges of 1.4 million euros directly attributable to the acquisition of the assets of a distributor in Austria; a gain of 1.8 million euros, net of directly attributable expenses, on the sale of the Angel® and activAT® product lines; a gain of 0.2 million euros, net of directly attributable expenses, on the acquisition of Gish Biomedical Inc. in the United States; a charge of 0.4 million euros from the measurement in accordance with IAS 19 of the obligation under the defined-benefit plan for U.S. employees of the former Sorin Biomedical, Inc. – SBI; charges of 2.7 million euros for legal disputes; charges of 0.4 million euros for the project to relocate the production of heart-lung machines from the plant in Mirandola (Italy) to a facility in Munich (Germany); and charges of 4.5 million euros for restructuring programs.

In 2009, special items included a provision of 7.2 million euros recognized to reflect the preliminary settlement agreement reached with the U.S. Department of Justice in connection with an investigation launched in 2006 into alleged violations of the laws governing a federal health-care program by the Ela Medical Inc. subsidiary and some of its former sales agents; a net gain of 0.7 million euros on the acquisition of the Clearglide® Endoscopic Vessel Harvesting (EVH) product line from Datascope Inc. (USA); a net gain of 1.0 million euros on the sale of intangible assets carried out within the framework of an exclusive, long-term agreement with Japan Lifeline Co. Ltd. (JLL) for the distribution in Japan of the products of the Heart Valves Business Unit; a charge of 0.2 million euros for the valuation in accordance with IAS 19 of a defined-benefit plan for U.S. employees (former Sorin Biomedical, Inc. - SBI); a charge of 1.0 million euros related mainly to additions to provisions for litigation and sundry charges; and a charge of 0.3 million euros for inventory writedowns caused by the early termination of the subcontracting supplier agreement with the Datascope Group in the endovascular stent business.

The table below shows the impact of **special items** on **EBIT**:

| | 2010 | 2009 | Change (*) |
|---|---|---|---|
| EBIT | 71.5 | 51.5 | *+20.0* |
| • Settlement with the U.S. Dept. of Justice | -- | (7.2) | *+7.2* |
| • Net gain on the EVH acquisition | -- | 0.7 | *-0.7* |
| • Net gain on the distribution agreement in Japan | -- | 1.0 | *-1.0* |
| • Net gain on the sale of a building | 1.0 | -- | *+1.0* |
| • Expenses to secure a storage facility in Saluggia | (0.6) | -- | *-0.6* |
| • Charges directly attributable to the acquisition of the assets of a distributor in Austria | (1.4) | -- | *-1.4* |
| • Net gain on the divestment of the Angel product lines | 1.8 | -- | *+1.8* |
| • Gish Biomedical acquisition | 0.2 | -- | *+0.2* |
| • Litigation and disputes | (2.7) | (1.0) | *-1.7* |
| • Valuation of provisions for employee benefits | (0.4) | (0.2) | *-0.2* |
| • Charges for restructuring programs | (4.5) | -- | *-4.5* |
| • Sundry items | (0.4) | (0.4) | *+0.0* |
| Total special items | (6.9) | (7.1) | *+0.1* |
| EBIT before special items | 78.4 | 58.6 | *+19.8* |

(in millions of euros)

(*) The changes are shown as positive or negative based on their impact on the result for the year.

The impact of **special items** on EBITDA is as follows:

| | 2010 | 2009 | Change (*) |
|---|---|---|---|
| EBITDA | 119.9 | 100.3 | *+19.6* |
| • Net gain on the EVH acquisition | -- | 0.7 | *-0.7* |
| • Net gain on the distribution agreement in Japan | -- | 1.0 | *-1.0* |
| • Net gain on the sale of a building | 1.1 | -- | *+1.1* |
| • Charges directly attributable to the acquisition of the assets of a distributor in Austria | (1.4) | -- | *-1.4* |
| • Net gain on the divestment of the Angel product lines | 1.8 | -- | *+1.8* |
| • Gish Biomedical acquisition | 0.2 | -- | *+0.2* |
| • Litigation and disputes with former employees | (1.5) | (0.1) | *-1.3* |
| • Valuation of provisions for employee benefits | (0.4) | (0.2) | *-0.2* |
| • Sundry items | (0.2) | (0.4) | *+0.2* |
| Total special items | (0.3) | 0.9 | *-1.3* |
| EBITDA before special items | 120.2 | 99.4 | *+20.9* |

(in millions of euros)

(*) The changes are shown as positive or negative based on their impact on the result for the year.

Net **financial expense** increased by 1.3 million euros compared with the previous year, reflecting primarily the impact of translation differences, which were negative by 2.1 million euros in 2010, as against positive translation differences of 3.6 million euros in 2009. When the data restated without the translation differences, net financial expense amounts to 9.5 million euros (net expense of 13.9 million euros in 2009). The main reasons for the decrease of 4.4 million euros compared with the previous year include:

- a smaller average indebtedness for the year;
- a reduction in the interest rate spread on medium/long-term borrowings due to the ratchet mechanism, which causes borrowing costs to decrease if the Group achieves certain operating and financial performance targets;
- lower net expense (including lower junior notes proceeds) for discounting charges and fees on trade receivable factoring transactions and securitization programs, due to a lower average discount rate on non-recourse factoring transactions.

Please note that, in 2010, the Group adopted the tools required to apply hedge accounting treatment to financial derivatives that hedge the risk of fluctuations in exchange rates on commercial transactions in a foreign currency that qualify as highly probable (cash flow hedges). As a result, the effective portion of changes in the fair value of hedging derivatives is no longer recognized directly in profit or loss.

As a result of the factors described above and a 2010 income tax burden of 17.5 million euros (compared with 14.6 million euros in 2009), the Group reported a **profit from continuing operations** of 42.4 million euros in 2010, up from 26.6 million euros in 2009.

Factoring in the **loss from divested operations** of 3.3 million euros (loss of 3.4 million euros in 2009), the **net profit** for 2010 (attributable to the Group in its entirety) amounted to 39.1 million euros, compared with a net profit of 23.2 million euros in 2009.

Consistent with the requirements of IFRS 5, the **loss from divested operations** corresponds in essence to the loss for the year of the Vascular Therapy and Renal Care business operations divested at the end of 2008. In 2010, it reflected some residual income statement items attributable to the divested operations, consisting mainly of writedowns of trade receivables of doubtful collection. The financial expense attributable to the divested operations stems from a stipulation of the sales agreement, pursuant to which certain specific assets and liabilities included in the invested capital attributed to the divested business operations (typically, trade receivables and payables) are still being held by Sorin Group. In 2009, the items attributable to the divested operations included net charges of 0.9 million euros incurred pursuant to the closing price-adjustment agreement on the sale of the Renal Care operations.

The schedule that follows, presented in the format with items classified **by type**, shows the components of the result attributable to the **divested operations**:

| | 2010 | 2009 | Change (*) |
|---|---|---|---|
| **Net revenues** | 0.2 | 0.8 | *-0.6* |
| • Other revenues and income | 0.2 | 0.4 | *-0.2* |
| • Purchases, services used and miscell. costs[1] | (0.3) | (1.4) | *+1.0* |
| **EBITDA** | 0.1 | (0.1) | *+0.3* |
| • Depreciation, amortization and writedowns | (3.6) | (1.2) | *-2.4* |
| **EBIT** | (3.4) | (1.4) | *-2.1* |
| • Financial income (expense) | (0.9) | (1.3) | *+0.4* |
| **Profit (Loss) before taxes** | (4.3) | (2.6) | *-1.7* |
| • Income taxes | 1.1 | 0.1 | *+1.0* |
| **Net profit (loss)** | (3.3) | (2.5) | *-0.8* |
| • Gain (Loss) on divestments | -- | (0.9) | *+0.9* |
| **Profit (Loss) from divested operations** | (3.3) | (3.4) | *+0.2* |

(in millions of euros)

(*) The changes are shown as positive or negative based on their impact on the result for the year.

(1) Change in inventory, cost of materials, raw materials and services, and miscellaneous operating costs.

## Consolidated Statement of Financial Position

The schedule below provides a highly condensed version of the Group's statement of financial position:

| | 12/31/10 | 12/31/09 | Change (*) |
|---|---|---|---|
| • Net invested capital | 582.8 | 586.7 | *-3.9* |
| • Shareholders' equity | 454.0 | 405.1 | *+48.9* |
| • Net indebtedness | (128.8) | (181.6) | *-52.8* |

(in millions of euros)

(*) The changes are shown as positive or negative based on the change in absolute terms.

In 2010, the Group reported a decrease in net invested capital, which fell from 586.7 million euros at December 31, 2009 to 582.8 million euros at the end of 2010. Net indebtedness was down sharply, decreasing from 181.6 million euros at December 31, 2009 to 128.8 million euros at the end of 2010, while shareholders' equity grew from 405.1 million euros at December 31, 2009 to 454.0 million euros at the end of 2010.
As a result, the debt/equity ratio improved from 0.45 at December 31, 2009 to 0.28 at the end of 2010. The same was true for the debt/EBITDA ratio, which decreased from 1.8 times to 1.1 times over the same period.

As for the impact on the consolidated statement of financial position of acquisitions and divestments completed in 2010, the sale of the Angel® and activAT® product lines, which generated net proceeds of 5.2 million euros, reduced net invested capital by 1.8 million euros.
The acquisition of Gish Biomedical Inc., which required a net outlay of 0.2 million euros and the assumption of 0.7 million euros in debt, caused net invested capital to increase by 1.8 million euros, due mainly to the acquired working capital.
The purchase of the business operations of a major Austrian distributor for a price based on sales targets for three years, from 2010 to 2013, estimated at 2.1 million euros included the acquisition of the existing inventory for 2.1 million euros and of intangible assets (customer list) valued at 3.3 million euros.

A breakdown of the **Group's net invested capital** is provided below:

| | 12/31/10 | 12/31/09 | Change (*) |
|---|---|---|---|
| • Property, plant and equipment | 94.8 | 91.7 | *+3.1* |
| • Goodwill and other intangibles | 327.9 | 314.0 | *+13.9* |
| • Equity investments in affiliates and other companies | 1.2 | 1.3 | *-0.1* |
| Capital invested in non-current assets | 424.0 | 407.0 | *+17.0* |
| • Inventories | 131.3 | 139.4 | *-8.1* |
| • Trade accounts receivable | 182.6 | 185.5 | *-2.9* |
| • Trade accounts payable | (86.1) | (84.5) | *+1.6* |
| • Other assets (liabilities) | (28.0) | (16.3) | *+11.7* |
| Working capital | 199.7 | 224.1 | *-24.4* |
| • Provision for employee severance indemnities and other employee-benefit provisions | (25.0) | (23.9) | *+1.1* |
| • Provisions for risks and charges | (15.9) | (20.5) | *-4.6* |
| Net invested capital | 582.8 | 586.7 | *-3.9* |

(in millions of euros)

(*) The changes are shown as positive or negative based on the change in absolute terms.

At December 31, 2010, net invested capital showed a decrease of 3.9 million euros compared with the amount at December 31, 2009.

The gain of 3.1 million euro in property plant and equipment reflects the impact of a 2.3 million euros translation gain on the assets of subsidiaries that report in currencies different from the euros and an increase of 24.1 million euros for investments (purchases or additions from internal production) made to modernize or expand production capacity and for capitalizations of equipment and accessories provided to customers under gratuitous loan arrangements. Charges for the year included depreciation expense of 21.1 million euros and divestments and writedowns totaling 2.2 million euros.

The items accounting for the increase in intangibles included 3.3 million euros from the acquisition of the business operations of an Austrian distributor, resulting in the recognition of the value of the acquired customer list; 20.2 million euros for the capitalization of development costs (including the capitalization of costs incurred to secure FDA authorization to market Group products in the United Sates); 4.6 million euros in translation gains on the assets of subsidiaries that report in currencies different from the euros and 2.7 million euros for purchases of other intangible assets. The amortization expense for the period totaled 17.6 million euros.

Fluctuations in foreign exchange rates also had a significant impact on working capital, which showed a net decrease of 24.4 million euros thanks to a better inventory turnover rate and an improvement in the days sales outstanding index, with the average number of days falling from 91 at December 31, 2009 to 81 at the end of 2010. The cancellation of some distribution contracts required the Group to buy back the inventory held by the distributors, which was valued at about 2.2 million euros and later written down by 1.3 million euros. Trade receivables benefited from a greater use of non-recourse factoring arrangements, which increased by 7.5 million euros compared with December 31, 2009.

A breakdown of **Group shareholders' equity** is as follows:

| | 12/31/10 | 12/31/09 | Change |
|---|---|---|---|
| • Share capital | 470.4 | 470.4 | *+0.0* |
| • Reserves | (55.5) | (88.5) | *+33.0* |
| • Net profit (loss) for the year | 39.1 | 23.2 | *+15.9* |
| **Consolidated shareholders' equity** | 454.0 | 405.1 | 48.9 |

(in millions of euros)

Shareholders' equity increased by 48.9 million euros as the combined result of the net profit for the year (+39.1 million euros), the recognition in equity reserves of stock option costs (+0.2 million euros), the amount attributable to 2010 for the long-term incentive plan with grants of Sorin stock (+2.9 million euros), the recognition in equity reserves of the effective hedging component of interest rate swaps and currency translation hedges (-4.5 million euros, net of tax effect) and differences from the translation of shareholders' equities of consolidated companies denominated in currencies other than the euro (+11.1 million euros).

The table below provides a **reconciliation of the net profit (loss) and shareholders' equity of Sorin S.p.A. to** the corresponding **Sorin Group** data.

| | 12/31/10 | | 12/31/09 | |
|---|---|---|---|---|
| | Net profit (loss) | Shareholders' equity | Net profit (loss) | Shareholders' equity |
| Sorin S.p.A. | 10.0 | 577.4 | 2.1 | 565.5 |
| Net profit (loss) and shareholders' equities of consolidated companies | 89.2 | 679.9 | 57.7 | 686.2 |
| Elimination of writedowns and carrying values of consolidated companies | (21.7) | (925.9) | (7.8) | (981.5) |
| **Consolidation adjustments:** | | | | |
| Elimination of dividends | (30.8) | -- | (26.5) | -- |
| Elimination of intra-Group inventory profits, net of tax effect | (2.4) | (22.0) | (0.6) | (18.2) |
| Recognition of goodwill and other intangibles | (2.4) | 174.7 | (2.5) | 177.1 |
| Derecognition of the impact of sales/ conveyances of business operations to Sorin Group Italia S.r.l. | -- | (23.0) | -- | (23.0) |
| Hedge accounting foreign exchange risk | 3.1 | -- | -- | -- |
| Other adjustments | (5.9) | (7.1) | 0.8 | (1.0) |
| **Sorin Group** | 39.1 | 454.0 | 23.2 | 405.1 |

(in millions of euros)

A breakdown of **net indebtedness** is as follows:

| | 12/31/10 | 12/31/09 | Change (*) |
|---|---|---|---|
| Non-current financial assets | 0.1 | -- | *+0.1* |
| Current financial assets: | | | |
| • Assets from financial derivatives | -- | 1.3 | *-1.3* |
| • Other current financial assets | 9.0 | 6.3 | *+2.7* |
| • Cash and cash equivalents | 29.7 | 10.3 | *+19.4* |
| Total financial assets | 38.7 | 17.9 | *+20.8* |
| Non-current financial liabilities | | | |
| • Liabilities from financial derivatives | **(6.5)** | (6.1) | *+0.4* |
| • Other non-current financial liabilities | **(97.4)** | (127.3) | *-29.9* |
| Current financial liabilities | | | |
| • Liabilities from financial derivatives | **(4.7)** | (0.2) | *+4.4* |
| • Other current financial liabilities | **(59.0)** | (65.9) | *-6.9* |
| Total financial liabilities | (167.5) | (199.5) | *-32.0* |
| Net indebtedness | (128.8) | (181.6) | *-52.8* |
| • current portion | (25.0) | (48.2) | *-23.2* |
| • non-current portion | (103.8) | (133.4) | *-29.6* |

(in millions of euros)

(*) The changes are shown as positive or negative based on the change in absolute terms.

An analysis of the components of **net indebtedness** shows that the main components of non-current financial liabilities at December 31, 2010 included a medium- and long-term facility provided by the European Investment Bank (EIB), amounting to 94.6 million euros and the installments due after December 31, 2011 of mortgages taken out in 2004 in connection with purchases of buildings in Saluggia (VC), amounting to 2.6 million euros.

Other current financial liabilities consist mainly of bank account overdrafts and other short-term borrowings totaling 2.0 million euros (15.1 million euros at December 31, 2009), liabilities for advances received for assignments of trade receivables amounting to 24.2 million euros (16.4 million euros at December 31, 2009) and 32.4 million euros in installments due within one year of medium/long-term facilities (33.9 million euros at December 31, 2009).

With regard both to the syndicated medium/long-term facility provided by Mediobanca, Intesa San Paolo, MCC and BNP Paribas and the medium/long-term facility provided by the European Investment Bank (EIB), Sorin S.p.A., in addition to repaying the scheduled installments due in 2010 amounting to 31.9 million euros, carried out a mandatory early repayment of an installment of both facilities for a total of 2.7 million euros, as required by the “excess cash flow” clause. Pursuant to this clause, a portion of the excess cash flow generated the previous year must be used for early loan repayments.

At December 31, 2010, the Company was abundantly in compliance with all of the covenants of the loan agreements for both facilities.

A breakdown by maturity of indebtedness outstanding at December 31, 2010 is as follows:

| | 2011 | 2012 | 2013 | 2014 | 2015 and beyond | TOTAL |
|---|---|---|---|---|---|---|
| EIB facility | (1.3) | | | (94.6) | | (95.9) |
| Syndicated facility | (30.7) | | | | | (30.7) |
| Other medium/long-term debt | (0.6) | (0.5) | (0.5) | (0.5) | (1.4) | (3.5) |
| Securitization and recourse factoring | (13.3) | (10.9) | | | | (24.2) |
| Other short-term debt | (2.2) | | | | | (2.2) |
| Net liabilities from derivatives | (4.1) | (0.6) | | (6.4) | | (11.1) |
| Other financial assets | 9.0 | 0.1 | | | | 9.1 |
| Cash and cash equivalents | 29.7 | | | | | 29.7 |
| Total | (13.5) | (11.9) | (0.5) | (101.5) | (1.4) | (128.8) |
| Average duration | 2.5 | | | | | |

(in millions of euros)

Net indebtedness decreased by 52.8 million euros, even though the impact of special items was negative by 0.4 million euros.

Financial special items included the financial effects of the special items mentioned when analyzing the composition of EBIT, as well as purely financial special items, such as a change in the amount of non-recourse factoring transactions, outlays for/proceeds from acquisitions/divestments of business operations and changes in the residual working capital of divested operations.

The table below provides a breakdown of the impact of special items on net indebtedness:

| | 12/31/10 | 12/31/09 | Change Decrease/ (Increase) |
|---|---|---|---|
| Net indebtedness | (128.8) | (181.6) | *52.8* |
| • Change in amount of non-recourse factoring | | | *7.5* |
| • Restructuring charges | | | *(3.2)* |
| • Acquisition of European distributors | | | *(3.1)* |
| • Acquisition of Gish Biomedical Inc. | | | *(0.8)* |
| • Angel divestment | | | *3.7* |
| • Sale of building located in Saluggia | | | *1.3* |
| • Collection of balance due by Datascope for peripheral vascular stents | | | *1.0* |
| • Change in working capital of the divested Renal Care and Vascular Therapy operations | | | *9.1* |
| • Change in fair value of exchange rate and interest rate cash flow hedges | | | *(5.1)* |
| • Charges for litigation, settlements and sundry items | | | *(10.7)* |
| Total effect of changes from special items | | | *(0.4)* |
| Change in net indebtedness before special items | | | *53.2* |

(in millions of euros)

A condensed version of the Group's **statement of cash flows** is provided below:

| | 2010 | 2009 |
|---|---|---|
| Net cash flow from (used in) operating activities | 107.3 | 120.3 |
| *Amount attributable to divested operations* | *8.8* | *16.5* |
| Net cash flow from (used in) investing activities | (46.6) | (48.0) |
| *Amount attributable to divested operations* | -- | -- |
| Net cash flow from (used in) financing activities | (42.0) | (85.0) |
| *Amount attributable to divested operations* | *(8.8)* | *(16.5)* |
| Increase (Decrease) in cash and cash equivalents | 18.7 | (12.7) |
| *Amount attributable to divested operations* | -- | -- |
| Change in cash and cash equivalents attributable to currency translations | 0.7 | 0.1 |
| Cash and cash equivalents at the beginning of the year | 10.3 | 22.9 |
| *Amount attributable to divested operations* | -- | -- |
| Cash and cash equivalents at the end of the year | 29.7 | 10.3 |
| *Amount attributable to divested operations* | -- | -- |

(in millions of euros)

Cash and cash equivalents increased by 19.4 million euros compared with the previous year, thanks to strong cash flow generation by the operating activities and a decrease in the cash flow used for investing activities

## Operating and Financial Results of Sorin S.p.A.

### Operating Results of Sorin S.p.A.

The 2010 reporting year ended with a net profit of 10.0 million euros, compared with a net profit of 2.1 million euros the previous year.

| | 2010 | 2009 | Change (*) |
|---|---|---|---|
| Net revenues | 13.9 | 12.6 | +1.3 |
| • Other revenues | 0.9 | 0.5 | +0.4 |
| • Cost of materials, services and miscellaneous operating costs | (16.2) | (14.7) | -1.5 |
| • Personnel expense | (8.4) | (7.6) | -0.8 |
| • Depreciation and amortization | (1.4) | (1.5) | +0.1 |
| EBIT | (11.1) | (10.6) | -0.5 |
| • Financial income (expense) | (6.6) | (7.2) | +0.6 |
| • Income from (Expenses on) investments in subsidiaries | 21.6 | 15.0 | +6.6 |
| Profit (Loss) before taxes | 3.8 | (2.9) | +6.7 |
| • Income taxes | 6.2 | 5.0 | +1.2 |
| Net profit (loss) | 10.0 | 2.1 | +7.9 |

(in millions of euros)

(*) The changes are shown as positive or negative based on their impact on the result for the year.

EBIT were negative by 11.1million euros, with the loss increasing by 0.5 million euros compared with 2009, due mainly to a rise in personnel expense resulting from the long-term incentive plans.

The year ended with net financial expense of 6.6 million euros, compared with net financial expense of 7.2 million euros in 2009. The decrease of 0.6 million euros in financial expense reflects a reduction in debt service costs.

Income from investments in subsidiaries increased to 21.6 million euros, compared with 15.0 million euros the previous year, thanks to higher dividends from subsidiaries.

The income tax impact was positive by 6.2 million euros, due mainly to benefits generated by the filing of a consolidated income tax return.

The improvement in the **statement of financial position of Sorin S.p.A.**, which is shown below in condensed form, reflects the combined impact of the profit earned in 2010 and a reduction in net indebtedness. Specifically, shareholders' equity increased by 11.9 million euros compared with 2009 and net indebtedness decreased by 8.4 million euros.

| | 12/31/10 | 12/31/09 | Change (*) |
|---|---|---|---|
| • Net invested capital | 690.1 | 686.7 | *+3.4* |
| • Shareholders' equity | 577.4 | 565.5 | *+11.9* |
| • Net indebtedness | (112.8) | (121.2) | *-8.4* |

(in millions of euros)

(*) The changes are shown as positive or negative based on the change in absolute terms.

A breakdown of the **net invested capital of Sorin S.p.A.** is as follows:

| | 12/31/10 | 12/31/09 | Change (*) |
|---|---|---|---|
| • Property, plant and equipment | 0.8 | 1.1 | *-0.3* |
| • Intangible assets | 4.0 | 4.5 | *-0.5* |
| • Equity investments in subsidiaries and other companies | 674.0 | 673.9 | *+0.1* |
| **Capital invested in non-current assets** | 678.8 | 679.5 | *-0.7* |
| • Working capital | 11.6 | 7.7 | *+3.9* |
| • Provision for employee severance indemnities and other employee-benefit provisions | (0.3) | (0.5) | *-0.2* |
| **Net invested capital** | 690.1 | 686.7 | *+3.4* |

(in millions of euros)

(*) The changes are shown as positive or negative based on the change in absolute terms.

Net invested capital grew by 3.4 million euros, due mainly to an increase in working capital caused by tax items.

The table below lists the components of the **net financial position of Sorin S.p.A.**:

| | 12/31/10 | 12/31/09 | Change |
|---|---|---|---|
| Non-current financial assets | -- | -- | -- |
| Current financial assets: | | | |
| • Assets from financial derivatives | 5.0 | 1.7 | *+3.3* |
| • Other current financial assets | 109.4 | 105.2 | *+4.2* |
| • Cash and cash equivalents | 21.3 | 0.3 | *+21.0* |
| Total financial assets | 135.7 | 107.2 | *+28.5* |
| Non-current financial liabilities | | | |
| • Liabilities from financial derivatives | (6.5) | (6.1) | *-0.4* |
| • Other non-current financial liabilities | (94.6) | (123.9) | *+29.3* |
| Current financial liabilities: | | | |
| • Liabilities from financial derivatives | (5.1) | (1.9) | *-3.2* |
| • Other current financial liabilities | (142.4) | (96.5) | *-45.9* |
| Total financial liabilities | (248.5) | (228.4) | *-20.1* |
| Net indebtedness | (112.8) | (121.2) | *+8.4* |
| • current portion of net (indebtedness) financial assets | (11.7) | 8.8 | *-20.5* |
| • non-current portion of net (indebtedness) financial assets | (101.0) | (130.0) | *+29.0* |

(in millions of euros)

To optimize the management of the Group's cash resources, Sorin S.p.A. performs a support, coordination and control function with regard to its subsidiaries through a unified management of fund flows and the execution of Group-wide agreements with credit institutions (centralized cash management system).
It is through this process that most of the Parent Company's financial assets and liabilities are generated. Specifically, the former consist primarily of loans receivable from Group companies and the latter represent mainly indebtedness owed to credit institutions.

The financial transactions executed by Sorin S.p.A. also include the following:

- Derivatives (domestic currency swaps and forward currency contracts) executed with credit institutions, on one side, and Group companies, on the other side, to minimize the impact of fluctuations in foreign exchange parities on the flow of imports into and exports from euro-zone countries;
- Interest rate swaps executed with credit institutions to minimize the impact of fluctuations in interest rates.

At December 31, 2010, non-current financial liabilities consisted of a medium/long-term facility provided by the European Investment Bank (EIB) in the amount of 94.6 million euros.

At the end of 2010, current financial liabilities included the current portion (due in 2011) of the medium/long-term debt, amounting to 32.0 million euros.

With regard both to the syndicated medium/long-term facility provided by Mediobanca, Intesa San Paolo, MCC and BNP Paribas and the medium/long-term facility provided by the European Investment Bank (EIB), the Company, in addition to repaying the scheduled installments due in 2010 amounting to 31.9 million euros, carried out a mandatory early repayment of an installment of both facilities for a total of 2.7 million euros, as required by the "excess cash flow" clause. Pursuant to this clause, a portion of the excess cash flow generated the previous year must be used for early loan repayments.

At December 31, 2010, the Company was abundantly in compliance with all of the covenants of the loan agreements for both facilities.

A condensed version of the statement of cash flows of Sorin S.p.A. is provided below:

| | 2010 | 2009 |
|---|---|---|
| Net cash flow from (used in) operating activities | 9.3 | 2.1 |
| Net cash flow from (used in) investing activities | (0.5) | (0.7) |
| Net cash flow from (used in) financing activities | 12.2 | (4.7) |
| Increase (Decrease) in cash and cash equivalents | 21.0 | (3.3) |
| Cash and cash equivalents at the beginning of the year | 0.3 | 3.6 |
| Cash and cash equivalents at the end of the year | 21.3 | 0.3 |

(in millions of euros)

## Research and Development

Counting research and development expenditures, capitalized development costs and costs incurred to secure approvals from the U.S. Food and Drug Administration (FDA) to market products in the United States, the Group invested a total of 87.2 million euros in 2010, compared with 76.8 million euros in 2009.

The research and development activities of the **Cardiopulmonary** business unit consisted of various projects in 2010.

First by order of importance was the LinOx project, which is a new family of adult oxygenators that is replacing the current line of adult oxygenators. In addition to the innovative aspects introduced into the oxygenator segment, this product family was designed with the aim of applying “lean-manufacturing” industrial methodologies in order to reduce production costs, based on the philosophy of “concurrent engineering” integrated development, which made it possible to keep development times very short.
Also regarding oxygenators and their disposable accessories, a significant design effort was devoted to the Kids pediatric oxygenator.

In the autotransfusion sector, development of the Xtra system has been completed. In addition to a beneficial update to the disposable kit, this involved development of a device that is the new state-of-the-art in autotransfusion. The system will gradually replace the line of the current BRAT and ELECTA systems.

In heart-and-lung machines, progress was made in various module and accessory development projects for the S5 machine. Development of the B-Care 5 sensor (a blood sensor integrated into the S5 system for measuring essential venous parameters during extracorporeal circulation) has been completed. The industrialization phase has been reached in the development of the B-Care 5+ sensor (an upgrade of the B-Care 5 that can also measure arterial parameters) and development of the CP-5 (a key module in the S5 system for managing the centrifugal pump, offering the user significant benefits in terms of interfacing, functions, safety and flexibility of use). In addition, development of the blood monitoring system based on the innovative “lab-on-a-chip” technology, which was acquired through an agreement with Sphere Medical, continued, as did work on improving the Data Management System, a software for integrated management of extracorporeal circulation with a special operating system and user interface.

The activity of supporting and renewing the production quality systems, especially for disposable devices, continued in 2010, thus achieving the intended ambitious quality objectives and making it possible to start the process of updating the industrialization system for disposable devices by applying “lean manufacturing” principles.

The EVH (Endoscopic Vessel Harvesting) product line also benefited from the significant development effort for the new VascuClear device, which will be launched in early 2011.

Lastly, the business unit’s research and development department was heavily involved in the industrial integration project following the acquisition of Gish Biomedical in 2010.

In 2010, the research activities of the **Heart Valves** business unit focused on the following main objectives: continuation of the Perceval project for development of a highly innovative valve prosthesis, continued fine-tuning and validation of the new Silk technology for the Mitroflow valve, continuation of the FDA registration work in the United States for the Freedom Solo valve, development of new projects to expand and improve the business unit’s product portfolio, and cooperation with production in a broad range of programs aimed at reducing the cost of products.

The Perceval project is dedicated to developing a bovine pericardium valve that, thanks to an innovative self-expanding stent, can be implanted in situ without the need for suturing (sutureless design). After removal of the poorly functioning native valve, the surgeon positions the prosthesis using a special accessory and releases and secures it with a simple action. The stent’s design is made for safe anchoring to the aortic bulb, thus obviating the need to suture the prosthesis. This saves 20-25 minutes in the total time of the surgery, thus significantly reducing the risk of complications related to extended extracorporeal circulation.

A clinical trial aimed at obtaining the CE mark for marketing in European countries was completed in early 2010. The study called for the enrollment of 150 patients at eight centers in various countries. Of the 150 surgeries performed, 20 were conducted with mini sternotomies, the first step toward designing a procedure for a minimally invasive surgical approach. Indeed, the sutureless implant feature will provide the most obvious benefits in this type of procedure, in which particularly small access routes now make suturing difficult. To refine the development of this implantation technique, a collaboration agreement has been signed with the Mayo Clinic, one of the most prestigious cardiology and heart surgery centers in the world.
In the first half of 2010, the Cavalier clinical trial was also started. Thanks to the contribution of more than 20 European cardiac surgery centers, the first 300 patients of the more than 500 planned were enrolled by the end of the year. This study is a fundamental part of the FDA (Food and Drug Administration) approval plan for Perceval marketing in the United States. Development of the second generation of implant accessories, with improved ergonomics and lower industrial cost, was also completed. Lastly, development of implant accessories for MIS (Minimally Invasive Surgery) approaches was completed. Both families of new accessories will become commercially available in 2011.

Work to obtain approval of certain products on the American market has been very important in recent years. Among them, the most significant objective has certainly been the approval of the Mitroflow tissue valve, which occurred at the end of 2007. In 2009, the program for U.S. approval of a second version of the valve, the Mitroflow LX, which uses significantly more efficient production processes, was successfully completed. Development of the product continued in the first half of 2010 with fine-tuning being completed for the Silk technology, which is intended to enhance the resistance of the bioprosthesis to the risks of long-term implant degeneration. The procedure for obtaining the CE mark, expected in 2011, was implemented for this new process.

In preparation for the U.S. market, work aimed at FDA approval of the stentless Freedom Solo tissue valve continued. Particularly significant for this plan was the ongoing progress of the multi-center clinical study, which had an enrollment of nearly 500 patients as of year’s end.

Some projects aimed at broadening the business unit’s product portfolio entered the full development phase in 2010. Of particular interest is an innovative aortovalvular prosthesis for combined replacement of the valve and aortic root. The product is specifically aimed at the North American market where it will be the first aortic valvular prosthesis equipped with a tissue valve.

Lastly, a significant portion of the research and development resources was committed to collaborating with the production organization for the implementation of numerous projects to cut product costs through the rationalization of production processes.

In 2010, the Cardiac Rhythm Management business unit continued to invest in research and development projects aimed at updating and expanding its product line according to established strategic guidelines, while simultaneously working toward improving its industrial profitability.

On balance, 2010 was a year marked by significant results in terms of progress in the product development plan, in keeping with the adopted strategic guidelines focusing on the remote monitoring system and electrical therapy systems for heart failure.

In the field of remote monitoring, the most significant results involved the tests conducted on the complete system in the field and on a GPRS model of the Home Monitor unit, installed in the patient’s home, which collects data from the implanted device. These tests were conducted as part of a dedicated clinical trial. In addition, installation of the infrastructure for processing system data at centers in Europe and the United States was completed. The development work required an extension of the time needed to complete the preparation of a highly secure data processing solution for 2011.

The research and development work for the treatment of heart failure processing involved the beginning of the clinical trial on the SonRtip pacing lead, which is equipped with a sensor for evaluating heart function, thus strengthening clinical competitive positioning in this area. On the same subject, the results of the CLEAR study demonstrating a significant improvement in the effectiveness of CRT (Cardiac Resynchronization Therapy) when optimized with SonR technology, were presented to the medical/scientific community in 2010 and were met with considerable acclaim. In addition, development was completed and clinical evaluation started on the Situs MVL pacing lead for left ventricle stimulation, which can electronically optimize the stimulation mode and has physical properties that can improve the implant procedure.

In the area of tachyarrythmia treatment products, clinical evaluation was started on the new line of Paradym RF defibrillators, characterized by a radiofrequency communication capability (an indispensable prerequisite for use in Remote Monitoring systems) for managing electronic optimization of the left stimulation mode synergistically with the Situs MVL pacing lead. Also, the Paradym CRT model was launched on the Japanese market in 2010.
In addition, in cooperation with the Operations Department, significant actions to improve industrial profitability in the production of defibrillators were also taken, in line with the approach implemented in recent years for the bradycardia product line.

In 2010, developments in bradycardia focused on the stimulation system compatible with magnetic resonance diagnostic methods. In that context, the development of a specific operating procedure intended to ensure safe stimulation modes during such diagnostic sessions was completed. A special device is planned for this purpose and the system design also calls for the development of a special pacing lead; the complete system will go into clinical trial in 2011. The bradycardia product line will be completed with a high-end product characterized by a special algorithm for treating vasovagal syncope. Here, too, efforts to improve industrial profitability continued forward.

Activities in the field of products for Patient Management problems included progress in the clinical study of Holter line products with regard to sudden cardiac death, thus strengthening the diagnostic capability offering of our products, which have also been introduced in the Japanese market. Moreover, development started on a new platform for the products in this line, to be characterized by a high processing capability and greater connectivity options.

In parallel with development activities, 2010 saw important steps in the field of innovation, that is, the field of future generation products. First and foremost worthy of mention is the work on the new electronic platform for pacemakers and defibrillators, a new platform involving both the circuit blocks and technologies that will enable the development of increasingly smaller products with incremental performance improvements. Other developments worth mentioning in the field of innovation included the Innovation Labs project, which was started in 2010 to search for alternative patient management solutions and innovative heart failure treatment solutions, and new approaches for pacing lead implantation techniques. Lastly, expansion of the company's patent portfolio continued.

## Human Resources and Industrial Relations

At December 31, 2010, Sorin Group had 84 more employees than at the end of 2009, as its payroll increased from 3,665 to 3,749 employees. The average staff for the year numbered 3,738 employees.

A breakdown of the increase is provided below:

| | |
|---|---|
| Staff at 12/31/09 | 3,665 |
| - Acquisitions | 75 |
| - *Turnover/Net increase* | 9 |
| Total change | 84 |
| Staff at 12/31/10 | 3,749 |

### Acquisitions

The acquisitions of a distributor in Austria and of Gish Biomedical in the United States added 10 and 65 employees, respectively, to the Group's payroll.

### Turnover

The net increase from additions not related to acquisitions (+9 employees) refers mainly to the sales and R&D areas.

At December 31, 2010, the Group's Italian companies had 1,938 employees (51.7% of the total staff), for a net increase of 21 employees compared with December 31, 2009. Companies outside Italy had 1,811 employees (48.3% of the total staff), for a net increase of 63 employees compared with December 31, 2009.

A breakdown of the Group's staff by geographic region is as follows:

| | 12/31/10 | 12/31/09 | Change |
|---|---|---|---|
| Italy | 1,938 | 1,917 | *21* |
| Rest of Europe | 921 | 873 | *48* |
| North America | 817 | 806 | *11* |
| Rest of the world | 73 | 69 | *4* |
| **Total** | 3,749 | 3,665 | *84* |

At December 31, 2010, 44 employees were enrolled in the Special Layoff Benefits Fund, the same as at the end of 2009, when 44 employees were also receiving Special Layoff Benefits.

In 2010, the Group launched and successfully implemented a number of projects of primary importance for the management of its human resources. These projects included:

- Within the Talent Management project, completion of the activities implemented for the Sales Leaders and definition of their development plans. Talent Management programs carried out in 2010 focused on leaders in the Group's Operations and Marketing areas. This project, which is designed to evaluate and develop the most talented employees in these areas, was carried out in several phases.. The activities carried out during the first half of the year included defining the profiles and completing the preparatory work for the personal evaluations (with a comprehensive evaluation process and the staging of development centers were the selected employees received several days of training to identify their strengths and development potential).

- A corporate plan was developed to support the development plans of the Sales Leaders with personalized training programs. This projects involved creating 14 modules, divided into four categories, to develop competencies in such areas as leadership, talent management, planning and execution, and finance. This plan, which was launched in the first quarter of the year on a global basis, continued throughout 2010 with the implementation of the first five modules.
- The first cycle of a program called STAR Club, which was developed based on the model of the President's Club to create a global contest for Sales Representatives and Sales Leaders, was completed in 2010. Under this program, employees who produce the best results are enrolled in the Club and receive a bonus. The parameters of this salesmen's contest include: annual sales growth, increase above budget and size of territory. Sales leaders were selected based on the display of certain soft skills. This program was one of the drivers of the acceleration in Group's growth rate.
- The long-term incentive plan launched in 2009 for a select group of key Group managers, amended to include a formula for the award of stock grants, was reviewed and approved in 2010. The purpose of this plan is to encourage the achievement of strategic operating objectives, increase the loyalty of key resources and create a more balanced mix of short-term and long-term incentives.
- The 2010 Performance Management cycle was completed during the year, with an assessment of the objectives achieved and the disbursement of the variable bonuses, followed by the start of the 2011 Performance Management cycle and the definition of the assigned objectives.
- As part of the ongoing pursuit of ambitious goals of increased manufacturing efficiency, the results achieved by the Operations Council and through the exchange of best practices within the Group made it possible to implement additional lean manufacturing initiatives at various production facilities (Mirandola, Saluggia, Vancouver, Clamart and Munich). In addition, the Group further strengthened its lean manufacturing competencies by hiring outside experts to fill positions at the operating level.
- The employees of the EVH (Endoscopic Vessel Harvesting) business operations acquired in 2009 were successfully integrated into the Cardiopulmonary business unit.
- To strengthen its position in the area of extracorporeal circulation, the Group acquired Gish Biomedical, a U.S. based company that develops and produces medical devices for cardiovascular surgery, with special emphasis on perfusionists. The integration of this new business, which was carried out extremely quickly, was completed before the end of the year.
- An affiliated company was established in Austria, following the acquisition and integration within the Group of the business operations of a local distributor.
- The Multi-function Core Team concept was developed further and applied specifically to such key projects as LinOx and Perceval.
- The Executive Leadership Team was strengthened with the addition of a Vice President Strategy and Business Development, with the aim of pursuing more aggressively projects to identify and develop business and market opportunities that could enhance long-term growth.

## Intra-Group Transactions and Transactions with Related Parties

Transactions between Sorin Group companies consist mainly of:

- Commercial transactions involving mainly sales to the marketing companies of products produced by the manufacturing companies;
- Transactions involving services provided mainly by Sorin S.p.A. as part of the support it provides to Group companies in the areas of legal issues, taxation and corporate issues;
- Financial transactions executed in connection with the role performed by Sorin S.p.A. in its capacity as intermediary between Group companies and the credit system;
- Tax related transactions between Italian subsidiaries and Sorin S.p.A. in connection with the filing of the national consolidated tax return and the VAT consolidated return.

Information about transactions with other related parties is provided in Note 41 to the consolidated financial statements of the Group.

Transactions with related parties and intra-Group transactions did not constitute atypical or unusual transactions since they were executed in the Groups' normal course of business and were settled on standard market terms.

## Main Risks and Uncertainties to Which Sorin S.p.A. and the Group Are Exposed

*Risks Related to General Economic Conditions*

The Group's operating performance, balance sheet and financial position are affected by a number of factors that define the macroeconomic framework in the countries where it operates, including increases or decreases in GDP, consumer and business confidence levels, and unemployment rates. The crisis that exploded in the financial markets in 2009, with serious repercussions on several high-profile institutions, produced a significant and pervasive deterioration of market conditions, exacerbated by the severe and generalized difficulties to access credit that affected both consumers and businesses. This negative macroeconomic framework showed only tentative signs of improvement in 2009, before conditions worsened again in 2010, due to the serious financial difficulties faced by such countries as Greece and Spain. Ultimately, this situation affected the industrial development of many businesses, even though the impact on the medical device industry, within which the Group operates, has been marginal.

The increasing weakness of the economy in general, the steady deterioration of the credit markets and the decrease in the disposable income of consumers produced a significant reduction in demand. Despite some short-term success, there is still no assurance that the programs implemented by governments and monetary authorities in response to these developments will create the conditions for the resolution of these problems over the long term. Consequently, predicting when markets will return to normal conditions is still exceedingly difficult and many countries understand that their economies may experience a protracted recession. Moreover, while governments are currently implementing a number of initiatives designed to support or stimulate their national economies, they could also decide to take action to address deficit concerns by reducing public spending and health care spending in particular.

The continuation of this situation of extreme weakness and uncertainty for an extended period of time would also have a negative impact on the Group's activities, strategies and outlook.

*Risks Related to the Group's Operating Performance*

Sorin Group is engaged primarily in the production and marketing of heart valves, systems and disposables used in cardiac surgery and cardiac rhythm control devices. These market segments, which normally are characterized by steady growth and have been relatively immune to the consequences of short-term cycles, are more directly affected by long-term technological developments, overall demographic trends pointing to a steady aging of the population, rising wealth in the developing countries and an ongoing and across-the-board increase in the demand for more and more health services and care.

On the other hand, health care spending is controlled by the public sector and the policies adopted in this area by governments in the main countries where the Group operates could have a significant negative impact on its activities and its business outlook and, consequently, on its operating performance and financial position.

Moreover, the profitability of the Group's operations is affected by risks related to fluctuations in exchange rates, interest rates, the rate of inflation, the solvency of its counterparties and the general economic conditions in the countries where it does business.

*Risks Related to Technologies*

The Group allocates a considerable portion of its resources to product research and development programs, in a market that, because of the strict regulations governing the introduction and distribution of new products, requires continuous investments in technologies and products based on medium- and long-term horizons. Despite the steady stream of investments that it devotes to research, the Group is exposed to the risk that the development of alternative technologies (in pharmacology, biomedicine, nanotechnology, etc.) could revolutionize the treatment of cardiovascular diseases, with a significant impact on the market for medical devices.

*Risks Related to Litigation*

The Group operates in the medical field, as a supplier of implantable devices or systems used in cardiac surgery that require maximum reliability and the absence of defects. The presence of defects in implantable devices could require the immediate market recall of those devices and the occurrence of alleged defects attributed to the Group's products or the related surgery procedures could expose the Group to lawsuits by plaintiffs claiming compensation for damages.

Moreover, the technologies incorporated into the Group's products are often protected by patents and, consequently, their use is carefully monitored by industry operators, with the ever present danger of lawsuits for alleged patent infringement.

*Risks Related to Exposure to Multiple Taxation Systems*

The Group operates in a number of markets, with an organization based on competency, research, production and service centers. Because of its global presence, the Group is subject to taxation under many different systems, particularly with regard to transfer pricing and the levying of tax withholdings and other taxes on subsidiaries that could give rise to disputes with local tax authorities.

*Risks Related to Access to Financial Resources*

The credit lines provided by 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 authorizes the lender banks to demand the immediate repayment of the facilities, making it difficult to obtain alternative resources.

Changes in the Group'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, the financial markets and the business segments within which the Group operates, which, moreover, require significant investments. Sorin Group expects to generate the resources needed to repay maturing indebtedness and fund scheduled investments from the cash flow produced by its operations, its available liquidity, the renewal or refinancing of bank borrowings and, possibly, access to the capital markets. Even under current market conditions, the Group expects that its operations will generate adequate financial resources. Nevertheless, given the impact of the current financial crisis, the possibility that problems in the banking and monetary markets could hinder the normal handling of financial transactions cannot be excluded.

Lastly, even though the Group continued to enjoy the support of its banking counterparties and of the financial markets with regard to the refinancing of its indebtedness, it could find itself in the position of requiring additional financing under less favorable market conditions, with limited availability of some sources and higher borrowing costs.

*Risks Related to Fluctuations in Foreign Exchange and Interest Rates*

Because it operates in several markets throughout the globe, Sorin Group is automatically exposed to market risks related to fluctuations in foreign exchange and interest rates. The exposure to foreign exchange risks is due chiefly to the different geographic distribution of its manufacturing and distribution activities, as a result of which export flows are denominated in currencies that are different from those used in the regions of production. Specifically, the Group's main exposure arises from net exports from euro-zone countries to countries where other currencies are used (the U.S. dollar, Japanese yen, Canadian dollar and British pound, primarily).

Consistent with its risk management policies, Sorin Group seeks to hedge its exposure to the risk of fluctuations in foreign exchange and interest rates with financial hedging instruments. However, even though the Group may have hedged its exposure, sudden changes in foreign exchange and interest rates could still have a negative impact on the Group's operating and financial performance.

*Risks Related to Transactions with Employees*

In many of the countries where the Group operates, its employees are protected by various laws and/or collective bargaining agreements that endow them, through their local or national representatives, with the right to be consulted with regard to specific issues, including the downsizing or closing of departments and staff reductions. The laws and/or collective bargaining agreements that are applicable to the Group could have an impact on its flexibility, as it applies to programs to redefine and/or strategically reposition its activities. Sorin'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 labor unions. Union-organized work stoppages by employees could have a negative impact on the Company's business.

*Risks Related to Transactions with Suppliers*

The Group purchases raw materials and components from many suppliers and is dependent on the services and products supplied by companies outside the Group. Some of these companies are highly unionized. A close collaborative relationship between a manufacturer and its suppliers is the norm in the industries in which the operates. While this approach can produce economic benefits in terms of lower costs, it also causes the Group to rely on its suppliers. As a result, any problem affecting a supplier (whether due to external or internal causes) could have a negative impact on the Group.

In addition, the Group manufactures its products at its own facilities or through subcontractors located in various countries in Europe and North America, purchasing the components and materials used to manufacture these products from numerous suppliers in various countries. However, in a few limited cases, specific components and raw materials are purchased from a single supplier for reasons related to quality assurance, cost-effectiveness ratio and availability. While the Group works closely with its suppliers to ensure supply continuity, it cannot guarantee that its efforts will always be successful. Moreover, due to the strict standards and regulations governing the manufacture and marketing of its products, the Group 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.

*Risks Related to Manufacturing Activities*

The Group manufactures its products at a limited number of centers of excellence or production facilities in Italy, France, Germany, the United States and Canada, 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 the Group has implemented all appropriate preventive actions and insurance coverage, the possibility that the occurrence of events of exceptional severity or duration could have an impact on the Group's performance cannot be excluded.

*Risks Related to Management's Performance*

To a large extent, the Group's success is predicated on the ability of its Executive Directors and other members of the management team to manage the Group and its individual businesses effectively. The loss of the services of an executive Director, senior manager or other key employee without an adequate replacement or the inability to attract and retain new and qualified resources could have a negative impact on the Group's business outlook, activities and operating and financial results.

*Risks Related to the High Competitiveness of the Group's Business Segments*

The markets within which the Group operates are highly competitive in terms of product quality/reliability and innovation. The Group competes throughout the world — but mainly in Europe, North America and Japan — with large U.S. groups with global operations and with smaller local businesses. The success of the activities pursued by Sorin Group will depend on the Group's ability to maintain and increase its market shares and/or expand into new markets with innovative, high quality products that can deliver adequate profit margins.

*Risks Related to International Sales and Exposure to Changing Local Conditions*

A significant portion of the Group's manufacturing activities and sales take place outside the European Union. The Group is exposed to the risks inherent in operating a global organization, including exposure to:

- changing local economic and political conditions;
- the enactment of restrictive policies concerning imports, exports and authorization to sell medical devices;
- the effect of dealing with multiple tax systems, particularly with regard to transfer pricing issues, income tax withholdings or other taxes levied on funds transfers or other payments to or from subsidiaries;
- the adoption of policies limiting or restricting foreign investments and/or commerce or foreign exchange controls and the resulting restrictions on capital repatriation.

*Risks Related to the Demerger of SNIA S.p.A.*

Sorin Group was created as a result of the demerger of SNIA S.p.A., which became effective on January 2, 2004. Pursuant to the Italian Civil Code, in a demerger transaction each company is jointly liable, up the actual value of the conveyed or residual shareholders' equity it received, for any debts of the demerged company that were not paid by the debtor company. This joint liability is secondary, in that it arises only if the debtor company fails to meet the obligations that existed at the time of the demerger.

*Risk Related to Environmental Policies*

Sorin Group's products and activities are subject to a wide range of local, national and supranational environmental rules and regulations. Moreover, this regulatory framework is being revised and made more restrictive in many of the geographic regions in which the Group operates (this is especially true in the European Union). The abovementioned regulations concern not only products but also manufacturing facilities, which are required to comply with regulations concerning emissions, the disposal of solid waste and effluents and soil contamination.

Sorin S.p.A., in its capacity as the Group's Parent Company, is essentially exposed to the same risks as uncertainties as those faced by the Group, which are described above.

## Report on Corporate Governance and the Company's Ownership Structure

The full Report on Corporate Governance and the Company's Ownership Structure ("**Report on Corporate Governance**") is available on Sorin Group's website at the following address:

http://www.sorin.com

The Report on Corporate Governance, which is prepared annually to comply with statutory requirements, contains a general description of the corporate governance system adopted by the Group and provides information about the Company's ownership structure and its adoption of the Corporate Governance Code, including a review of the main governance practices applied and the features of the internal risk management and control system, as it applies to the financial reporting process.

A full copy of the Report on Corporate Governance is provided below. The Corporate Governance Code is available on the website of Borsa Italiana S.p.A.: www.borsaitaliana.it.

# REPORT ON CORPORATE GOVERNANCE AND THE COMPANY'S OWNERSHIP STRUCTURE

(as per Article 123-*bis* of the Italian Uniform Financial Code)

(conventional management and control model)

Issuer: SORIN S.p.A.

Website: www.sorin.com

Reporting year subject of the Report: 2010

Date the Report was approved: March 17, 2011

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GLOSSARY

**Code:** The Corporate Governance Code approved in March 2006 by the Committee for the Corporate Governance of Listed Companies and promoted by Borsa Italiana S.p.A. (London Stock Exchange Group)
**Civil Code/c.c.:** The Italian Civil Code
**Board:** The Board of Directors of Sorin S.p.A.
**Issuer/Company:** Sorin S.p.A., a company with registered office at 17 Via Benigno Crespi, Milan; Tax I.D., VAT and Milan Company Register entry number: 04160490969
**Reporting year:** The year subject of this Report
**Group/Sorin Group:** Sorin S.p.A. and its direct and indirect subsidiaries
**Consob's Issuers' Regulations:** The Regulations applicable to issuers of securities set forth in Consob Resolution No. 11971 of 1999, as amended
**Consob's Market Regulations:** The Regulations applicable to financial markets set forth in Consob Resolution No. 16191 of 2007, as amended
**Report:** The report on corporate governance and ownership structure that companies are required to prepare pursuant to Article 123 *bis* of the TUF and Article 89 *bis* of the Consob's Issuers' Regulations
**TUF:** Legislative Decree No. 58 of February 24, 1998 (Testo Unico della Finanza – Uniform Financial Code)

## 1. PROFILE OF THE ISSUER

Sorin S.p.A. is a holding company leading Europe's largest group in the field of medical technologies for the treatment of cardiovascular diseases.
Sorin Group is the world's leader in systems for heart surgery (Cardiopulmonary), has an important and established presence in the area of products to repair and replace heart valves with implantable prostheses (Heart Valves) and offers a range of innovative therapies for cardiac rhythm dysfunctions (Cardiac Rhythm Management).

In November 2006, the Board of Directors of Sorin S.p.A. decided to adopt the principles and corresponding implementation criteria of the Corporate Governance Code for Listed Companies, insofar as they apply to its operations, opting for a gradual implementation approach, and to provide the relevant disclosures to the financial markets in its annual reports on corporate governance.

Sorin's corporate governance structure includes a management and control system and the Shareholders' Meeting. Pursuant to law, the accounting oversight function is performed by Independent Auditors.

Sorin adopted a management and control system that includes a Board of Directors and a Board of Statutory Auditors. Within this system, the Board, which, in addition to its management function, is responsible, acting as a whole and through special committees performing consulting and advisory functions, for verifying the implementation of the controls required to monitor the Company's performance, is supported by another governance body, separate from the Board, with independent competencies and powers, whose members are elected based on professionalism, integrity and independence requirements set forth by law and supplemented by the provisions of the Bylaws.

### *Mission and Corporate Responsibility*

Consistent with its commitment to health, Sorin Group's goal is to translate the wealth of knowhow that it acquired over decades of research into innovative products for the treatment of cardiovascular diseases, which are widely recurring conditions with a significant social impact.

In 2010, the Group and its employees responded warmly to the entreaties of associations with a serious humanitarian commitment. Consistent with this approach, Sorin is developing a project to provide support to some missions in the developing countries, with the twin goals of helping children with congenital heart dysfunctions and building efficient pediatric cardiology centers to foster the development of local health systems and competencies. The overarching goals pursued by these projects are to reduce infant mortality rates and steadily increase independence from the industrialized countries.

The Group's strategic objectives include: becoming the world's leader in hemodynamics, further gains in research/innovation in the area of cardiac rhythm management, consolidation of its modern and technological image, and creation of value for its shareholders by increasing revenues and profitability.

Planned actions:

- Leverage the Group's world leadership status in cardiac surgery to bolster its position in other areas of the treatment of cardiovascular diseases;
- Broaden its international footprint, particularly in North America, through internal growth and by strengthening its sales network;
- Develop highly specialized products for rapidly growing and high margin market segments;
- Seize opportunities of synergies and economies of scale in research and development, manufacturing process and the distribution system.

## 2. INFORMATION ABOUT THE COMPANY'S OWNERSHIP STRUCTURE (as per Article 123 *bis,* Section 1, TUF) at December 31, 2010

### a. Structure of the Share Capital (as per Article 123-*bis,* Section 1, Letter a), TUF)

At December 31, 2010, the Company's share capital amounted to 470,432,144.00 euros, divided into 470,432,144 common shares, par value 1 euro each.
The shares are indivisible and fully transferable. Each share conveys the right to cast one vote at Shareholders' Meetings.

| | Number of shares | % of total share capital | Where traded |
|---|---|---|---|
| Common shares | 470,432,144 | 100.00 | MTA |

Acting pursuant to a power of attorney provided by the Extraordinary Shareholders' Meeting on May 25, 2006, the Board of Directors agreed to increase the Company's share capital by up to 19 million euros. The capital increase will be earmarked for use in connection with a new stock option plan that offered to the Chairman, the Chief Executive Officer and to top executives of Sorin S.p.A. and its subsidiaries. In 2007 and, again, in 2010, the share capital increased by 1,076,885 euros, due to the exercise of stock options.
Additional information about the abovementioned stock option plan is provided in Section i) below.

### b. Restrictions on Transfers of Securities (as per Article 123-*bis,* Section 1, Letter b), TUF)

Information about the impact on transfers of securities resulting from the Shareholders' Agreement signed by some shareholders on October 12, 2009, which went into effect on November 18, 2009, is provided on the Investors page of the Company website: www.sorin.com.

### c. Significant Equity Interests (as per Article 123-*bis,* Section 1, Letter c), TUF)

At December 31, 2010, based on the data posted to the Stock Register and the information obtained from communications received pursuant to Article 120 TUF, the following shareholder held interests greater than 2% in the share capital of Sorin S.p.A.:

| Reporting party | Direct shareholders | % interest in share capital | % interest in voting capital |
|---|---|---|---|
| TETHYS S.p.A | BIOS S.p.A. | 19.196 | 19.196 |
| EQUINOX TWO S.c.a. | TOWER 6 BIS S.a.r.l. | 6.693 | 6.693 |
| BANCA MONTE DEI PASCHI DI SIENA S.p.A. | BANCA MONTE DEI PASCHI DI SIENA S.p.A. | 7.314 | 7.314 |
| HOLMO S.p.A. | UGF ASSICURAZIONI S.p.A. | 4.645 | 4.645 |
| GENERAL ELECTRIC COMPANY | BIOS INTERBANCA S.p.A. | 7.546 | 7.546 |

## d. Securities Conveying Special Rights (as per Article 123-*bis,* Section 1, Letter d), TUF)

No securities conveying special rights have been issued.

## e. Employee Stock Ownership: Mechanisms for the Exercise of Voting Rights (as per Article 123-*bis,* Section 1, Letter e), TUF)

There are no mechanisms for the exercise of voting rights in the event of employee stock ownership, when such right is not exercised directly by the employees.

## f. Restrictions of Voting Rights (as per Article 123-*bis,* Section 1, Letter f), TUF)

Information about the impact on voting rights resulting from the Shareholders' Agreement signed by some shareholders on October 12, 2009, which went into effect on November 18, 2009, is provided on the Investors page of the Company website: *www.sorin.com*.

## g. Shareholders' Agreements (as per Article 123-*bis,* Section 1, Letter g), TUF)

Information about agreements disclosed to the Company pursuant to Article 122, TUF, is provided on the Investors page of the Company website: *www.sorin.com*.

## h. Change of Control Clauses (as per Article 123-*bis,* Section 1, Letter h), TUF)

Currently, no significant agreements, as per Article 123-*bis,* Section 1, Letter h), TUF, are in effect.

## i. Powers of Attorney to Increase Share Capital and Authorizations to Buy Treasury Shares (as per Article 123-*bis,* Section 1, Letter m), TUF))

Pursuant to the Bylaws, the Company's share capital may be increased by up to 17,923,115.00 euros, through the issuance of up to 17,923,115 Sorin common shares, par value 1 euro each, reserved for the options held by the Chief Executive Officer and senior managers of Sorin S.p.A. and its subsidiaries, who are the Beneficiaries of grants of stock options exercisable by June 30, 2011, in accordance with a share capital increase resolution adopted by the Board of Directors of Sorin S.p.A. on September 28, 2006, pursuant to Article 2443 c.c. The subscription deadline for the abovementioned capital increase is June 30, 2011.

The exercise price of the stock options awarded under the stock option plan must be the greater of:
(i) The simple average of the closing prices recorded for Sorin common shares on the MTA during the month before the date of the stock option grant by the Board of Directors;
(ii) The simple average of the closing prices recorded for Sorin common shares on the MTA for the six months preceding the grant date.

The share subscription price determined in the manner described above may never be lower than the price per share determined based on Sorin's shareholders' equity, computed in accordance with the latest financial statements communicated to the financial markets when the Shareholders' Meeting resolution was approved.

At a meeting held on July 28, 2006, the Board of Directors approved the regulations governing the stock option plan and set at 1.566 euros per share the exercise price of the stock options awarded on that occasion.

New option grants, with the corresponding grant dates and exercise prices, are listed below:

| | |
|---|---|
| - 9/8/06 | 1.502 |
| - 3/6/07 | 1.603 |
| - 6/20/07 | 1.940 |
| - 7/26/07 | 1.908 |
| - 11/8/07 | 1.762 |
| - 12/13/07 | 1.659 |
| - 7/30/09 | 1.480 |

Pursuant to the regulations governing the stock option plan, the options awarded on July 28, 2006, September 8, 2006, March 6, 2007, June 20, 2007 and July 26, 2007 may be exercised on the following dates:

1) 20% on July 1, 2007
2) 20% on July 1, 2008
3) 20% on July 1, 2009
4) 20% on July 1, 2010
5) 20% on December 31, 2010.

The options awarded on November 8, 2007 and December 13, 2007 may be exercised on the following dates:

- 50% on July 1, 2009
- 50% on December 31, 2010.

The options awarded on July 30, 2009 may be exercised on two dates: 50% on July 1, 2010 and 50% 0n December 31, 2010.

On September 14, 2010, the Extraordinary Shareholders' Meeting approved a resolution by which, pursuant to Article 2443 of the Civil Code, it authorized the Board of Directors, for a period of five years from the date of the resolution, to carry out a bonus share capital increase, in one or more installments, of up to 13,000,000 euros through the issuance of up to of 13,000,000 common shares, par value 1 euros each, regular ranking for dividends, reserved for stock grants awarded to employees of Sorin S.p.A. and/or its subsidiaries, pursuant to article 2349 of the Civil Code, within the framework of the Company's current or future stock grant plans. The abovementioned capital increase must be funded with earnings or earnings reserves, as available each time in the latest approved financial statements.

On September 14, 2010, the Ordinary Shareholders' Meeting approved a resolution by which, pursuant to Article 2357 of the Civil Code, it authorized the Board of Directors, for a period of 18 months from the date of the resolution, to purchase in one or more installments, up to 4,704,121 common shares, on a rotating basis (meaning by this expression the maximum number of treasury shares that may be held at any given time), or a different number of shares, corresponding to 1% of the Company's share capital, if share capital increases and/or reductions are approved and implemented while the abovementioned authorization is in effect and, in all cases, in compliance with statutory limitations, in pursuit of the following objectives:

- Take action, as allowed by applicable regulations, directly or through authorized intermediaries, to stabilize trading in the Company's stock and its market price in response to distortions caused by excess volatility or insufficient trading liquidity;
- offer shareholders an additional means of monetizing their investment;
- purchase treasury shares for use, if appropriate, in connection with existing or future stock incentive plans reserved for Directors and/or employees and/or associates of the Company or its subsidiaries.

Additional information about the stock option and stock grant plans is provided in the notes to the consolidated financial statements and the statutory financial statements of Sorin S.p.A.

## j. Oversight and Coordination Activity (as per Article 2497 and following, c.c.)

Sorin S.p.A. is not subject to oversight and coordination by a company or other entity. Pursuant to Article 2497-*bis* of the Italian Civil Code, direct and indirect Italian subsidiaries designated Sorin S.p.A. as the party performing oversight and coordination activity. Such activity involves setting Group-wide general and operational strategic guidelines and involves defining and updating a governance and internal control model, publishing a Code of Conduct adopted throughout the Group and developing general policies to manage human and financial resources, the procurement of production materials and communications. Group-wide coordination also includes centralized handling of cash management, corporate, legal, accounting, internal auditing and training services.

Oversight and coordination provided at the Group level enables subsidiaries to benefit from economies of scale, while retaining their managerial and operational independence, by taking advantage of professional capabilities and specialized services of steadily increasing quality, while focusing their resources on operating their core businesses.

# 3. COMPLIANCE (as per Article 123-*bis,* Section 2, Letter a), TUF)

The corporate governance structure adopted by the Company is consistent with the recommendations and guidelines of the Corporate Governance Code of Borsa Italiana for Listed Companies, which the Company adopted. This code is available on the website of Borsa Italiana S.p.A.: *www.borsaitaliana.it.*

Sorin S.p.A. controls directly and indirectly, 26 companies, including 21 companies located in countries other than Italy. None of the statutes applicable to Group companies based in countries other than Italy have an impact of any kind on the corporate governance structure of Sorin S.p.A.

# 4. BOARD OF DIRECTORS

## 4.1 Election and Replacement (as per Article 123-*bis,* Section 1, Letter l), TUF)

The Company is governed by a Board of Directors comprised of at least five but not more than fifteen members. The Shareholders' Meeting shall determine the number of Directors who will serve on the Board, and that number will not change until a different resolution is approved. The election of the Board of Directors shall be carried out on the basis of slates filed by shareholders in accordance with the paragraphs that follow and by the outgoing Board of Directors, in which the candidates are listed in numerical sequence.
Directors must possess the qualifications required by the laws in force at any given time and a number of them equal to the minimum required pursuant to the abovementioned laws must meet the independence requirements of Article No. 148, Section 3, TUF.
Loss of the abovementioned qualifications shall be a cause for removal from office. However, a Director who no longer meets the independence requirements defined above shall not be removed from office if said requirements are still being met by a number of Directors equal to the minimum required pursuant to the statutes in force at that time.
If the Board of Directors files its own slate of candidates, compliance with all other procedural obligations of the regulations in force still being required, the slate shall be filed at the Company's registered office and published in *Il Corriere della Sera* or *Il Sole 24 Ore* or *Milano Finanza* at least twenty-five days before the date of the first calling of the Shareholder's Meeting.
Slates of candidates submitted by shareholders must be filed at the Company's registered office at least twenty-five days before the date of the first calling of the Shareholder's Meeting and shall be subject to any other requirements of public disclosure that may be applicable pursuant to the laws in force at any given time.

Each shareholder, shareholders who are parties to a Shareholders' Agreement relevant pursuant to Article 122 TUF, the controlling shareholder, subsidiaries and joint ventures (as defined in Article 93 TUF), whether acting directly or through a representative or a nominee, may not file, or contribute to the filing of, more than one slate and may not vote for more than one slate, and each candidate may be included on only one slate, on penalty of losing the right to be elected. Support for the filing of a slate and votes cast in violation of this prohibition shall not be attributed to any slate.

Only shareholders who, on their own or jointly with other filing shareholders, collectively control shares representing at least 2.5% of the share capital that conveys the right to vote at Ordinary Shareholders' Meetings, or any smaller percentage thereof that may be set forth in mandatory provisions of laws and regulations, shall have the right to file slates of candidates.

Individual affidavits by which candidates agree to stand for election and attest, under their responsibility, that there are no issues that would make them unelectable or incompatible and that they possess the qualifications necessary to hold the office they are seeking shall be filed with each slate by the abovementioned deadline. Together with the affidavit, each candidate shall file a curriculum vitae listing his or her personal and professional achievements and indicating whether he or she qualifies to serve as an independent Director.

In addition, a certifications issued by a legally authorized intermediary, attesting that, at the time the slate is being filed with the Company, the filer owned the number of shares required to file a slate, shall be filed within the deadline required by the applicable regulations for the publication of the slated by the Company.

The election of the Board of Directors shall be conducted as follows:

a) 70% of the available seats (rounding down to the next whole number in the case of a fraction) shall be filled with Directors selected, in the sequential order in which they are listed on the slate, from the slate that receives the most votes;

b) The remaining Directors shall be selected from the other slates as follows: The votes cast for the other slates shall be divided by one, two, three or four, depending on the number of Directors that remain to be elected. The quotients thus obtained will be attributed progressively to the candidates on each of the slates, in accordance with the order in which they are listed on the slate. The quotients thus attributed to the candidates on the various slates will be ranked in descending order. The candidates with the highest quotients will be elected.

The use of the procedure referred to in the preceding paragraph shall always ensure the election of at least one Director drawn from a slate filed by minority shareholders that is not connected in any way, directly or indirectly, with the parties who filed or voted for the slate referred to in Letter a) above. To achieve this goal, should it become necessary, the last candidate elected in accordance with the procedure described in Letter b) above shall be replaced with the candidate listed first in the slate that meets the abovementioned requirements that received the highest number of votes among those that were excluded by applying the procedure described in Letter b) above. However, it shall be understood that the abovementioned slate must receive a percentage of the votes that may not be less than half of the percentage required to file slates of candidates, as referred to in paragraph seven of this article.

If more than one candidate receives the same quotient, the candidate listed on a slate from which no Director has been drawn or from which the smallest number of Directors has been drawn will be elected.

If no Director has been drawn from the abovementioned slates or if the same number of Directors has been drawn from each of the abovementioned slates, the candidate who received the most votes among those listed on all of the abovementioned slates will be elected. If candidates receive the same number of slate votes and are attributed the same quotient, the Shareholders' Meeting shall cast a new vote, and the candidate receiving a simple majority of the votes will be elected.

If the candidates elected in the manner described above do not include a number of Directors who meet the independence requirements of Article 148, Section 3, TUF equal to the minimum percentage of the total number of Directors required pursuant to law, the non-independent candidate who was elected last, based on the numerical sequence in the slate that received the higher number of votes, as referred to in Letter a) of the preceding paragraph, shall be replaced with the first unelected independent candidate, based on the numerical sequence in the same slate, or, otherwise, the first unelected independent candidate listed sequentially on other slates, chosen in accordance with the number of votes received by each slate. This replacement procedure shall be used until the Board of Directors includes a number of Directors who meet the independence requirements of Article 148, Section 3, TUF equal to the minimum percentage required pursuant to law. Lastly, if this procedure fails to achieve the abovementioned result, the replacement shall be carried out by a motion approved by the Shareholders' Meeting with a relative majority, after candidates who meet the abovementioned requirements are placed in nomination.

If only one slate is filed or no slate is filed, the Shareholders' Meeting shall elect the Directors with the majorities required pursuant to law, without having to follow the procedure described above.

If the Shareholders' Meeting needs to elect Directors who, for any reason, were not nominated in accordance with the procedure described above, it shall elect such Directors with the majorities required pursuant to law.

If one or more Directors should leave the Board during the course of the fiscal year, provided the majority of those remaining were elected by the Shareholders' Meeting, they shall be replaced in accordance with the provisions of Article 2386 of the Italian Civil Code, as follows:

a) The Board of Directors shall replace the departing Director with a candidate taken from the same slate and the Shareholders' Meeting shall vote, with the majorities required pursuant to law, using the same criterion;
b) If the abovementioned slate does not contain unelected candidates or candidates who meet the necessary requirements, or if the provisions of Letter a) cannot be complied with for any other reason, the Board of Directors shall elect a new Director, as will the Shareholders' Meeting subsequently, with the majorities required pursuant to law, without a need for slate voting.
In all cases, the Board of Directors and the Shareholders' Meeting shall proceed with the election in a manner that will ensure the presence of a number of independent Directors equal to the minimum required by the laws in force at any given time.
If a majority of the Directors should leave office for any cause or reason, the remaining Directors shall be deemed to have resigned and their resignation shall become effective on the date that a new Board of Directors is elected by the Shareholders' Meeting.

### 4.2 Composition (as per Article 123-*bis,* Section 2, Letter d), TUF)

Currently, the Company is managed by a fifteen-member Board of Directors, elected by the Ordinary Shareholders' Meeting of December 30, 2008 (except for the Directors Albertini, Fossa, Guindani and Ragno, who were coopted by the Board on December 14, 2009 and elected by the Shareholders' Meeting of April 28, 2010, and Massimo Totoni, who was coopted by the Board on June 15, 2010 and elected by the Shareholders' Meeting of September 14, 2010) for a term of three years, pursuant to the Bylaws. Therefore, the Board of Directors, having been elected by the Shareholders' Meeting of December 30, 2008 for a term of office of three years that started on January 1, 2009, its term of office will end on the date of the Shareholders' Meeting convened to approve the financial statements at December 31, 2011.
In 2010, the Board of Directors met eight times.

Composition of the Board of Directors in office at December 31, 2010:

| Name | Post held | In office since | Slate | Executive | Non-executive | Indep. (*) | Indep. TUF | BoD (%) |
|---|---|---|---|---|---|---|---|---|
| Rosario Bifulco | Chairman | 12/30/08 | BIOS | X | | | | 100% |
| Giovanni Pavese | Deputy Chairman | 12/30/08 | BIOS | | X | | | 100% |
| André-Michel Ballester | CEO | 12/30/08 | BIOS | X | | | | 100% |
| Claudio Albertini | Director | 12/14/09 | N.A.(**) | | X | | | 100% |
| Giuliano Asperti | Director | 12/30/08 | BIOS | | X | X | X | 88% |
| Paolo Baessato | Director | 12/30/08 | BIOS | | X | X | X | 88% |
| Andrea Bovone | Director | 12/30/08 | BIOS | | X | | | 100% |
| Giorgio Fossa | Director | 12/14/09 | N.A.(**) | | X | X | X | 100% |
| Pietro Guindani | Director | 12/14/09 | N.A.(**) | | X | X | X | 88% |
| Ettore Morezzi | Director | 12/30/08 | BIOS | | X | X | X | 88% |
| Enzo Nicoli | Director | 12/30/08 | MPS | | X | | | 75% |
| Luigi Ragno | Director | 12/14/09 | N.A.(**) | | X | X | X | 88% |
| Francesco Silva | Director | 12/30/08 | BIOS | | X | | | 88% |
| Massimo Tononi | Director | 6/15/10 | N.A.(**) | | X | | | 100% |
| Claudio Agostino Zulli | Director | 12/30/08 | BIOS | | X | | | 88% |

(*) The criteria provided in the Code to qualify as an independent Director have not been amended.
(**) Directors not included in any of the slates filed for the Shareholders' Meeting of December 30, 2008 and appointed pursuant to Article 2386 c.c.

Composition of Board Committees:

| Name | Post held | Executive Committee | % Exec. Committee | Compen-sation Committee | % Comp. Com-mittee | Internal Control Committee | % Intern. Control Comm. | Related-party Transaction Committee | % Related-party Transaction Committee |
|---|---|---|---|---|---|---|---|---|---|
| Rosario Bifulco | Chairman | C | 100% | | | | | | |
| Giovanni Pavese | Deputy Chairman | | | C | 100% | | | | |
| André-Michel Ballester | CEO | M | 100% | | | | | | |
| Andrea Bovone | Director | M | 100% | | | | | | |
| Giuliano Asperti | Director | | | | | M | 100% | M | 100% |
| Paolo Baessato | Director | | | M | 89% | M | 86% | M | 100% |
| Pietro Guindani | Director | | | M | 100% | | | | |
| Luigi Ragno | Director | | | | | | | M | 100% |
| Massimo Tononi | Director | M | 100% | | | | | | |
| Claudio Agostino Zulli | Director | | | | | C | 71% | | |

Directors who left the Board of Directors in 2010:

| Name | Post held | In office from/to | Slate | Executive | Non-executive | Indep. (*) | BoD (%) |
|---|---|---|---|---|---|---|---|
| Giovanni Gorno Tempini | Deputy Chairman | 12/30/08 to 5/13/10 | BIOS | | X | | 100% |

| Name | Post held | Executive Committee | % Exec. Committee | Compen-sation Committee | % Comp. Committee | Internal Control Committee | % Comit. Contr.Int. | Related-party Transaction Committee | % Related-party Transaction Committee |
|---|---|---|---|---|---|---|---|---|---|
| Giovanni Gorno Tempini | Deputy Chairman | M | 100% | | | | | | |

## Maximum Number of Governance Posts That May Be Held at Other Companies

The Board of Directors did not find it necessary to take a position with regard to the maximum number of posts that may be held, compatibly with the obligation to serve effectively as a Director of the Issuer, since it believes that responsibility for this decision rests, first of all, with the shareholders who nominate the Directors and, second of all, with the individual Directors, when they agree to serve on the Board.

### 4.3 Role of the Board of Directors (as per Article 123-*bis,* Section 2, Letter d), TUF)

The Board of Directors is the governance body provided with the broadest ordinary and extraordinary management powers and is responsible for guiding the Company's governance.
The Board of Directors delegated to the Chairman, the Chief Executive Officer and the Executive Committee the task of managing the Company, providing them the appropriate proxies.
The Board established an Internal Control Committee and a Compensation Committee, both performing an advisory and consulting function. However, it did not find it necessary to establish a Nominating Committee because it believes that the current slate voting system is sufficient to ensure a transparent nominating process and a balanced composition of the Board, including, specifically, the presence of an adequate number of independent Directors.

Directors are subject to statutory requirements with regard to unelectability and office forfeiture.
The members of the Board of Directors were elected based on slates of candidates filed by shareholders, consistent with the provisions of Article 2386 c.c.

Pursuant to the Bylaws, the Board of Directors meets whenever the Chairman or the party replacing him deems it necessary or when a request is made to the Chairman by at least one Statutory Auditor.
The Board of Directors meets on a regular basis, adopting an organization and operating procedure suitable for ensuring an effective discharge of its duties. The Chairman shall communicate in advance the meeting's agenda to the Directors and, when appropriate in light of the items on the agenda, ensures that the Directors and the Statutory Auditors receive the necessary information sufficiently in advance.

In 2010, the Board of Directors held eight meetings, lasting about two hours on average.

As required by current regulations, the Company published the calendar of Board meetings scheduled for 2011 to review operating and financial results, which is as follows:

- February 10, 2011: preliminary fourth-quarter and year-end 2010 results;
- March 17, 2011: Sorin Group's consolidated financial statements and draft statutory financial statements of Sorin S.p.A. at December 31, 2010;
- April 29, 2011: interim report on operations at March 31, 2011;
- July 29, 2011: semiannual financial report at June 30, 2011;
- October 28, 2011: interim report on operations at September 30, 2011.

Pursuant to Article 12 of the Bylaws, the Board of Directors has all of the ordinary and extraordinary powers needed to govern the Company. Consequently, it may perform all acts, including acts of disposition, that it may deem useful for the furtherance of the Company's purpose, except only those that the law expressly reserves for the Stockholders' Meeting. Pursuant to and for the purposes of Article 2365, Section Two, of the Italian Civil Code, Directors are expressly granted the power to adopt resolutions concerning mergers (in the cases covered by Articles 2505 and 2505 *bis* of the Italian Civil Code), the opening or closing of secondary offices, the designation of Directors empowered to represent the Company, the reduction of the Company's share capital when stockholders exercise the right to have their shares redeemed, the amendment of these Bylaws to make them consistent with statutory provisions and the transfer of the Company's registered office to any location inside Italy.

Moreover, the Board of Directors has exclusive jurisdiction with regard to the following:

- reviewing and approving the Company's strategic, industrial and financial plans and the Group's corporate structure;
- delegating powers to Directors and revoking them;
- based on the recommendations of the Compensation Committee and the input of the Board of Statutory Auditors, determining the compensation of Managing Directors and those who perform special functions, allocating among its members the total amount provided as compensation for the Board of Directors;
- monitoring the Group's operating performance, paying special attention to conflict of interests situations, specifically taking into account information provided by Managing Directors and the Internal Control Committee, and comparing periodically actual and projected results;

- reviewing and approving transactions involving the Company and its subsidiaries that are material in terms of their impact on operating results, financial performance and financial position, paying special attention to transactions with related parties;
- verifying that the overall organizational and administrative structure of the Company and the Group established by the Managing Directors is adequate.

The Board assesses periodically the adequacy of the overall organizational, administrative and accounting structure of the Issuer and its subsidiaries, with special emphasis on the System of Internal Control and the handling of conflict of interests situations, supported in this task by the Internal Control Committee, which, in addition to providing regular reports on significant issues, prepares every six months a report on the work it performed.

The Board, based on the recommendations of the Compensation Committee and the input of the Board of Statutory Auditors, allocated among its members the total amount provided as compensation for the Board of Directors by the Shareholders' Meeting on December 30, 2008. Subsequently, based on the input of the Compensation Committee and the Board of Statutory Auditors, it determined the compensation of the Directors who perform special functions, in accordance with Article 2389 c.c.

The Board evaluates periodically the Company's performance, comparing actual and projected operating and financial results, and receives extensive reports about significant management issues from the managing corporate entities.

On March 17, 2011, the Board was informed about the findings of the self-assessment process carried out with regard to the size, composition and activities of the Board of Directors and its Committees.

### 4.4 Managing Corporate Entities

At a meeting held on January 8, 2009, the Board of Directors elected Rosario Bifulco Chairman and Giovanni Gorno Tempini Deputy Chairman, and appointed André-Michel Ballester Chief Executive Officer. On July 29, 2010, following the resignation of Mr. Gorno Tempini from the post of Deputy Chairman, notified on May 13, 2010, the Board of Directors appointed Giovanni Pavese as his replacement.

The Board of Directors also appointed an Executive Committee, to which it delegated some of its powers, specifically including the right to:

- hire and/or fire Company executives and middle managers, determining their initial and subsequent job description and compensation, keeping the Board of Directors duly informed;
- decide how to vote at Shareholders' Meetings of the Company's subsidiaries and affiliates, designating the Company's representatives at those Shareholders' Meetings, and providing them with instructions and recommendations regarding candidates corporate governance posts;
- buy, sell and exchange real estate and other tangible and property rights within a limit of 5,000,000 euros per transaction; acquire and give easements; allow the establishment, registration, reduction and cancellation of mortgage obligations; authorize entries in property registers, title changes, corrections and annotations and carry out any real estate transactions in general, all of the above with authority to exempt the applicable public offices and the Registrars of Property Registers from liability;
- buy and sell investments in companies, businesses and business operations within a limit of 5,000,000 euros (including assumed liabilities) for each transaction;
- execute real estate leases, including finance leases and/or leases with a term of more than nine years, provided the lease payments do not exceed 2,000,000 euros annually or a total of 20,000,000 euros over the duration of the lease for each transaction;
- grant and revoke consulting assignments of any type to professionals and external parties in general, including individuals, companies or professional associations, for amounts of up to 500,000 euros per contract and for durations of up to 24 months;
- negotiate and execute short-term loan agreements with credit institutions, negotiate and accept overdraft facilities, request sureties from banks and insurance companies, and provide endorsements and guarantees for amounts in excess of 10,000,000 euros but not larger than 25,000,000 euros for each transaction;

- provide financing to subsidiaries, as well as guarantees and sureties on their behalf, and negotiate and requests sureties for their benefit for amounts in excess of 7,000,000 euros but not larger than 15,000,000 euros for each transaction;
- negotiate and execute contracts to hedge risks from fluctuations in exchange rates and interest rates;
- perform a preliminary analysis of draft budgets and industrial and/or financial plans, both at the Company and consolidated level, and any subsequent amendments;
- perform a preliminary analysis of any extraordinary transaction for submission to the Board of Directors for approval and final disposition;
- study and define strategic guidelines, both at the Company and consolidated level;
- perform a preliminary analysis of initiatives to acquire or divest significant equity investments or business operations, or any extraordinary financial transactions that must be presented to the Board of Directors, which has sole jurisdiction over decisions in this area;
- analyze and evaluate any offers by outside investors who wish to invest in the Company or its shares and make recommendations to the Board of Directors, which has sole jurisdiction over decisions in this area.

The Chairman and the Chief Executive Officer are the only Directors with executive authority.

The Board of Directors granted to its Chairman the power to:

- coordinate the activities of the Board of Directors and Executive Committee and manage the respective secretarial offices;
- oversee the correct implementation of the rules of corporate governance;
- supervise any revisions or updates of organization charts, prior to their submission to the Executive Committee and Board of Directors for approval;
- oversee and monitor the Company's performance directly and through an ongoing interface with the Chief Executive Officer, avoiding any interference in the respective areas of authority;
- supervise the Internal Auditing Department and the implementation of the System of Internal Control;
- manage the legal and corporate affairs of the Company and the Group;
- manage external relations activities and contacts with public institutions, government, external entities and third parties in Italy and abroad, the press and other media, industry associations and the scientific community;
- manage relations with the financial community, shareholders and investors.

Consequently, the following departments report directly to the Chairman and are operationally under his supervision: the Secretarial Offices of the Chairman, the Board of Directors and the Executive Committee; the Technical Secretarial Office, the Group Legal and Corporate Affairs Department, the Internal Auditing Department, the External Relations Department and the Investor Relations Department.

In order to enable him to perform the functions and tasks entrusted to him and manage the departments that report to him, the Chairman, in addition to the powers that he holds pursuant to law and the Bylaws, has been granted the power to:

- hire and fire technical, administrative and salaried employees (except for executives), determining their initial and subsequent title, tasks and compensation, subsequently informing the Executive Committee and the Board of Directors;
- grant and revoke consulting assignment of any type to professionals and external parties in general, including individuals, companies or professional associations, for annual amounts of up to 150,000.00 euros per assignment;
- buy and lease goods and services for corporate entertainment activities and to equip and operate departments under his jurisdiction for up to 100,000 euros a year.

Moreover, in addition to the powers that he holds pursuant to law and the Bylaws, the Chairman has been empowered to:

- sign, with the title of *Presidente* or Chairman, any Company correspondence and any other document related to the areas over which he has been given jurisdiction or the power that he holds to act as the Company's legal representative;
- represent the Company before any judicial, civil, criminal, administrative or arbitrating authority, in any venue and at any jurisdictional level, including the Council of State, the *Corte dei Conti* and the Court of Cassation; promote and pursue legal actions on the Company's behalf, both as plaintiff and defendant, in any judicial, civil, criminal, administrative or arbitrating venue and at any jurisdictional level and, therefore, also in higher jurisdictions and before any other special magistrates, as well as in actions to void and in third-party challenges; act as the Company's representative in out-of-court negotiations; join as third party seeking damages in criminal proceedings involving crimes that have caused injury to the Company; retain and dismiss counsel; settle disputes; and desist from actions, claims and activities, for an amount of up to 500,000 euros;
- perform, insofar as the bureaucratic and organizational issues governed by Legislative Decree No. 196/03 on the protection of personal data are concerned, all of the activities, compliance acts and controls required currently and in the future by the abovementioned legislative decree, including the task of supervising and coordinating the activities of the compliance officers, taking all required actions regarding expenses and making all necessary decisions, including those involving areas specifically under the jurisdiction of the compliance officers in case of inaction on their part;
- negotiate and execute contracts to hedge risks from fluctuations in exchange rates and interest rates for an amount of up to 10,000,000 per transaction.

In addition to and consistent with the existing limitations to the powers he holds pursuant to law, the Chairman, by virtue of the provisions of the Bylaws and a relevant resolution, is empowered to grant general *ad negotia* powers of attorney and special powers of attorney for individual or multiple transactions, and delegate powers to representatives, who need not be Company employees.

The Board of Directors entrusted to the Chief Executive Officer the task of managing the Company's day-to-day operations, with responsibility for its departments (excluding those that report directly to the Chairman), human resources, assets and facilities, and for the sound and prudent management of the Company's operations. In the performance of his duties, the Chief Executive Officer should maintain an ongoing dialog with the Chairman, avoiding any interference in their respective areas of authority.

Consistent with the scope of the tasks assigned to him, the Chief Executive Officer has been granted the power to perform all acts necessary in the Company's ordinary operations, authorizing him to sign documents on behalf of the Company on his own, with a limit of 100,000 euros for each commitment, except for the limits of different amounts specified for some of the situations listed below. More specifically, as part of the abovementioned powers required for the Company's ordinary operations and with the abovementioned limit, the Chief Executive Officer has been granted (the following non-exhaustive list being provided merely by way of example) the power to:

- pursue the collection of promissory notes, issue injunctions, carry out preventive or enforcement actions, join in bankruptcy or composition with creditors proceedings, file claims for verification and assert their merit;
- hire and fire technical, administrative and salaried employees (except for executives and middle managers), determining their initial and subsequent title, tasks and compensation, subsequently informing the Executive Committee and the Board of Directors;
- when VAT overpayments are used for offsetting purposes by the Company or subsidiaries included in the consolidated VAT return, provide to the tax administration the required sureties, assuming directly the full obligation to repay in their entirety the amounts that the Company and the other Group companies will use for offsetting purposes when filing the annual consolidated VAT return for the Group;
- open and close bank checking accounts and sign checking account and deposit account contracts;
- manage the Company's checking accounts, issuing checks within the limits of the available cash balances and overdraft facilities;
- collect and issue receipts for money orders, checks, payment vouchers against the government's treasury and any other public or private asset; issue, accept, guarantee, endorse, collect and issue receipts for promissory notes and acknowledgments of deposits; endorse bank checks;

- buy, sell, lease under operating or finance leases, exchange and execute any trade or transaction, including attachments, involving machinery, merchandise, materials, equipment and personal property in general;
- execute actions and transactions involving the Office of Public Debt, the *Cassa Depositi e Prestiti,* the Offices of the Treasury, the Central Bank, the Customs Administration, banks and credit institutions in general, railroads, shipping companies, transportation companies, insurance companies and any other public or private administration and/or office, with the power, among others, to collect and assign receivables under any title, receive merchandise, securities, packages, valuables and letters (including registered and insured mail), grant and remove easements and collect sums of money, payment orders, treasury bills, money orders, checks of any type and security deposits, issuing valid receipts and discharges;
- issue general *ad negotia* powers of attorney and special powers of attorney for individual transactions or types of transactions and delegate powers to representatives, who need not be Company employees, within the limits of his authority;
- sign correspondence and all documents related to the areas that are the subject of this delegation of powers, using the title of *Amministratore Delegato* or Chief Executive Officer;
- prepare and submit to the Executive Committee and the Board of Directors a draft of the annual economic and financial budget, both at the Company and consolidated level, with the relevant detailed schedules for the expense and investment budgets;
- prepare and submit to the Executive Committee and the Board of Directors a draft of the industrial, strategic, economic and financial plan and any subsequent amendments and updates, both at the Company and consolidated level, working in concert with the Chairman.

Even though the underlying activities may be part of the Company's day-to-day operations, the following powers are expressly excluded from the powers granted to the Chief Executive Officer:
- power to establish companies and enter into joint venture contracts or agreements;
- power to buy, sell, exchange or otherwise dispose of or acquire equity investments, real property and intellectual property rights;
- power to buy, sell, exchange or otherwise dispose of or acquire companies or business operations and execute leases (as lessor or lessee) for companies or business operations;
- power to encumber the Company's assets, including when this is done to provide a guarantee;
- power to grant and revoke consulting assignments of any type to professionals and external parties in general, including individuals, companies or professional associations;
- power to negotiate and execute loan or financing agreements, negotiate and accept overdraft facilities, request sureties from banks or insurance companies, and provide the corresponding endorsements and guarantees;
- power to provide guarantees for obligations of third parties;
- execute contracts of a financial or otherwise speculative nature.

The Board granted to Chairman Rosario Bifulco and to CEO André-Michel Ballester, acting with joint signature, the power to:

- grant and revoke consulting assignments of any type to professionals and external parties in general, including individuals, companies or professional associations, for an amount of up to 300,000 euros a year and a duration of up to 12 months;
- negotiate and execute short-term loan agreements with credit institutions, negotiate and accept overdraft facilities, request sureties from banks or insurance companies, and provide the corresponding endorsements and guarantees, for an amount of up to 10,000,000 euros for each transaction;
- provide financing to subsidiaries, as well as guarantees and sureties on their behalf, and negotiate and request sureties for their benefit, for an amount of up to 7,000,000 euros per transaction.

Lastly, meeting on February 10, 2010, the Board of Directors granted the following powers:

- to the Executive Committee, the power to purchase goods and services of any kind (including insurance contracts), for an amount of up to 5,000,000 euros per transaction;

- to the Chairman and the Chief Executive Officer, acting severally, the power to purchase goods and services of any kind, for an amount of up to 2,000,000 euros per transaction.

When acting within the scope of their respective powers, the Chairman and the Chief Executive Officer report to the Board of Directors, which, pursuant to law, may always provide instructions about or claim jurisdiction over transactions within the scope of the abovementioned powers.

Managing Directors must report at least quarterly to the Board of Directors and the Board of Statutory Auditors about the activities they performed within the scope of the powers granted to them, as well as about material transactions executed by the Company or its subsidiaries and transactions involving potential conflict of interest situations.

Pursuant to Article 10 of the Bylaws, Deputy Chairman Giovanni Pavese has been granted the power to replace the Chairman for the purpose of chairing Shareholders' Meetings, it being understood that none of the powers granted to the Chairman can be conveyed to the Deputy Chairman should the Chairman be absent and/or incapacitated for any reason.

The Executive Committee held 13 meetings in 2010 lasting about two hours and twenty minutes on average. A total of 11 meetings are planned for 2011, three of which have already been held.

### 4.5 Other Executive Directors

There are no Executive Directors other than the Chairman and the Chief Executive Officer.

### 4.6 Independent Directors

As required by the provisions of the Corporate Governance Code, the Board of Directors, based on the information provided by the Directors in question upon their nomination and subsequently, verified that they met the independence requirements of the relevant statutes and regulations currently in force, as well as those of the Corporate Governance Code, giving prevalence to "substance over form," and ruled that the Directors Giuliano Asperti, Paolo Baessato, Giorgio Fossa, Pietro Guindani, Ettore Morezzi and Luigi Ragno qualified as independent.
Under the procedure followed by the Board of Directors to assess independence, Directors are required to provide an affidavit declaring their independence upon being nominated and their qualifications are reviewed by the Board of Directors at the first meeting held after their nomination. Independent Directors must also undertake to promptly inform the Board of Directors about the occurrence of situations that could impair their independence. Upon approving the Report on Corporate Governance, the Board of Directors is also required to ask the independent Directors to resubmit their qualifications and must review any new information provided. The Board of Statutory Auditors is responsible for ascertaining that the review criteria and procedures adopted by the Board of Directors to assess annually the independence of its members are properly implemented and must include the results of this activity in its report to the Shareholders' Meeting.
One meeting attended exclusively by independent Directors was held in 2010. At that meeting, the attendees assessed the adequacy of the information provided to Directors and the timeliness with which reports are being submitted, and reviewed the procedures to evaluate and approve transactions with related parties. The assessment provided by the independent Directors was positive overall.

### 4.7 Lead Independent Director

The Board did not designate a Lead Independent Director because it felt that the requirements of the Corporate Governance Code for such an appointment did not apply to the Company.

## 5. HANDLING OF CORPORATE INFORMATION

### Internal Management and External Communication of Documents and Information About the Company

The Company has been using for some time a procedure for the internal management and external communication of documents and information about the Issuer, specifically regarding price sensitive information. This procedure, which is an integral part of the 231 Model, was recently amended to improve the overall external communication process.

### Insider Register

As required by Article 115-*bis* TUF, the Board of Directors established a register of parties with access to insider information (Insider Register).
Specific provisions deal with posting entries to and updating the Register of Persons with Access to Insider Information. Register entries may be permanent or temporary. Sorin's senior managers and line managers for the areas under their jurisdiction are responsible for identifying the parties whose names should be communicated to the department charged with maintaining the Register for entry into the Register on a regular or temporary basis. The procedure also provides instructions for informing parties entered in the Register and updating and deleting their data.
All Directors and Statutory Auditors of Sorin S.p.A. have been entered in the Register on a permanent basis from the moment the Register was established and have been informed about their duties and responsibilities.

### Internal Dealing

As required by the provisions of Article 114, Section 7, of the TUF and Articles 152-*sexies,* 152-*septies* and 152-*octies* of the Consob's Issuers' Regulations, the Board of Directors adopted rules of conduct to govern transactions involving financial instruments of the Issuer that are carried out by Significant Parties or persons closely related to them.

The following shall be deemed to be Significant Parties:

a) Directors, Statutory Auditors, individuals who perform management functions and executives who have access to insider information on a regular basis and have the authority to make management decisions that could have an impact on the future performance and business outlook of Sorin S.p.A.

b) Directors, Statutory Auditors, individuals who perform management functions and executives who have access to insider information on a regular basis and have the authority to make management decisions that could have an impact on the future performance and business outlook of a company controlled directly or indirectly by Sorin S.p.A., when the book value of the investment in the subsidiary in question is equal to more than 50% of the assets of Sorin S.p.A., as listed in the latest approved financial statements.

c) Any party who holds voting shares equal to an interest of at least 10% in the share capital of a publicly traded issuer, computed in accordance with Article 118 TUF, and any other party holding a controlling interest in a publicly traded issuer.

The following individuals shall be deemed to be persons closely related to Significant Parties:

- d.1) A spouse who is not legally separated, dependent children of a Significant Party and/or his or her spouse, provided they have been living with the Significant Party at least for one year, and parents and relatives by blood or by marriage of the Significant Party.
- d.2) Legal entities, partnerships and trusts in which a Significant Party or one of the individuals listed in Letter d.1), acting either alone or jointly with others, holds management responsibilities.
- d.3) Legal entities controlled directly or indirectly by a Significant Party or one of the individuals listed in Letter d.1).
- d.4) Partnerships the financial interests of which are substantially the same as those of a Significant Party or one of the individuals listed in Letter d.1).
- d.5) Trusts established for the benefit of a Significant Party or one of the individuals listed in Letter d.1).

A communication from any of the abovementioned persons is required for transactions involving amounts in excess of 5,000 euros for each calendar year. Disclosure thereof must be provided to the Consob within five stock market trading days from the transaction date.

During certain periods of the year, the Board of Directors will have the option of barring Significant Parties from executing transactions involving Sorin securities or limiting their ability to execute such transactions.

## 6. COMMITTEES OF THE BOARD OF DIRECTORS (as per Article 123-*bis,* Section 2, Letter d), TUF)

At its inception, the Company established two committees within its Board of Directors: the Internal Control Committee and the Compensation Committee.
The jurisdiction of each Committee was defined by the Board of Directors in accordance with the guidelines provided in the Corporate Governance Code for Listed Companies.
The function of the Committees is limited to providing consulting support to the Board of Directors and assisting it in reviewing issues that fall under each Committee's jurisdiction. Both Committees operate in accordance with their internal regulations.
Each Committees is required to adopt resolutions with an absolute majority of the votes cast by its members. In organizing its meetings, each Committee is supported by a specific Company Department. Minutes of each Committee meeting are prepared by the Committee's secretary.
Committee members are entitled to access the Company information and Departments they may need to perform the tasks entrusted to them and, should they deem it necessary, may use the support of external consultants.
Even though the Board of Directors did not approve a specific budget for each Committee, the Committees were provided on each occasion with the financial resources needed to perform the tasks assigned to them.
Each Committee reports on a regular basis to the Board of Directors about the work it performed.

Currently, the abovementioned committees are comprised of three member, the majority of whom are independent Directors.

Following the adoption by the Consob of Regulations setting forth provisions concerning transactions with related parties, adopted with Resolution No. 17221 of march 12, 2010, as amended by Resolution No. 17389 of June 23, 2010, the Board of Directors agreed to establish a Related-party Transaction Committee, comprised of three independent Directors, which is specifically responsible for:

- rendering a preemptive, binding opinion on the Related-Party Transaction Procedure (RPT Procedure) and on any amendment to the RPT Procedure, as well as on any motions submitted to the Shareholders' Meeting regarding any amendments to the Bylaws that the Board of Directors may deem necessary as part of the process of defining the RPT Procedure;
- render a detailed, binding opinion on highly material related-party transactions and a detailed, non-binding opinion on less material related-party transactions.

This Committee is authorized to retain the services, at the Company's expense, of one or more independent experts of its choosing, with expense limits for less material related-party transactions and without expense limits for highly material related-party transactions.

Information about the Related-Party Transaction Procedure is provided in Section 12 entitled "Interests of Directors and Transactions with Related Parties."

## 7. NOMINATING COMMITTEE

The Board did not find it necessary to establish a Nominating Committee because it believes that the current slate voting system is sufficient to ensure a transparent nominating process and a balanced composition of the Board, including, specifically, the presence of an adequate number of independent Directors.

## 8. COMPENSATION COMMITTEE

### Composition and Activities of the Compensation Committee (as per Article 123-*bis,* Section 2, Letter d), TUF)

In 2010, this Committee was comprised of three members, all Directors without executive authority, including two independent Directors and one non-independent Director: Giovanni Pavese (Chairman – non-independent), Paolo Baessato (independent) and Pietro Guindani (independent). Pietro Guindani was appointed to this Committee by the Board of Directors on February 10, 2010, as a replacement for Enzo Nicoli, who informed the Board that he no longer met the independence requirements and, consequently, resigned from his post on the Compensation Committee.

The Board of Directors currently in office entrusted to the Compensation Committee the task of providing it with specific comments and/or recommendations concerning:

- The compensation of the Chairman, the Chief Executive Officer and other Directors that perform specific functions on behalf of the Company or who are given special assignments from time to time or are members of Company Committees;
- An assessment of the criteria used to determine the compensation of top Company managers, obtained by monitoring the implementation of these criteria based on the information provided by relevant control functions, and the submission to the Executive Committee and the Board of Director of general recommendations in this area;
- Incentive plans and/or stock option plans, when used.

The Chairman of the Board of Statutory Auditors and the Manager of the Department of Human Resource attend Committee meetings. The Chairman and the Chief Executive Officer may also attend Committee meetings to provide consulting support. When appropriate, committee meetings may also be held without the presence of the Chairman and the Chief Executive Officer. In all cases, the Chairman and the Chief Executive Officer are never present when recommendations concerning their compensation are discussed.
From time to time, Company employees and outside experts may be asked to attend Committee meetings to provide consulting support.

### Functions of the Compensation Committee

The Committee submits recommendations to the Board of Directors for approval.

In 2010, this Committee held nine meetings. On those occasions, it discussed recommendations about the policy applicable to the short-term variable portion of management's compensation and the long-term incentives for top management, developing recommendations that it submitted to the Board.
Specifically, the Committee submitted to the Board of Directors a stock grant plan reserved for the Directors of Sorin S.p.A., its employees and employees of its subsidiaries. This plan, which is implemented over three cycles of three years each, for a total duration of five years, was approved by the Board of Directors and submitted to the Shareholders' Meeting, which, in turn, approved it on September 13, 2010.
Official minutes were kept of all meetings of the Compensation Committee.
The Committee was provided with access to the information and Company Departments, as required for the purpose of performing the tasks assigned to it and was supported by external consultants.

The Compensation Committee is empowered to ask that the Board provides it with the financial resources needed to perform its assigned tasks.

## 9. COMPENSATION OF DIRECTORS

Consistent with the recommendations of the Corporate Governance Code, a significant portion of the compensation of Executive Directors and managers with strategic responsibilities is tied to the financial results reported by the Company and/or the achievement of specific business objectives.
In the case of Executive Directors, these objectives are defined by the Board of Directors, while those applicable to managers with strategic responsibilities are approved by the Chief Executive Officer.
The Chief Executive Officer and the managers with strategic responsibilities are the beneficiaries of an incentive plan based on stock options that expires on June 30, 2011 and of the abovementioned stock grant plan.
The Chairman is a beneficiary of the stock grant plan.

The compensation of Directors without executive authority is not tied to the Issuer's financial performance and no share-based incentive plans benefiting these Directors have been established.

The table below shows the amounts of the compensation of Directors attributable to 2010, as recognized in the draft financial statements:

| Name | Pot held | Time period | Compensation | Non-cash benefits | Bonus and other incentives | Other compensation | Total |
|---|---|---|---|---|---|---|---|
| Rosario Bifulco | Chairman | 1/1/10 to 12/31/10 | 500,000 | 3,539 | 250,000 | | 753,539 |
| Giovanni Pavese | Deputy Chairman | 1/1/10 to 12/31/10 | 70,000 | | | | 70,000 |
| André-Michel Ballester | CEO | 1/1/10 to 12/31/10 | 511,250 | 54,143 | 652,763 | 127,000 | 1,345,156 |
| Claudio Albertini | Director | 1/1/10 to 12/31/10 | 20,000 | | | | 20,000 |
| Giuliano Asperti | Director | 1/1/10 to 12/31/10 | 38,000 | | | | 38,000 |
| Paolo Baessato | Director | 1/1/10 to 12/31/10 | 50,000 | | | | 50,000 |
| Andrea Bovone | Director | 1/1/10 to 12/31/10 | 60,000 | | | | 60,000 |
| Giorgio Fossa | Director | 1/1/10 to 12/31/10 | 20,000 | | | | 20,000 |
| Pietro Guindani | Director | 1/1/10 to 12/31/10 | 31,000 | | | | 31,000 |
| Ettore Morezzi | Director | 1/1/10 to 12/31/10 | 20,000 | | | | 20,000 |
| Enzo Nicoli | Director | 1/1/10 to 12/31/10 | 21,000 | | | | 21,000 |
| Luigi Ragno | Director | 1/1/10 to 12/31/10 | 24,167 | | | | 24,167 |
| Francesco Silva | Director | 1/1/10 to 12/31/10 | 20,000 | | | | 20,000 |
| Massimo Tononi | Director | 6/15/10 to 12/31/10 | 26,666 | | | | 26,666 |
| Claudio Agostino Zulli | Director | 1/1/10 to 12/31/10 | 55,000 | | | | 55,000 |

Compensation of Directors who left the Board of Directors in 2010:

| Name | Pot held | Time period | Compensation | Non-cash benefits | Bonus and other incentives | Other compensation | Total |
|---|---|---|---|---|---|---|---|
| Giovanni Gorno Tempini | Deputy Chairman | 1/1/09 to 5/13/10 | 40,000 | | | | 40,000 |

## Indemnity Payable to Directors in the Event of Resignation, Firing or Termination of Relationship Due to a Tender Offer (as per Article 123-*bis,* Section 1, Letter i), TUF)

The following disclosure is provided with regard to agreements between the Issuer and the Directors concerning indemnification in the event of resignation, firing/dismissal without cause or if the employment relationship were to end due to a tender offer:

- Insofar as André-Michel Ballester, the Company's Chief Executive Officer, is concerned, if the Shareholders' Meeting of Sorin S.p.A. were to revoke his appointment to the Board of Directors or cancel all of the powers delegated to him upon his appointment, unless he is being dismissed for cause, before the end of his term of office, which coincides with the date when the Shareholders' Meeting approves the financial statements at December 31, 2011, the Company will pay him an indemnity for early termination amounting to twice his total annual compensation. In computing the termination indemnity, reference shall be made to the fixed compensation, computed on a pro rated basis, plus the average, reapportioned on a monthly basis, of the variable compensation, if received and for the amount actually received over the last three years or, if his employment relationship is shorter, the variable compensation actually received over the length of his employment relationship, until its end. Moreover, if upon the expiration of his term of office, André-Michel Ballester is not asked to serve again as Chief Executive Officer, he will be paid a termination indemnity equal to his total annual compensation.
  The Company can choose to exercise an option to set at 12 months after the termination date (irrespective of the reason for the termination) the length of the non-compete obligation. Should the Company exercise this option, in exchange for a 12-month non-compete obligation, it shall owe a consideration equal to 80% of the annual fixed compensation in effect at the time of termination.

- Insofar as Rosario Bifulco, Chairman of the Company's Board of Directors, is concerned, if the double condition of a change of control of Sorin S.p.A., as defined in Article 93 TUF, and his dismissal from the post of Chairman of the Company's Board of Directors occur due to Mr. Bifulco's resignation for any reason or his termination by the Company without cause, the Company shall pay him a termination indemnity equal to the sum of his fixed compensation and variable compensation for the year preceding his termination. If both of the abovementioned conditions had occurred before December 31, 2010, the Chairman would have been entitled to receive a termination indemnity equal to twice the amount computed as described above.
  The Company can choose to exercise an option to set at 12 months after the termination date (irrespective of the reason for the termination) the length of the non-compete obligation. Should the Company exercise this option, in exchange for a 12-month non-compete obligation, it shall owe a consideration equal to 80% of the annual fixed compensation in effect at the time of termination.

- The effects of a termination of the employment relationship on the incentive plans and specifically on the 2009-2013 Stock Grant Plan, would be determined based on the occurrence of one of the circumstances set forth in the *"General Provisions on the Termination of the Employment Relationship"* of the Plan's Regulations, which are quoted below:

  *"If a Beneficiary ceases to provide his/her services at the Group, the following provisions shall apply:*
  *(i) if the employment relationship is terminated due to any of the following circumstances:*
  - *(a) Beneficiary's eligibility for retirement or disability benefits causing termination of the Employment Relationship;*
  - *(b) Exit (for any reason) of the company party to the Employment or Management Relationship with the Beneficiary from the Group's scope of activity or transfer of the Employment Relationship pursuant to Article 2112 of the Civil Code due to the transfer of a company or business operations to an entity not included in the Group;*
  - *(c) Death of the beneficiary;*
  - *(d) Automatic expiration of the Management Relationship due to failure to be reelected, with regard to Beneficiaries who serve exclusively in the capacity as Director (or equivalent) of the Company or of Group companies or with regard to Beneficiaries to whom the Bonus was granted expressly in view of their serving in such capacity (and irrespective of the existence of an employment relationship, including those of a subordinate nature);*

(e) *Termination of the Employment or Management Relationship with the Beneficiary at the initiative of the Company (or its Subsidiary, as the case may be) without just cause or a justified reason;*

*The Beneficiary (or his/her estate, in the case referred to in Section (c) above) shall retain the right to receive the Bonus on the Delivery Date, in accordance with the provisions of these Regulations, it being understood that the amount of any Bonus that may be owed to the Beneficiary shall be redetermined in accordance with the provisions set forth below;*

(ii) *If the termination of the Employment or Management Relationship is due to a cause or reason other than those expressly listed in Section (i) above, the Beneficiary shall lose his/her right to receive his/her vested Bonus, as well as any other right to which he/she may be entitled under the Plan, and shall cease to qualify as a Beneficiary, effective immediately.*

*If any of the circumstances referred to in Section (i), Letters (a), (b), (d) and (e), above were to occur before the Bonus Delivery Date (provided 12 months have elapsed from the start of the respective Reference Period), the amount of the Bonus that may be due, but not yet paid, to the affected Beneficiary shall be determined based on the following formula:*

$$a \times \frac{b}{c}$$

*where:*

*a = full amount of the Bonus owed to the Beneficiary under the Plan;*

*b = total number of full calendar months from the Grant Date (or the Reference Period starting date, whichever comes later) to the Termination Date (or the Reference Period ending date, whichever comes sooner);*

*c = 36*

*It shall be understood that, should the situation described in Section (i), Letter (c), above occur, there will be no redetermination of Bonus, the full amount of which will be payable to the Beneficiary's estate, as if the Plan had been completed and the performance targets achieved."*

- The Regulations of the 2006-2011 Stock Option Plan are as follows:

*"If one of the following situations:*

(a) *termination of the Beneficiary's employment relationship with the Company or another Group company due to cancellation by one of the parties; or*

(b) *end of the term of office as Director (irrespective of the continuation of an employment relationship) for reasons other than those set forth in Letter (d) below, retirement or death;*

*should occur before the Completion Date, the Beneficiary shall lose the right to exercise any Vested Options that were unexercised at the date when the employment relationship was terminated pursuant to Letter (a) above and the Beneficiary shall forfeit all rights regarding the Option Balance. The termination of the employment relationship pursuant to Letter a) above shall be deemed to have occurred on the date the Beneficiary is removed from the staff register, payroll book or employees' list of the Company or another Group company. In all cases, the Beneficiary's right to vest or exercise Options during the termination notice period, whether employment continues or not, or in any other similar situation that may be applicable pursuant to law or contract, is expressly excluded. The Beneficiary shall have no right to receive any compensation of indemnity from the Company for any reason whatsoever;*

(c) *Termination of the Beneficiary's employment relationship with the Company or another Group company due to consensual cancellation: unless the Company and the Beneficiary agree otherwise, the Beneficiary shall retain the right to exercise his/her Vested Options that were unexercised at the time the relationship is terminated for 3 (three) months after the termination event or by the Completion Date, if earlier, and shall lose all rights to the Balance of the Options. Termination shall be deemed to have occurred on the date the Beneficiary is removed from the staff register, payroll book or employees' list of the Company or another Group company.*

(d) *Termination from the post of Director (irrespective of the continuation of an employment relationship) due to the scheduled end of the term of office: the Beneficiary shall retain the right to exercise any Options that Vested up to that point, but shall lose all rights to the Balance of the Options. In all cases, the right to exercise the options referred to in this Letter (d) may be exercised up the end of the 3rd (third) month after the end of the term of office or the Completion Date, if earlier."*

## 10. INTERNAL CONTROL COMMITTEE

The Internal Control Committee, which was established upon the Company's founding, is comprised of Directors without executive authority. The majority of its members are independent Directors to ensure that the Committee's assessments and decisions concerning the System of Internal Control, the approval of the annual financial statements and semiannual reports and transactions between the Issuer and the Independent Auditors are supported by adequate preparatory activities.

### Composition and Activities of the Internal Control Committee (as per Article 123-*bis,* Section 2, Letter d), TUF)

The Internal Control Committee currently in office is comprised of three members, none of whom had executive authority. Its members, who include two independent Directors, are: Claudio Agostino Zulli (Chairman – non-independent), Giuliano Asperti (independent) and Paolo Baessato (independent).
The qualifications of the current members of this Committee are consistent with the recommendations of the Corporate Governance Code, which require that the majority of the Committee members must be independent Directors and that at least one of them have an accounting and financial background.

### Functions of the Internal Control Committee

The Board of Directors currently in office entrusted to the Internal Control Committee the task of providing it with consulting support and recommendations in the following areas:

a) Provide support to the Board of Directors in establishing the guidelines for the Company's System of Internal Control, so as to ensure that the main risks applicable to the Company and its subsidiaries are properly identified, measured, managed and monitored, and defining the criteria for determining if these risks are compatible with sound business management practices. It also supports the Board in assessing on a regular basis the system's adequacy and effective implementation.
b) Assist the Board of Directors in the selection of an Executive Director who can be assigned the task of overseeing the implementation of the System of Internal Control, a function currently performed by the Chairman.
c) Assist the Board of Directors in assessing, at least once a year, the adequacy and effective implementation of the System of Internal Control.
d) Assist the Board of Directors in describing in the Corporate Governance Report the main features of the System of Internal Control and provides an evaluation of the system's overall effectiveness.
e) Determine, together with the Corporate Accounting Documents Officer and the Company's Independent Auditors, whether the accounting principles are being used correctly and whether they have been applied consistently when preparing the consolidated financial statements.
f) At the request of the Chairman, in his capacity as the Executive Director responsible for overseeing the implementation of the System of Internal Control, provide recommendations about specific issues concerning the identification of the main corporate risks and the planning, implementation and management of the System of Internal Control.
g) Review the work plan prepared by the Internal Control Officers and the regular reports they are required to provide.
h) Evaluate the proposals submitted by Independent Auditors who are seeking the Company's audit assignment, as well as the Independent Auditors' audit work plan and any findings submitted in their audit report and management letter.
i) Monitor the effectiveness and independence of the audits performed by the Independent Auditors.
j) Perform any additional tasks entrusted to it by the Board of Directors.

k) Upon a request by the Chairman of the Board of Directors and/or the Chief Executive Officer, review matters that the two abovementioned Officers believe should be submitted to the Committee with regard to issues over which it has jurisdiction.
l) Report to the Board of Directors at least every six months (when the annual report and the semiannual financial report are approved) about the work it has performed and the effectiveness of the Company's System of Internal Control.
m) At the request of the Board of Directors, provide recommendations with regard to related-party transactions.
n) At the request of the Board of Directors, provide an assessment of the effectiveness of the Code of Ethics adopted by the Company.
o) At the request of the Board of Directors, provide recommendations with regard to the appointment of the Manager of the Internal Auditing Department.

Meetings of the Internal Control Committee may be attended by the Chairman of the Board of Statutory Auditors, or another Statutory Auditor designated by the Chairman of the Board of Statutory Auditors, and the Internal Control Officer. The Chairman of the Board of Directors and the Chief Executive Officer can also attend Committee meetings, if invited, but they do not vote.
From time to time, Company employees and outside experts (including the Independent Auditors) may be asked to attend Committee meetings to provide consulting support.
Based on the subjects on the meeting's Agenda and consistent with the provisions of Article 19 of Legislative Decree No. 39 of January 27, 2010, the Internal Control Committee and the Board of Statutory Auditors may consider the possibility of holding a joint meeting.

The Committee met seven times in 2010. On those occasions, it reviewed the following:

- The 2009 consolidated financial statements, the 2010 semiannual financial report and interim reports on operations, and the findings of the audit performed on the annual financial statements;
- The risk ceilings and the internal procedures adopted by the Company;
- The 2010 Audit Plan and its implementation progress and results;
- The work performed by the Oversight Board established pursuant to Legislative Decree No. 231/2001 with regard both to the Group's Parent Company and its Italian subsidiaries;
- The procedures adopted to manage foreign exchange and interest rate risks and their implementation;
- The status of the Company with regard to compliance with the covenants of the loan agreements governing medium- and long-term financing facilities;
- The main issues of a legal nature and their resulting contingent liabilities;
- The guidelines of the System of Internal Control and the activities carried out to ensure compliance with Law No. 262/2005;
- Transactions with related parties.

The Committee provided reports to the Board of Directors about its work and the adequacy and effective implementation of the System of Internal Control.
Official minutes were kept of all meetings of the Internal Control Committee.
The Committee was provided with access to the Company's information and Departments needed to perform the tasks entrusted to it and used the support of external consultants.

The Internal Control Committee is empowered to demand that the Board of Directors provide it with the resources required to perform the tasks that have been assigned to it.

## 11. SYSTEM OF INTERNAL CONTROL

Sorin's System of Internal Control is a comprehensive set of rules, procedures and organizational structures that are designed to prevent or minimize risks that could jeopardize the achievement of strategic and operating objectives (concerning the efficacy and effectiveness of the activities carried out to protect the corporate assets), in accordance with the applicable laws and regulations (compliance) and providing appropriate and transparent information both internally and to the market (reporting).

The Board of Directors, working with the support of the Internal Control Committee, defines the guidelines of the System of Internal Control, reviews on a regular basis the main risks faced by the Company, as identified by the Chairman and the Chief Executive Officer, and assesses, at least once a year, the efficacy and operational effectiveness of the System of Internal Control.
As part of the responsibilities assigned to him by the Board of Directors, which include supervising the implementation of the System of Internal Control, the Chairman is required to identify the main risks faced by the Company and implement the guidelines of the System of Internal Control.

The Internal Auditing Department supports the Board of Directors, the Internal Control Committee and management in general in discharging their duties with regard to the System of Internal Control and risk management activities.
Consistent with the guidance provided by the Board of Directors with the publication of guidelines and the instructions provided for the implementation of these guidelines, the managers of the individual business units or departments, acting within the scope of their respective jurisdictions, are responsible for developing, monitoring and managing the effective implementation of the System of Internal Control. All employees, each within the scope of his or her function, must contribute to the effective implementation of the System of Internal Control.

### Main features of the Existing Risk Management System and System of Internal Control, as Applied to the Financial Reporting Process (as per Article 123-*bis,* Section 2, Letter b), TUF)

Sorin Group's Risk Management System is an integral part of its System of Internal Control. As described above, the System of Internal Control ensures, through an adequate process of mapping, measuring, managing and monitoring the main risks, that the Group is managed soundly, fairly and consistent with its predetermined objectives. Sorin's system, which is structured in compliance with the applicable laws and regulations, has been developed to deliver financial information that is:

- reliable, in terms of its accuracy and compliance with reference accounting principles;
- clear, complete and unbiased, so as to allow investors to make informed investment decisions and help financial analysts develop objective assessments as they research the Company's stock;
- timely, in accordance with applicable disclosure deadlines.

The System of Internal Control identified the CoSO Framework "ICFR-Guidance for Smaller Public Companies" (Control Model developed by the Committee of Sponsoring Organizations of the Tradeway Commission) as the reference model to analyze controls and internal risks. Risks are mapped both at the entity level and at the process level, with an integrated approach designed to minimize control overlaps, while ensuring that their scope of activity is as broad as possible.

### Description of the Main Features of the Existing Risk Management System and System of Internal Control, as Applied to the Financial Reporting Process

Sorin Group's organizational structure based on business units enables it to clearly define roles and responsibilities, provides adequate performance visibility and allows an effective management of risks and controls.

The System of Internal Control, insofar as it is based on Italian law and the frameworks mentioned above, reflects internal operating requirements and, thanks to an ongoing updating process, is always in compliance with the regulatory framework within which Sorin Group operates.

Consistent with the CoSO Framework, the System of Internal Control is structured into five key components:

- Control Environment, which refers to how an entity defines its perception of control. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the Board of Directors.
- Risk Assessment, which refers to an entity's need to identify and assess relevant risks to the achievement of its objectives, forming a basis for determining how the risks should be managed. This activity is essential to

determine the effectiveness of the System of Internal Control and the tests that must be performed periodically on the system.

- Information and Communication, which is the process of gathering and sharing information within an entity. The resulting reporting system makes it possible to run and control the business, while at the same time guaranteeing the reliability of information reported internally and externally.
- Control Activities and Policy, which refers to the control activity represented by the policies and procedures that help ensure that management's directives are explained/disseminated and carried out. Control activities include a range of activities ranging from authorization controls to segregation of duties, and from verifications and reconciliations to security of corporate assets.
- Monitoring, which is a verification and supervision activity performed by management and/or the Internal Auditing Department for the purpose of assessing the quality of the system's performance over time on an ongoing basis.

The System's operational implementation phases entailed a series of activities, carried out on an ongoing basis in accordance with priority criteria defined by management, which are described below:

- Risk analysis and assessment, performed based on the impact and occurrence probability of an unfavorable event affecting the Group's income statement, balance sheet, financial position and image. This activity resulted in the assignment of a rating, obtained by applying a "probability-impact matrix" (risk impact: high, medium, low; risk probability: high, medium, low).
- Definition of the scope, carried out to identify significant items in the consolidated financial statements, the significant processes underlying them and, consequently, which companies should be included within the scope of the activity. This identification process was carried out based both on quantitative elements (a company's contribution to the revenues and assets of the consolidated financial statements) and qualitative factors.
- Identification of significant processes and related sub-processes for each company included within the scope of the activity.
- Mapping of the risks inherent in each significant process by analyzing the ability to verify financial statement data, compliance with authorization limits and segregation-of-duties requirements, controls about the physical safety and existence of assets, traceability of transactions, etc.
- Analysis of the design of controls (or analysis of the internal procedures adopted) and of their operational effectiveness, both across the board (entity level control) and at the level of individual operational and administrative processes (process level control).
- Development of the relevant remediation plans and implementation of monitoring and follow-up activities.

A description of the report flows between the Corporate Accounting Documents Officer and the corporate and internal control bodies is provided below, with a description of how the activity of managing and controlling the accounting document preparation process is carried out, and of any identified issues and the effectiveness of the System of Internal Control in the accounting area.
Information flows are:

- continuous to the Chairman and the Chief Executive Officer;
- periodic to the Internal Control Committee, which performs a preliminary review of financial reports prepared by the Corporate Accounting Documents Officer, prior to their submission to the Board of Directors for approval;
- timely to the Internal Control Committee or, alternatively, directly to the Board of Directors to provide information about facts that, because of their critical or serious nature, could require the Board of Directors to take immediate action.

The Corporate Accounting Documents Officer attends the meetings of the Board of Directors and the Internal Control Committee.

In order to establish a beneficial flow of information about the actual implementation and reliability of administrative and accounting processes, while at the same time targeting control activities more effectively and focusing effort on

more at-risk areas in response to specific requests, the Corporate Accounting Documents Officer provides reports of the work performed also to the Oversight Board established pursuant to Legislative Decree No. 231/01.
Conversely, the Board of Statutory Auditors, the Internal Control Committee (a member of the Board of Statutory Auditors attends all of its meetings) and the Oversight Board report to the Corporate Accounting Documents Officer any problems they may have encountered in the performance of their control activities.

Lastly, the Corporate Accounting Documents Officer interacts with the Independent Auditors with the goal of establishing a constant dialog and exchange of information about the assessment of the controls applied to the administrative and accounting processes. Upon request, the Corporate Accounting Documents Officer also provides support to the Independent Auditors in connection with the audit engagements they perform.

## Roles and Functions Involved

The relationships between the participants in the Group's governance system and the activities they perform are the cornerstones of the System of Internal Control, which is the product of several preparatory phases required for its deployment: planning, implementation, verification, monitoring and updating.

The table that follows provides an overview of the roles, functions and hierarchical reporting relationships of the participants in the System of Internal Control, specifically as it refers to Sorin Group's financial reporting process:

| Participants in the Group's Governance | Roles and Functions un the System of Internal Control (SIC) | Reports directly to |
|---|---|---|
| Board of Directors | It plays a key role in the SIC. Assisted by the Internal Control Committee, it defines the System's guidelines, ensuring that the risks affecting the Issuer and its subsidiaries are correctly mapped, measured, managed and monitored. Specifically with regard to the SIC, it assesses the adequacy of the organizational, administrative and general accounting structure of the Issuer and its subsidiaries. | Shareholders' Meeting |
| Chief Executive Officer | He verifies the implementation of the SIC and, in collaboration with the Company departments involved, identifies the System's objectives and priorities. | BoD |
| Chairman/Executive Director responsible for overseeing the SIC | He ensures that the main business risks are mapped, based on the characteristics of the activities carried out by the Issuer and its subsidiaries. He implements the guidelines defined by the BoD, handling the SIC's design, implementation and management, constantly monitoring its overall adequacy, effectiveness and efficiency. | BoD |
| Internal Control Committee | It assists the BoD in connection with decisions about the SIC, the approval of the annual/ semiannual reports and in dealings with the Independent Auditors. It maps the main business risks, reviews the work plan of the Internal Control Officer/Internal Auditing and the regular reports they produce. It reports to the BoD about the effectiveness of the SIC at least semiannually, in connection with the approval of the annual report and the semiannual financial report. | BoD |
| Board of Statutory Auditors | It performs an oversight function, monitoring compliance with the law and the Bylaws regarding adherence to the principles of sound management and, specifically, the adequacy of the organizational, administrative and accounting structure adopted by the Company and its actual implementation. Moreover, pursuant to Article 19 of Legislative Decree No. 39 of January 27, 2010, it monitors the financial disclosure process, the SIC's effectiveness and the statutory independent audit of the financial statements. | Shareholders' Meeting |
| Internal Auditing/Internal Control Officer | They ensure that the SIC is adequate, fully operational and functioning at all times. | Exec. Dir. respons. for overseeing the SIC |
| Corporate Accounting Documents Officer and CFO | He verifies the adequacy and actual implementation of the administrative and accounting procedures he developed. Together with the delegated administrative bodies, he certifies the consistency of the corporate accounting documents with the data in the books of accounts and other accounting documents and their suitability to provide a truthful and fair presentation of the results from operations and financial position of the Issuer and all of the companies included in the scope of consolidation. | BoD/CEO |
| Investor Relations Officer | He is responsible for the consistency of the data in financial communications and handles relations with the domestic and international financial community, investors, financial analysts, the media and the market. He uses financial communication tools to manage price sensitive information and manages the Company website, where corporate governance documents are available. | Chairman |
| Oversight Board | It provides assurance to the BoD, the Internal Control Committee and the Board of Statutory Auditors that the Organizational Model defined by the BoD to prevent the risks of theft/fraud subject of Legislative Decree No. 231/01 are adequate and function effectively. | BoD |
| Independent Auditors | During the year, they verify on a quarterly basis, or more frequently, that the Company's books of accounts are properly maintained and that its accounting records accurately reflect the results from operations. They audit the statutory and consolidated financial statements to determine if they are consistent with the data in the accounting records and any tests they performed, and if they comply with the applicable regulations. | - |

In 2010, specifically in connection with the approval of the draft statutory financial statements and consolidated financial statements and the approval of the semiannual financial report, occurring on March 19 and July 29, respectively, the Board of Directors, working with the support of the Internal Control Committee, provided a positive assessment of the adequacy, reliability and effective implementation of the System of Internal Control.

## 11.1 Executive Director Responsible for Overseeing the System of Internal Control

The Board of Directors delegated to its Chairman the task of supervising the Internal Auditing Department and the effective implementation of the System of Internal Control. The Executive Director responsible for overseeing the implementation of the System of Internal Control, working with the support of the Internal Control Committee and the Chief Executive Officer, performed the following activities:

- He ensured that the main business risks were mapped, based on the characteristics of the activities carried out by the Issuer and its subsidiaries and submitted his findings periodically to the Board for review;

- He implemented the guidelines defined by the Board, handling the design, implementation and management of the System of Internal Control, constantly monitoring its overall adequacy, effectiveness and efficiency;
- He made sure that the System was updated consistent with changes in operating conditions and in the legislative and regulatory framework.

### 11.2 Internal Control Officer

The Board of Directors appointed Aldo Lombardi, manager of the Internal Auditing Department, to the post of Internal Control Officer, with responsibility for assessing the overall adequacy and effectiveness of the System of Internal Control. The Internal Control Officer is not hierarchically under the control of operations area managers, including the administration and finance areas, but reports exclusively to the Chairman, the Executive Director responsible for overseeing the implementation of the System of Internal Control, the Internal Control Committee and the Board of Statutory Auditors, and has no operational responsibility. The compensation of the Internal Control Officer is determined in a manner consistent with Group management compensation policies, taking into account the input of the Compensation Committee.

The Internal Control Officer has access to all corporate information needed to perform the tasks entrusted to him and reports periodically to the Chairman, the Chief Executive Officer, the Internal Control Committee and the Board of Statutory Auditors about the work he performed and, specifically, on the implementation progress of the Internal Auditing Plan.
The 2010 Plan included the following engagements:

- Follow-up
  - Review of implementation of Group policies concerning the computation of the allowance for writedowns of trade receivables and inventories and the physical count of inventories;
  - Review of implementation of the Group policy on the capitalization of development costs;
- Auditing
  - Full audit of the subsidiary in Canada;
  - Audit of the subsidiary in Japan regarding revenue recognition;
- Compliance
  - Compliance with the Group policy on capital expenditures.

### 11.3 Organizational Model Pursuant to Legislative Decree No. 231/2001

The Board of Directors has adopted an organization, management and control model that complies with the requirements of Legislative Decree No. 231/2001. This Decree established an administrative liability in connection with criminal proceedings against a company for certain crimes perpetrated by Directors, executives or other employees in the interest of or for the benefit of the Company
The model adopted by Sorin is consistent with the guidelines developed for this purpose by trade associations and represents a further step in the Company's effort to ensure that its business operations and corporate activities are conducted fairly and transparently, with the goal of protecting the image of the Company, its subsidiaries and employees, while at the same time giving shareholders adequate assurance that the Company is being managed efficiently and fairly.

The abovementioned model defines the task of the Oversight Board, which is responsible for overseeing the proper implementation of and compliance with the model, monitoring the flow of information and managing the penalty system that applies to violations stemming from transactions with the public administration and other crimes covered by the abovementioned Decree.
As required by the provisions of Legislative Decree No. 231/2001, the Company adopted, in addition to the organizational and management model, a Code of Conduct that defines the principles, values and rules of conduct that must be observed by all members of the corporate organization: Directors, Statutory Auditors, executives and all parties in a management position, employees, agents, distributor and major suppliers.

The Board of Directors appointed an Oversight Board, which is responsible for overseeing the proper implementation of the Model and keeping it up to date, and reports once a year to the Board of Directors and the Board of Statutory Auditors. Currently, Andrea Zaglio (a statutory Auditor who serves as Chairman), the independent Director Luigi

Ragno and Aldo Lombardi, Internal Auditing Department Manager, serve on the Oversight Board. The Oversight Board met four times in 2010.
The Boards of Directors of all Italian subsidiaries also adopted organization, management and control models.

### 11.4 Independent Auditors

Pursuant to law, the Company's financial statements are audited by Independent Auditors belonging to a company listed in a special register maintained by the Consob. On the occasion of the Shareholders' Meeting convened to approve the Annual Report at December 31, 2006, as required by Law No. 262 of December 28, 2005 (Investment Protection Act), as amended by Legislative Decree No. 303 of December 29, 2006, which forbids audit assignment renewals but lengthens to nine years the duration of each assignment, the Company extended to 2012 the audit assignment currently held by Reconta Ernst & Young S.p.A.

### 11.5 Corporate Accounting Documents Officer

On June 20, 2007, pursuant to Article 13 of the Bylaws and as required by Article 154-*bis* of the TUF, the Board of Directors, acting upon a joint recommendation by the Chairman and the Chief Executive Officer and the favorable opinion of the Board of Statutory Auditors, appointed Demetrio Mauro, Sorin Group's current Chief Financial Officer, to the post of Corporate Accounting Documents Officer.

In implementing the abovementioned provision of the Bylaws, the Board of Directors assigned to the Corporate Accounting Documents Officer the task of adopting appropriate programs to monitor those aspects of the System of Internal Control that apply to the preparation of the annual report and the interim financial statements. Accordingly, the Corporate Accounting Documents Officer was authorized to freely access all corporate documents to review on a regular basis the effectiveness of the programs adopted, and was provided with adequate tools and resources to perform the tasks assigned to him.

The purpose of monitoring the Accounting Control System is to guarantee with reasonable certainty that the financial information disclosed to the market provides a truthful and fair presentation of the results from operations, that the data in the supporting documents, accounting records and other documents are consistent with the Company's actions and communications and that the administrative and accounting procedures referred to in the annual report, semiannual report and other accounting information disclosed to the market are adequate and effectively applied.

The methodology and operational approach used by the Corporate Accounting Documents Officer to carry out the preparatory work needed to document and assess Sorin Group's administrative and accounting procedures are consistent with the operational guidelines of the CoSO framework "ICFR-Guidance for Smaller Public Companies."

## 12. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

On October 26, 2010, the Board of Directors, responding to changes in the regulatory framework and acting in accordance with Article 2391-*bis* of the Civil Code, the Consob Regulations setting forth provisions governing related-party transactions and Article 9.C.1 of the Corporate Governance Code, approved the Related-Party Transaction Procedure (RPT Procedure).

The RPT Procedure is posted on the Company website: www.sorin.com.

A party is a related party of the Company if the party:

(a) directly, or indirectly, including through subsidiaries, nominees or third parties:
   (i) controls the Company, is controlled by it or is under joint control;
   (ii) has an interest in the Company large enough to exercise significant influence over the Company;
   (iii) exercised control over the Company jointly with other parties;
(b) is an associate of the Company;
(c) is a joint venture in which the Company is a venturer;
(d) is an executive with strategic responsibilities of the Company or its controlling company;
(e) is a member of the immediate family of any of the parties referred to in Letters (a) or (d);
(f) is an entity that is controlled, jointly controlled or significantly influenced by, or with regard to which significant voting power (not less than 20% of the voting rights) resides with, directly or indirectly, one of the parties referred to in Letters (d) or (e) above;
(g) the party is a mutual or individual, Italian or foreign, supplemental post-employment benefit plan for the benefit of employees of the Company, or of any company related to it.

The RPT Procedure defines the criteria, materiality indices and the relevant quantitative thresholds to identify Highly Material Transactions and Less Material Transactions.
It also defines Regular Transactions and Transactions of Inconsequential Amount, the latter being transactions of up to 50,000 euros. Regular Transactions and Transactions of Inconsequential Amount are exempt from implementation of the RPT Procedure.
In addition, the RPT Procedure defines the methods for developing and approving related-party transactions and the applicable disclosure requirements.

## 13. ELECTION OF THE STATUTORY AUDITORS

The Board of Statutory Auditors currently in office was elected on the basis of multiple slates of candidates filed by shareholders, in accordance with Article 19 of the Bylaws, which governs the election of the Board of Statutory Auditors.
Minority shareholders have the right to elect a Statutory Auditor, who serves as Chairman, and an Alternate.
The Statutory Auditors must meet the requirements of current laws and regulations, including those concerning the maximum number of governance posts that they may hold.
The election of the Board of Statutory Auditors shall be carried out on the basis of slates filed by shareholders in which the candidates are numbered in sequence. These slates shall consist of two sections: one for candidates to the post of Statutory Auditor and another for candidates to the post of Alternate.
Only shareholders who, on their own or jointly with others, collectively control voting shares representing at least 2.5% of the voting stock, or any smaller percentage thereof that may be set forth in mandatory provisions of laws and regulations, have the right to file slates of candidates.

Individual shareholders, shareholders who are parties to a Shareholders' Agreement relevant pursuant to Article 122 TUF, the controlling shareholder, subsidiaries and joint ventures (as defined in Article 93 TUF), whether acting directly or through a representative or a nominee, may not file, or contribute to the filing of, more than one slate and may not vote for more than one slate, and each candidate may be included on only one slate, on penalty of losing the right to be elected. Support for the filing of a slate and votes cast in violation of this prohibition shall not be attributed to any slate.
Individuals who meet the requirements of professionalism set forth in the regulations issued by the Ministry of Justice may be elected to the post of Statutory Auditor. Individuals who are not listed in the Register of Independent Auditors may serve as Statutory Auditors provided they have at least three years' experience performing the duties listed in the applicable statutes or activities involving the subjects or businesses listed in the Company's purpose.
Statutory Auditors may be reelected.
Slates of candidates submitted by shareholders must be filed at the Company's registered office at least fifteen days before the date of the first calling of the Shareholder's Meeting and shall be subject to any other requirements of public disclosure that may be applicable pursuant to the laws in force at any given time.

Slates must be accompanied by the following information:

a) Information regarding the identity of shareholders who filed the slates;

b) An affidavit from shareholders who do not hold, alone or jointly, a controlling interest or a relative majority of the shares, attesting that there are no relationships connecting the with these shareholders, as defined in the current legislation;
c) Detailed information about the professional qualifications of each candidate and affidavits by which candidates agree to stand for election and attest, under their responsibility, that there are no issues that would make them unelectable, along with a list of any governance posts held at other companies.

Any slate that does not comply with the requirements listed above shall be deemed not to have been filed at all.

The election of the Statutory Auditors will be carried out as follows:
1. Two Statutory Auditors and two Alternates are selected, in the sequential order in which they are listed in the respective sections of the slate, from the slate that receives the highest number of votes at the Shareholders' Meeting;
2. The remaining Statutory Auditor, who will be appointed Chairman of the Board of Statutory Auditors, and Alternate are selected, in the sequential order in which they are listed in the respective sections of the slate, from the slate that received the second highest number of votes at the Shareholders' Meeting and that is not connected, directly or indirectly, with the shareholders that presented or voted the slate that received the highest number of votes.

With regard to the election of the Statutory Auditors referred to in Item 2 above, in case the slates obtain the same number of votes, the slate filed by the shareholders who hold the largest equity interest in the Company or, secondarily, the slate filed by the greatest number of shareholders shall prevail.
If only one slate or no slate is filed, the candidates listed on that slate or those who receive a relative majority of the votes cast at the Shareholders' Meeting, respectively, shall be elected to the posts of Statutory Auditor and Alternate.
If a Statutory Auditor needs to be replaced, his/her place shall be taken by the Alternate from the same slate as the Auditor who needs to be replaced. The position of Chairman will be in any case covered by an Statutory Auditor elected from the minority slate.
When it becomes necessary to elect Statutory Auditors and/or Alternates to fill vacancies on the Board of Statutory Auditors, the Shareholders' Meeting shall proceed as follows: If Statutory Auditors elected from the majority slate need to be replaced, the replacements are elected by relative majority without any slate restrictions. However, if the Statutory Auditors elected from the minority slate need to be replaced, the Shareholders' Meeting elects replacements by relative majority, selecting them, if possible, from the candidates on the slate to which the Statutory Auditors who are being replaced belonged.
In case the adoption of such procedures does not result, for any reason, in the replacement of the Statutory Auditors elected by minority shareholders, the Shareholders' Meeting will vote by relative majority. However the votes cast by shareholders who, according to information provided pursuant to current regulations, control directly or indirectly, or jointly with other shareholders who are parties to a Shareholders' Agreement relevant pursuant to Article 122 TUF, a relative majority of the votes at the shareholders' meeting, or by shareholders who control, are controlled or are subject to joint control by the abovementioned shareholders, will not be counted.

Statutory Auditors who no longer meet the qualifications pursuant to law and these Bylaws shall forfeit their office.

## 14. STATUTORY AUDITORS (as per Article 123-*bis,* Section 2 , Letter d) TUF)

The Board of Statutory Auditors is the governance body responsible for ensuring that the applicable laws and the Bylaws are complied with and that sound management principles are being followed, specifically with regard to the adequacy of the System of Internal Control and of the Company's organizational, administrative and accounting system and their effective implementation. In addition, it is responsible for assessing the independence and technical competencies of the Independent Auditors and, as required by Article 159 of the TUF, for submitting to the Shareholders' Meeting a recommendation about the selection of the Independent Auditors, based on an opinion issued by the Internal Control Committee and a subsequent resolution by the Board of Directors.
The Company's Board of Statutory Auditors is comprised of three Statutory Auditors and three Alternates. Its current members are:

STATUTORY AUDITORS: CESARE PIOVENE PORTO GODI - CHAIRMAN

PAOLO GUALTIERI
ANDREA ZAGLIO

ALTERNATES: UGO POLLICE
ROBERTA CRESPI
PAOLO MANDELLI

The current Board of Statutory Auditors was elected by the Shareholders' Meeting of April 28, 2010 for a term of three years (i.e., until the Shareholders' Meeting convened to approve the Annual Report at December 31, 2012).

The composition of the Board of Statutory Auditors in office in 2010 was as follows:

up to April 28, 2010:

| Name | Post held | In office from/to | Slate | Indep. as per Code(*) | % meet. attend. |
|---|---|---|---|---|---|
| Marco Spadacini | Chairman | 5/24/07 to 4/28/10 | BIOS Interbanca | X | 100% |
| Diego Rivetti | Statutory Auditor | 5/24/07 to 4/28/10 | BIOS | X | 100% |
| Andrea Zaglio | Statutory Auditor | 5/24/07 to 4/28/10 | BIOS | X | 100% |
| Diego Ferrari | Alternate | 5/24/07 to 4/28/10 | BIOS | X | |
| Cesare Piovene Porto Godi | Alternate | 5/24/07 to 4/28/10 | BIOS Interbanca | X | |
| Patrizio Tumietto | Alternate | 5/24/07 to 4/28/10 | BIOS | X | |

(*) The Code's criteria to qualify as independent were not amended.

after April 28, 2010

| Name | Post held | In office since | Slate | Indep. as per Code(*) | % meet. attend. |
|---|---|---|---|---|---|
| Cesare Piovene Porto Godi | Chairman | 4/28/10 | BIOS Interbanca | X | 80% |
| Paolo Gualtieri | Statutory Auditor | 4/28/10 | BIOS | X | 80% |
| Andrea Zaglio | Statutory Auditor | 4/28/10 | BIOS | X | 60% |
| Ugo Pollice | Alternate | 4/28/10 | BIOS | X | |
| Roberta Crespi | Alternate | 4/28/10 | BIOS | X | |
| Paolo Mandelli | Alternate | 4/28/10 | BIOS Interbanca | X | |

(*) The Code's criteria to qualify as independent were not amended.

In 2010, the Board of Statutory Auditors met eight times. The Statutory Auditors confirmed to the Company that they met the independence requirements demanded of Statutory Auditors by current regulations. Through regular meetings, the Company's Board of Statutory Auditors supervises the activities of the Independent Auditors and, when necessary, its prior approval is required before the Company or other companies in the Group give new assignments to the Independent Auditors, as required by Article 160 of the TUF.

In its work, the Board of Statutory Auditors is supported by the Corporate Secretarial Affairs Department and receives regular updates about the activities of the Internal Auditing Department.

The members of the Board of Statutory Auditors are always invited to attend meetings of the Executive Committee, the Internal Control Committee, the Compensation Committee and the Related-party Transaction Committee. At least one member of the of the Board of Statutory Auditors attends the abovementioned committee meetings.

## 15. SHAREHOLDER RELATIONS

The Board of Directors is committed to making relevant information and documents promptly available to shareholders. To achieve this goal, the Company regularly updates its website, which contains a Corporate Governance page that includes, among other documents, the Corporate Governance Reports, and an Investors page. Both pages are easily accessible from the home page.

In addition, the Company relies on its representatives to maintain an active dialog with the market, while complying with the laws and regulations that govern the circulation of insider information and the procedure for the circulation of confidential information. Moreover, the Company's activities and procedures have been designed to avoid disparities in the access to information and to ensure the effective implementation of the principle that every investor and potential investor is entitled to receive the same information, so as to make informed investment decisions.

Specifically, when disclosing annual, semiannual and quarterly data, the Company organizes conference calls with institutional investors and financial analysts, which the representatives of the financial media are welcome to attend. In addition, the Company promptly informs shareholders and potential shareholders of any actions or decisions that could have a material impact on their investment and posts on its website (*www.sorin.com*) copies of its press releases and paid announcements concerning the exercise of the rights conveyed by the securities it has issued, as well as documents concerning Shareholders' Meetings and other public documents. The purpose of these activities is to provide shareholders and investors with information about issues affecting their decisions.

Moreover, journalists and qualified experts are encouraged to attend the Company's Shareholders' Meetings.

Sorin has established a department responsible for handling relations with its shareholders and has assigned to the manager of the Investor Relations Department the task of handling relations with institutional investors.

## 16. SHAREHOLDERS' MEETINGS (as per Article 123-*bis,* Section 2, Letter c), TUF)

The rules governing attendance at the Shareholders' Meeting and the areas over which it has jurisdictional authority are set forth in Articles 8, 9 and 10 of the Bylaws.
Pursuant to Company Bylaws, shareholders are not required to provide the communication referred to in Article 2370 of the Italian Civil Code prior to being allowed to attend a Shareholders'' Meeting.
The Company has not adopted specific regulations for the handling of Shareholders' Meetings because it believes that the powers that the Meeting's Chairman enjoys under the current Bylaws give him sufficient authority to ensure the orderly conduct of the Meeting, while at the same time avoiding the problems that could arise should the Shareholders' Meeting fail to comply with formal regulations.

Shareholders' Meetings are convened by means of appropriate notices published in the manner and within the deadlines required pursuant to law.
In order to provide the shareholders with adequate information about the issues that must be taken into account for an informed opinion about the resolutions submitted to the Shareholders' Meeting, the Board of Directors prepares a report about the items on the Meeting's Agenda, which is made public within the deadline required pursuant to law.

## 17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (as per Article123-*bis,* Section 2, Letter a), TUF)

There are no additional corporate governance practices, other than those described above, that Sorin Group applies above and beyond its legislative and regulatory obligations.

## 18. CHANGES OCCURRING AFTER THE CLOSE OF THE REPORTING YEAR

No changes requiring disclosure occurred in the Company's system of corporate governance after December 31, 2010.

ANNEX A)

LIST OF CORPORATE GOVERNANCE POSTS HELD BY STATUTORY AUDITORS

The table below lists the corporate governance posts that each member of the Board of Statutory Auditors holds at publicly traded companies, financial institutions, banks, insurance companies and large corporations.

| NAME | COMPANY | POST HELD |
|---|---|---|
| Cesare PIOVENE | ALCEMA SRL | Sole Director |
| | ARTEMIDE SPA | Chairman Board of Statutory Auditors |
| | ARTEMIDE GROUP SPA | Chairman Board of Statutory Auditors |
| | BIOS INTERBANCA SPA | Statutory Auditor |
| | CALCUTTA SRL | Sole Director |
| | CREDIT SUISSE SPA | Statutory Auditor |
| | CREDIT SUISSE Servizi Fiduciari SRL | Statutory Auditor |
| | DADA SPA (*) | Statutory Auditor |
| | GEAR WORLD SPA | Chairman Board of Statutory Auditors |
| | MIPARK SPA | Chairman Board of Statutory Auditors |
| | PERMASTEELISA SPA | Chairman Control Committee |
| | POLYNT SPA | Statutory Auditor |
| | SERVIZI 18 SRL | Chairman Board of Statutory Auditors |
| | SIRTI SPA | Chairman Board of Statutory Auditors |
| | H.I.I.T. SPA | Statutory Auditor |
| Paolo GUALTIERI | BANCA MEDIOLANUM SPA (*) | Director |
| | RISANAMENTO | Statutory Auditor |
| | GE CAPITAL SPA | Statutory Auditor |
| | PIRELLI & C SPA (*) | Statutory Auditor |
| Andrea ZAGLIO | FINGRUPPO HOLDING SPA | Director |
| | PARMA FOOTBALL CLUB S.p.A. | Director |

(*) Publicly traded company.

ANNEX B)

LIST OF CORPORATE GOVERNANCE POSTS HELD BY DIRECTORS

The table below lists the publicly traded companies, financial institutions, banks, insurance companies and large corporations in which the Directors of Sorin S.p.A. serve as Directors or Statutory Auditors.

| NAME | COMPANY | POST HELD |
|---|---|---|
| Rosario BIFULCO | BANCA ITB SPA (*) | Chairman |
| | DEA CAPITAL SPA | Director |
| | ISTITUTO EUROPEO DI ONCOLOGIA SRL | Director |
| | ITALIAN HOSPITAL GROUP | Director |
| | 8 MARZO 91 SRL | Director |
| | BOOTES SRL | Director |
| | A2A SPA (*) | Deputy Chairman Oversight Board |
| Giovanni PAVESE | ARCA IMPRESA GESTIONI SGR | Chairman |
| | UNIVERSITA' COMMERCIALE LUIGI BOCCONI | Director |
| | MELIORBANCA SPA | Director |
| | EDITORIALE DOMUS SPA | Director |
| | MELIORBANCA PRIVATE SPA | Chairman |
| | HOPA SPA | Director |
| | EQUINOX TWO SCA | Chairman Advisory Committee |
| | IMMOBILIARE SANTA CATERINA SRL | Deputy Chairman |
| | FONDAZIONE SACRA FAMIGLIA ONLUS | Director |
| André-Michel BALLESTER | CARMAT SA | Director |
| Claudio ALBERTINI | CEFLA CAPITAL SERVICES SPA | Statutory Auditor |
| | IGD SIIQ SPA | Chief Executive Officer |
| | FIN.PA.S. SPA | Director |
| | PEGASO FINANZIARIA SPA | Director |
| | SOFINCO SPA | Director |
| | UGF MERCHANT SPA | Deputy Chairman |
| | UGF PRIVATE EQUITY SGR | Chairman |
| Giuliano ASPERTI | BANCA IMI | Director |
| | INTESA PREVIDENZA | Director |
| Paolo BAESSATO | BANCA GENERALI SPA (*) | Director |
| | CASSA DI RISPARMIO DI VENEZIA SPA | Director |
| | MONETA SPA | Deputy Chairman |
| | OBIETTIVO NORD EST SICAV | Deputy Chairman |
| | SETEFI SPA | Director |
| | SUDAMERIS S.A. | Director |
| | ITAS MUTUAS SPA | Director |
| | FIN BTB SPA | Director |
| Andrea BOVONE | BIOTEDIM SPA | Director |
| | VALMONTONE SUN SRL | Director |
| | ESAOTE S.P.A. | Director |
| | MEDINVEST INTERNATIONAL S.C.A. | Director |
| | BIOMASSE ITALIA SPA | Director |
| | BIOENERGIE SPA | Deputy Chairman |

(*) Publicly traded company.

| NAME | COMPANY | POST HELD |
|---|---|---|
| Giorgio FOSSA | SILVIO FOSSA SPA | Chairman and Chief Executive Officer |
| | FONDIMPRESA | Chairman |
| | ITALIANLINK SPA | Chairman |
| | GIORGIO FOSSA SRL | Sole Director |
| Pietro GUINDANI | VODAFONE OMNITEL NV | Chairman |
| | SFR FRANCE SA | Director |
| | CARRARO SPA (*) | Director |
| | ISTITUTO ITALIANO DI TECNOLOGIA | Member Executive Committee |
| | ASSOCIAZIONE ALUMNI UNIVERSITA' BOCCONI | Chairman |
| | FONDAZIONE CIVITA | Member Executive Committee |
| Ettore MOREZZI | FONDAZIONE CASSA DI RISPARMIO TORINO | Supervisory Director |
| | FONDAZIONE ALTI STUDI CINA CONTEMPORANEA | Statutory Auditor |
| | FONDAZIONE GUELPA IVREA | Director |
| | FONDAZIONE PALAZZINA STUPINIGI | Director |
| Enzo NICOLI | FINEST SPA | Director |
| Luigi RAGNO | TETHYS SPA | Chairman |
| | BH HOLDING SPA | Chairman |
| | AIR FOUR SPA | Director |
| | METHORIOS CAPITAL SPA | Director |
| | SANTA GIULIA SRL | Deputy Chairman |
| | CASCINA RUBINA SRL | Deputy Chairman |
| Francesco SILVA | ECPI SPA | Chairman |
| Massimo TONONI | MITTEL SPA (*) | Director |
| | PRYSMIAN SPA (*) | Director |
| | BORSA ITALIANA SPA | Director |
| | LONDON STOCK EXCHANGE GROUP (*) | Director |
| Claudio Agostino ZULLI | O.M.F.B. SPA – HYDRAULIC COMPONENTS | Statutory Auditor |
| | RIELLO GROUP SPA | Chairman Board of Statutory Auditors |
| | RIELLO SPA | Statutory Auditor |
| | LOMBARDINI HOLDING SPA | Chairman Board of Statutory Auditors |
| | LONATI SPA | Statutory Auditor |
| | LR SRL | Chairman Board of Statutory Auditors |
| | NAZIONALE FIDUCIARIA SPA | Statutory Auditor |
| | SANTONI SPA | Statutory Auditor |
| | SIDERURGICA INVESTIMENTI SRL | Statutory Auditor |
| | MONTINI SPA | Chairman Board of Statutory Auditors |

(*) Publicly traded company.

ANNEX C)

EQUITY INVESTMENTS OF MEMBERS OF MANAGEMENT AND CONTROL BODIES, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES (Pursuant to Article 79 of the Regulations Enacted with Consob Resolution No. 11971 of May 14, 1999)

| FIRST AND LAST NAME | INVESTEE COMPANY | NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR | NUMBER OF SHARES BOUGHT | NUMBER OF SHARES SOLD | NUMBER OF SHARES HELD AT THE END OF THE CURRENT YEAR |
|---|---|---|---|---|---|
| ROSARIO BIFULCO | Sorin S.p.A. | 537,200 | | | 537,200 |
| ANDRÉ-MICHEL BALLESTER | Sorin S.p.A. | 75,000 | 100,000 | | 175,000 |
| GIULIANO ASPERTI | Sorin S.p.A. | 90,000 | 40,000 | | 130,000 |
| ANDREA BOVONE | Sorin S.p.A. | | 90,000 | | 90,000 |
| ETTORE MOREZZI | Sorin S.p.A. | | 17,340 | 17,340 | -- |
| MARCO SPADACINI [1] | Sorin S.p.A. | 46,275 | | | 46,275 |
| EXECUTIVES WITH STRATEGIC RESPONSIBILITIES | Sorin S.p.A. | 40,250 | 75,000 | | 115,250 |

(1) Held through his spouse.

## Significant Events Occurring After December 31, 2010

The following events worthy of mention occurred after the end of 2010:

- In January 2011, authorization to market in Europe the Perceval™ S self-anchoring aortic heart valve, which represents the latest generation of cardiac prostheses in terms of technological innovation. It is particularly suitable for replacement of the aortic valve in patients suffering from aortic valve stenosis with a minimally invasive surgical procedure with a very short implementation time. Perceval S is a surgical aortic valve equipped with an exclusive self-expanding, anchoring system that enables surgeons to replace a damaged valve without having to suture the prosthesis to the patient's tissue and, consequently, represents an evolution compared with conventional bioprostheses.
- In February 2011, acquisition of a minority interest in MD Start, Europe's first venture capital incubator supported by operators in the medical technology sector. Based on Lausanne, Switzerland, MD Start offers to promoters of innovative ideas an important opportunity to turn into reality their medical device development projects. MD Start's mission is to stimulate innovation by providing scientists and physicians with the financial and technical competencies and the strategic resources needed to identify and validate new ideas. With this investment, Sorin Group joined Sofinnova Partners, Versant Ventures, Medtronic and Contract Medical International as a partner in MD Start;
- In March 2011, sale of the building in Montrouge (Paris) that housed the manufacturing activities of the CRM business unit in France until 2009, prior to their relocation to Clamart (Paris). The proceeds from the sale amounted to a 5.5 million euros, for a net gain of 3.8 million euros.

No other significant events occurred after December 31, 2010.

## Business Outlook

We believe that the market's reference scenario is changing and that we are entering a period of slower growth than in the past, particularly in the countries that enjoyed faster economic expansion. Having already strengthened the Group's financial structure and significantly improved the makeup of its income statement, we believe that we must increasingly turn our attention to growing the revenue base in 2011. Specifically, the Group plans to focus on a long-term growth project, driven by a constant commitment to innovation and the penetration of new geographic markets and product segments as its primary development guidelines. This growth strategy will be pursued while remaining firmly focused on continuously improving the Group's profitability and cash generating capacity.

In conclusion, we believe that guidance for 2011 should reflect expectations of a revenue increase of 3% to 5% compared with 2010, at comparable exchange rates. This growth, coupled with the continuing implementation of efficiency programs, should boost the ratio of EBITDA to net revenues to about 17% and generate revenues of about 49-53 million euros, up 25-35% over 2010, at comparable exchange rates. Lastly, the free cash flow generated in 2011 should be roughly equal in amount to the net profit.

## Motion to Approve the Financial Statements and Appropriate the 2010 Net Profit

Dear Shareholders:

in submitting for your approval the financial statements for the year ended December 31, 2010, we recommend that the net income earned by Sorin S.p.A. in 2010, amounting to 9,989,671 euros, be allocated as follows:

- 499,484 euros to the statutory reserve;;
- the balance of 9,490,187 euros brought forward as retained earnings.

Milan, March 17, 2011.

| | |
|---|---|
| *Rosario Bifulco* | *André-Michel Ballester* |
| *Chairman* | *Chief Executive Officer* |

SORIN GROUP

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2010

CONTENTS

## STATEMENT OF FINANCIAL POSITION

| | | NOTE | 12/31/10 | 12/31/09 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | | (3) | 94,838 | 91,694 |
| Other intangible assets | | (4) | 134,991 | 121,977 |
| Goodwill | | (5) | 192,893 | 191,981 |
| Investments in associates valued by the equity method | | (7) | 17 | 55 |
| Non-current financial assets | (*) | (8) | 1,305 | 1,223 |
| Deferred-tax assets | | (9) | 50,574 | 50,257 |
| Other non-current assets | | | 957 | 1,268 |
| Total non-current assets | | | 475,575 | 458,455 |
| Current assets | | | | |
| Inventories | | (10) | 131,348 | 139,380 |
| Trade receivables | | (11) | 182,571 | 185,507 |
| Other receivables | | (12) | 23,300 | 19,542 |
| Assets from financial derivatives | (*) | (13) | -- | 1,343 |
| Other current financial assets | (*) | (14) | 8,962 | 6,293 |
| Tax credits | | (15) | 13,712 | 15,480 |
| Cash and cash equivalents | (*) | (16) | 29,699 | 10,280 |
| Total current assets | | | 389,592 | 377,825 |
| Total assets | | | 865,167 | 836,280 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Consolidated shareholders' equity | | (17) | 454,031 | 405,131 |
| Non-current liabilities | | | | |
| Liabilities from financial derivatives | (*) | (13) | 6,450 | 6,068 |
| Non-current financial liabilities | (*) | (18) | 97,417 | 127,304 |
| Other liabilities | | | 3,420 | 2,030 |
| Provisions | | (19) | 2,674 | 2,674 |
| Provision for employee severance indemnities and other provisions for employee benefits | | (20) | 25,022 | 23,882 |
| Government grants | | | 1,479 | 1,815 |
| Deferred-tax liabilities | | (9) | 22,638 | 23,127 |
| Total non-current liabilities | | | 159,100 | 186,900 |
| Current liabilities | | | | |
| Trade payables | | (21) | 86,145 | 84,545 |
| Other payables | | (22) | 69,358 | 60,017 |
| Liabilities from financial derivatives | (*) | (13) | 4,685 | 242 |
| Other current financial liabilities | (*) | (18) | 58,963 | 65,895 |
| Provisions | | (19) | 13,232 | 17,873 |
| Taxes payable | | (15) | 19,653 | 15,677 |
| Total current liabilities | | | 252,036 | 244,249 |
| Total liabilities and shareholders' equity | | | 865,167 | 836,280 |

(in thousands of euros)

(*) Balance sheet items that are included in the computation of net indebtedness, with the exception of Investments in other companies, which is included in Non-current financial assets.

# INCOME STATEMENT

| | NOTE | 2010 | 2009 |
|---|---|---|---|
| Net revenues | (25) | 745,821 | 688,995 |
| Other revenues and income | (25) | 22,912 | 14,655 |
| *- amount of nonrecurring other revenues* | | *4,459* | *1,971* |
| Change in inventory of work in progress, semifinished goods and finished goods | (26) | (9,757) | (4,060) |
| *- amount of nonrecurring change in inventory* | | *(1,293)* | *(331)* |
| Increase in Company-produced additions to non-current assets | (27) | 28,781 | 21,886 |
| Cost of raw materials and other materials | (28) | (183,689) | (180,861) |
| *- amount of nonrecurring cost of raw materials and other materials* | | *(207)* | -- |
| Cost of services used | (28) | (198,356) | (193,663) |
| *- amount of nonrecurring cost of services used* | | *(179)* | -- |
| Personnel expense | (29) | (257,646) | (231,137) |
| *- amount of nonrecurring personnel expense* | | *(407)* | *(205)* |
| Miscellaneous operating costs | (28) | (28,148) | (15,477) |
| *- amount of nonrecurring miscellaneous operating costs* | | *(2,700)* | *(491)* |
| Depreciation, amortization and writedowns | (31) | (39,897) | (39,481) |
| Provisions for risks and charges | (31) | (4,005) | (9,338) |
| *- amount of nonrecurring provisions* | | *(2,086)* | *(8,032)* |
| Restructuring charges and provisions | (32) | (4,533) | -- |
| EBIT | | 71,483 | 51,519 |
| Financial expense | (33) | (11,752) | (17,862) |
| Financial income | (33) | 2,227 | 3,978 |
| Currency translation differences | (33) | (2,065) | 3,601 |
| Income from (Expenses on) investments in associates | (34) | (34) | 4 |
| Profit (Loss) before taxes | | 59,859 | 41,240 |
| Income taxes | (35) | (17,507) | (14,615) |
| Profit (Loss) from continuing operations | | 42,352 | 26,625 |
| Profit (Loss) from divested operations | (36) | (3,270) | (3,420) |
| Net profit (loss) | | 39,082 | 23,205 |

(in thousands of euros)

| | | | |
|---|---|---|---|
| Earnings per share (in euros) | (37) | | |
| - basic and diluted, as per reported net profit (loss) | | 0.083 | 0.049 |
| - basic and diluted, as per net profit (loss) from continuing operations | | 0.090 | 0.057 |

## STATEMENT OF COMPREHENSIVE INCOME

| | NOTE | 2010 | 2009 |
|---|---|---|---|
| Net profit (loss) for the year | | 39,082 | 23,205 |
| Gains/(Losses) on cash flow hedges for fluctuations in interest rates | *(13)* | (1,938) | (2,558) |
| Tax effect | | 625 | 827 |
| | | (1,313) | (1,731) |
| Gains/(Losses) on cash flow hedges for fluctuations in foreign exchange rates | *(13)* | (4,487) | - |
| Tax effect | | 1,346 | - |
| | | (3,141) | - |
| Gains (Losses) recognized directly in the currency translation reserve | | 11,131 | 642 |
| Other components of comprehensive income net of tax effect | | 6,677 | (1,089) |
| Net comprehensive profit for the year net of tax effect | | 45,759 | 22,116 |

(in thousands of euros)

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | SHARE CAPITAL | ADDI-TIONAL PAID-IN CAPITAL | CURRENCY TRANSLA-TION RESERVE | OTHER RE-SERVES | RETAINED EARNINGS (LOSS CARRY-FORWARD) | TOTAL CONSOLIDATED SHARE-HOLDERS' EQUITY |
|---|---|---|---|---|---|---|
| Balance at 12/31/08 | 470,412 | 40,910 | (4,974) | (55,659) | (68,148) | 382,541 |
| - Net profit (loss) for the year | -- | -- | -- | -- | 23,205 | 23,205 |
| - Other components of comprehensive income | -- | -- | 642 | (1,731) | -- | (1,089) |
| - Total comprehensive profit (loss) | -- | -- | 642 | (1,731) | 23,205 | 22,116 |
| - Replenishment of Sorin S.p.A.'s loss | -- | (40,910) | -- | (15,766) | 56,676 | -- |
| - Stock options | -- | -- | -- | 547 | -- | 547 |
| - Other changes | -- | -- | -- | (73) | -- | (73) |
| Balance at 12/31/09 | 470,412 | -- | (4,332) | (72,682) | 11,733 | 405,131 |
| - Net profit (loss) for the year | -- | -- | -- | -- | 39,082 | 39,082 |
| - Other components of comprehensive income | -- | -- | 11,131 | (4,454) | -- | 6,677 |
| - Total comprehensive profit (loss) | -- | -- | 11,131 | (4,454) | 39,082 | 45,759 |
| - Appropriation of Sorin S.p.A.'s net profit | -- | -- | -- | 107 | (107) | -- |
| - Exercise of stock options | 20 | 17 | -- | (6) | -- | 31 |
| - Stock options | -- | -- | -- | 232 | -- | 232 |
| - Stock grants | -- | -- | -- | 2,939 | -- | 2,939 |
| - Other changes | -- | -- | -- | (61) | -- | (61) |
| Balance at 12/31/10 | 470,432 | 17 | 6,799 | (73,925) | 50,708 | 454,031 |

(in thousands of euros)

## STATEMENT OF CASH FLOWS

| | NOTE | 2010 | 2009 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Net profit (loss) for the year | | 39,082 | 23,205 |
| *Adjustments to reconcile the profit (loss) for the year to the net cash flow from operating activities:* | | | |
| Depreciation and amortization | (3) (4) | 38,703 | 34,909 |
| Writedowns of property, plant and equipment | (3) | 617 | 1,090 |
| (Gains) Losses on disposal of property, plant and equipment | | (821) | 121 |
| Gain on the sale of the Angel product lines | | (1,834) | -- |
| Excess over the purchase price paid for the investment in the Gish Biomedical Inc. subsidiary | | (1,039) | -- |
| Loss on the sale of the Renal Care operations | | -- | 906 |
| Net (gain) on the Japan distribution agreement with JLL | | -- | (1,005) |
| (Gain) on the acquisition of the Clearglide (EVH) product line from Datascope | | -- | (686) |
| Pro rata interest in the results of associates valued by the equity method | | 38 | (4) |
| Non-cash stock option and stock grant costs | | 3,021 | 547 |
| Amortized costs of medium- and long-term borrowings | | 166 | 274 |
| Non-cash hedging costs | | (257) | (218) |
| Change in inventories and in receivables and payables generated by operating activities | | 34,041 | 62,092 |
| Change in provisions for risks, provision for employee severance indemnities and other provisions for employee benefits | | (4,332) | (852) |
| Other changes | | (61) | (73) |
| Net cash from (used in) operating activities | | 107,324 | 120,306 |
| *amount of net cash from (used in) operating activities attributable to divested operations* | | *8,812* | *16,506* |
| Cash flow from investing activities | | | |
| Investments in property, plant and equipment | (3) | (24,081) | (22,709) |
| Investments in intangibles | (4) | (22,838) | (19,294) |
| Investments in associates | | -- | (3) |
| Acquisition of the Gish Biomedical Inc. subsidiary, net of acquired liquid assets | | (139) | -- |
| Acquisition of business operations from a distributor in Austria | | (3,454) | -- |
| Acquisition of the Clearglide (EVH) product line from Datascope | | -- | (814) |
| Acquisition of a Dutch distributor | | -- | (2,500) |
| Proceeds from the sale of property, plant and equipment | | 1,841 | 301 |
| Proceeds from the sale of the Angel product lines | | 2,095 | -- |
| Proceeds from the sale of the Renal Care and Vascular Therapy operations, net of incidental expenses | | -- | (3,967) |
| Proceeds from the Japan distribution agreement with JLL | | -- | 984 |
| Net cash from (used in) investing activities | | (46,576) | (48,002) |
| *amount of net cash from (used in) investing activities attributable to divested operations* | | -- | -- |
| Cash flow from financing activities | | | |
| Capital increase | | 31 | -- |
| Repayments of medium- and long-term borrowings | | (35,390) | (36,097) |
| Change in indebtedness under finance leases | | (303) | (498) |
| Net change in financial receivables/payables | | (6,405) | (48,428) |
| Net cash from (used in) financing activities | | (42,067) | (85,023) |
| *amount of net cash from (used in) financing activities attributable to divested operations* | | *(8,812)* | *(16,506)* |
| Increase (Decrease) in cash and cash equivalents | | 18,681 | (12,719) |
| *amount of the increase (decrease) in cash and cash equivalents attributable to divested operations* | | -- | -- |
| Change in cash and cash equivalents attributable to foreign exchange translation differences | | 738 | 91 |
| Cash and cash equivalents at the beginning of the year | (15) | 10,280 | 22,908 |
| Cash and cash equivalents at the end of the year | (15) | 29,699 | 10,280 |
| *Additional disclosures:* | | | |
| Income taxes paid | | 12,525 | 15,698 |
| Interest expense paid | | 3,387 | 8,015 |
| Interest income earned | | 1,444 | 1,201 |

(in thousands of euros)

## 1 – GENERAL INFORMATION AND SCOPE OF CONSOLIDATION

*General Information*

Sorin S.p.A. is a corporation governed by Italian Law that was established on January 2, 2004 upon the partial, proportional demerger of Snia S.p.A. Its shares are traded on the Online Stock Market of the Milan Securities Exchange and its registered office is located in Milan, Italy.
Sorin S.p.A. and its subsidiaries (the "Group") operate in the field of medical technology, offering products and services to treat cardiovascular diseases.

On March 17, 2011, the Board of Directors approved the consolidated financial statements of Sorin S.p.A. for the year ended December 31, 2010 and authorized their publication in the manner and within the deadlines required by law.

The consolidated financial statements of Sorin Group were prepared in accordance with the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB), as approved by the European Union, and are consistent with the regulations enacted to implement Article 9 of Law No. 38/2005. The abbreviation IFRSs also means the International Accounting Standards (IAS) that are still in effect and all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), including interpretations issued previously by the Standing Interpretations Committee (SIC).

The accounting principles used for these financial statements are those that were in effect at December 31, 2010 and are consistent with those used for the consolidated financial statements at December 31, 2009, except as noted below with regard to revisions and new accounting principles and interpretations issued by the IASB and applicable as of January 1, 2010.

*IFRS 3 Revised – "Business Combinations"*
In January 2008. the IASB published a revised version of IFRS 3 "Business Combinations." These new rules are applied prospectively as of January 1, 2010.
Significant amendments to IFRS 3 included the removal of the obligation to measure at fair value the individual assets and liabilities of a subsidiary at each successive step in a step acquisition. Only goodwill must be determined at each acquisition step. Goodwill is equal to the difference between the value of the equity investment prior to the acquisition, the transaction's consideration and the value of the acquired net assets. In addition, if a company does not acquire a 100% equity interest, the minority interest can be valued either at fair value or using the method previously provided in IFRS 3. Lastly, the revised version of this principle requires the recognition in profit or loss of all of the costs incurred in connection with a business combination and the recognition in the statement of financial position, as of the date of acquisition, of any liability for conditional payments. Insofar as the acquisitions completed in 2010 are concerned, the adoption of the revised version of this principle resulted in the recognition in profit or loss of incidental expenses of a negligible amount.

The following amendments, improvements and interpretations that became applicable on January 1, 2010 did not affect the consolidated financial statements:
- Amendment to IFRS 2 – "Share-based Payments: Group Cash-settled Share-based Payment Transactions"
- Amendment to IAS 27 – "Consolidated and Separate Financial Statements"
- Amendment to IAS 39 – "Financial Instruments: Recognition and Measurement – Eligible Hedged Items"
- IFRIC 16 – "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 – "Distribution of Non-cash Assets to Owners"
- IFRS improvements (May 2008)
- IFRS improvements (May 2009)

The following interpretations that became applicable on January 1, 2010 concern situations and issues that did not apply to the Group as of the date of these financial statements:

- IFRIC 12 – "Service Concession Arrangements"
- IFRIC 15 – "Agreements for the Construction of Real Estate"
- IFRIC 18 – "Transfer of Assets from Customers"

As of January 1, 2010, in accordance with the provisions of IAS 39, the Group adopted the tools needed to apply hedge accounting to financial derivatives that hedge the risk of fluctuations in foreign exchange rates on commercial transactions in a foreign currency of a highly probable nature (cash flow hedge).

The separate financial statements at December 31, 2010 of Sorin S.p.A., which are provided in a subsequent section of this Annual Report, were also prepared in accordance with the International Financial Reporting Standards, as required by Legislative Decree No. 38 of February 28, 2005, which introduced into the Italian legal system the obligations set forth in European Regulation No. 1606/2002 enacted by the European Parliament and European Council in July 2002.

The financial statements were prepared in accordance with the cost principle, except for derivatives, which were measured at fair value.

The annual financial statements were prepared on a going concern basis. Specifically, the Group concluded that, despite the current challenging economic and financial environment, there are no material uncertainties (as defined in Paragraph 25 of IAS 1) as to the Company's ability to continue as a going concern, owing in part to the actions already taken to address perceived risks and adapt the Group's operating and financial structure to the new economic environment.

The reference date for the consolidated financial statements is December 31, the same as for Sorin S.p.A., the Group's Parent Company. If a company included in the consolidation uses a different reference date, the company in question is consolidated on the basis of pro forma annual financial statements that match the Group's fiscal year.

Unless otherwise stated, the amounts listed on the accounting schedules and in the notes to the financial statements are in thousands of euros. This approach could require the rounding of figures.

The financial statements were prepared in accordance with the following methods:
- In the statement of financial position, current and non-current assets and current and non-current liabilities are shown separately;
- In the income statement, costs are broken down by type;
- The indirect method was used to prepare the statement of cash flows.

In the statement of financial position, some of the line items were further subdivided (also for the amounts at December 31, 2009 presented in these financial statements for comparison purposes) as follows:
- trade receivables are shown separately from other receivables;
- trade payables are shown separately from other payables.

Prepaid expenses are included in "Other receivables."
In addition, because shareholders' equity and net income are attributable to the Group for the full amount, the breakdown between Group interest and minority interest was eliminated in all statements.

As required by IFRS 5, the result attributable to the Vascular Therapy and Renal Care business operations, which were divested in 2008, is shown separately in the income statement as "Profit (Loss) from divested operations." Any residual amounts attributable to these divested business operations, due to price adjustments or the effect on the income statement of working capital items that were not divested, continue to be reflected in this line item.

In 2010, the Group completed the acquisition of Gish Biomedical Inc. (California, U.S.A.) from Vendizz Capital Partners. Gish Biomedical Inc. develops and manufactures medical devices for cardiovascular surgery.
A major distributor was acquired in Austria in February 2010.
In April 2010, the Company completed the sale of the Angel® (whole blood separation system) and activAT® (autologous thrombin preparation system) product lines to Cytomedix Inc., a company engaged in the development of biologically active regenerative therapies for wound care, inflammations and angiogenesis.

The impact of these transactions on the income statement and the statement of financial position is described in Note 38.

### *Scope of Consolidation*

Sorin Group's consolidated financial statements include the financial statements at December 31, 2010 of the Parent Company, Sorin S.p.A., and of the Italian and foreign subsidiaries that are controlled directly or indirectly by Sorin S.p.A. Control occurs when the Group controls the majority of the votes or has the power to make administrative and management decisions and reap the resulting benefits. Companies thus controlled are consolidated into Sorin Group as of the date when control is established and until such control ceases to exist.

A list of the companies included in Sorin Group and schedules showing how the scope of consolidation changed in 2010 are provided in Note 43.

## 2 – PRINCIPLES OF CONSOLIDATION, VALUATION CRITERIA AND ACCOUNTING PRINCIPLES

### *Principles of Consolidation*

The consolidation principles applied were the following:

Subsidiaries are consolidated line by line, offsetting the carrying value of the respective investment held by the Parent Company or other consolidated companies against the underlying interest in the respective shareholders' equity.
Associated companies, which are companies that the Group's Parent Company does not control but whose financial and management policies it can influence significantly, directly or indirectly, are valued by the equity method.
Other companies in which the Group's Parent Company has a direct or indirect interest of less than 20% are classified as "available for sale" and, if their fair value cannot be determined lacking a market value or company plans that can be used to determine the value in use with alternative measurement methods, their carrying value is written down for impairment losses.
Investments in subsidiaries are recognized by the purchase method, which consists of valuing at fair value all of the assets and liabilities on the date of purchase. Any difference between fair value and the carrying value of the acquired assets and liabilities is booked as goodwill, if positive, or recognized in the income statement, if negative.

Receivables and payables and revenues and expenses arising from transactions between companies included in the scope of consolidation are eliminated.

Significant earnings included in the inventories of consolidated companies and gains and losses from intra-Group disposals of assets are likewise eliminated. The impact of transactions with associated companies is eliminated in proportion to the interest held by the Group in each investee company.

Dividends distributed by subsidiaries and associated companies are eliminated from the statement of income, if received from a subsidiary, and deducted from the carrying value of the corresponding equity investment, if received from an associated company.

Purchases of minority interest investments are recognized by the entity concept method, according to which any difference between the price paid and the book value of the pro rata interest in the acquired assets is recognized in equity as a transaction between shareholders.

The consolidated financial statements are denominated in euros, which is both the functional and presentation currency used by the Parent Company. Each Group company selects its own functional currency, which it uses to value the components of its financial statements.
Note 43, which contains a list of Sorin Group companies, shows the functional currency used by each of those companies.
Financial statements denominated in foreign currencies are translated into euros using year-end exchange rates for the statement of financial position and average annual exchange rates for the statement of income.
Any differences between the net income translated in euros at average exchange rates and at year-end rates are posted to consolidated shareholders' equity. Exchange differences between the value of the opening balances of shareholders'

equity translated at the exchange rates prevailing on the date of the financial statements and those used in the financial statements for the previous fiscal year are reflected directly in consolidated shareholders' equity.

*Valuation Criteria and Accounting Principles*

The valuation criteria and accounting principles applied by Sorin Group are reviewed below.

## Property, Plant and Equipment

Property, plant and equipment is booked at purchase or production cost plus any incidental charges that are attributable directly to the construction or production of an asset and are necessary to make the asset ready for use.
The initial cost of these assets must include an estimate of asset decommissioning and removal and site remediation costs. The corresponding liability is posted to the provisions for risks and charges.
Maintenance and repair costs that do not extend the useful lives of assets are charged to income in the year they are incurred.

The amounts booked to assets are depreciated annually on a straight-line basis at a rate that reflects the estimated useful lives of the assets. No depreciation is taken until the assets are put into service. Land, including appurtenant land, is not depreciated.

When there is an indication that the value of an asset may have been impaired, its recoverable value is estimated using the method provided by IAS 36 "Impairment of Assets" and any resulting loss is recognized in the income statement, in accordance with the guidelines provided in IAS 36.

Capital grants are recognized when there is a reasonable certainty that they will be collected and that all of the conditions required for collection have been met. Capital grants are booked as deferred income when collected and recognized as income on a pro rata basis over the useful lives of the respective assets. When a grant is directly attributable to a specific asset, the amount of the grant, instead of being provisionally booked as deferred income, is deducted from the gross carrying amount of the corresponding asset, in accordance with the alternative accounting treatment allowed by IAS 20, Paragraph 27. The resulting effect on the income statement is a reduction in depreciation expense.

Leasehold improvements that meet the requirements of IAS 16 "Property, Plant and Equipment" are classified as property, plant and equipment and depreciated over the asset's remaining useful life or the remainder of the lease, whichever is shorter.

## Leases

When all risks and benefits inherent in the ownership of the leased assets are transferred to the lessee, assets held under a finance lease are booked as property, plant and equipment and the corresponding liability to the lessor is recognized as a financial liability. At the beginning of a lease, assets held under a finance lease are valued at the lower of their fair value or the present value of the minimum payments owed under the lease. They are depreciated over the asset's estimated useful life in the same manner as property, plant and equipment that the Company owns outright.
Lease payments are broken down between principal, which is deducted from the indebtedness to the lessor, and interest, which is recognized as a financial expense, so that a constant interest rate is applied to the outstanding lease balance.

## Goodwill

The goodwill shown on the asset side of the statement of financial position following the acquisition for consideration of controlling interests in other companies represents the portion of the purchase price paid that exceeds the Group's pro rata interest in the fair value of the acquired and identifiable assets, liabilities and contingent liabilities. Goodwill is not amortized but is tested for impairment at least once a year, or whenever the occurrence of events or circumstances could result in the determination that its value has been impaired, using the method provided in IAS 36 "Impairment of Assets."

## Other Intangible Assets

Intangibles are recognized on the asset side of the statement of financial position when it is likely that the use of an asset will generate future benefits and its cost can be measured reliably. Intangibles are booked at their purchase price or internal production cost, inclusive of incidental charges and borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Intangibles with an indefinite useful life are not amortized. Instead, they are tested at least once a year for impairment.
Intangibles with a finite useful life are amortized on a straight line, based on an asset's estimated useful life. When there is an indication that the value of an asset may have been impaired, the recoverable value of intangibles is computed in accordance with the method provided in IAS 36 “Impairment of Assets” and any resulting loss is recognized in the income statement.

As is the case for property, plant and equipment, capital grants are recognized when there is a reasonable certainty that they will be collected and that all of the conditions required for collection have been met. Capital grants are booked as deferred income when collected and recognized as income on a pro rata basis over the useful lives of the respective assets. When a grant is directly attributable to a specific project, the amount of the grant, instead of being provisionally booked as deferred income, is deducted from the gross carrying amount of the corresponding intangible asset, in accordance with the alternative accounting treatment allowed by IAS 20, Paragraph 27. The resulting effect on the income statement is a reduction in amortization expense.

Research costs are charged in full to income in the year they are incurred. All related operating grants are recognized as income when there is a reasonable certainty that they will be collected and all conditions required for collection have been met.

Development costs incurred in connection with a specific project are capitalized only when the Group can demonstrate that it possesses the technical capabilities needed to complete the intangible asset and make it available for use or sale, that it intends to complete the asset for the purpose of using it or selling it, that it has developed methods to enable the asset to generate future economic benefits, that it has the technical, financial and other resources needed to complete the development and that it is able to evaluate reliably the costs attributable to the asset during its development.
During the development period, the asset should be tested annually for impairment. Subsequent to the impairment test, development costs are valued at cost less amortization and any accumulated impairment loss. Amortization begins when the development is completed and the asset is ready for use. The capitalized cost is amortized over the period during which the underlying project is expected to generate revenues for the Group.

Patents are capitalized when they are acquired for consideration from a party outside the Group or when they are produced internally, provided they have been legally recognized and exist as an identifiable asset. Items purchased from outsiders are booked at cost, plus incidentals. Internally produced items are booked on the basis of the direct costs incurred to obtain legal recognition of the protected rights. In both cases, they are amortized over their useful lives, but not in excess of the period of legal protection.

Trademarks, concessions, licenses and similar rights include the costs incurred to secure manufacturing and/or distribution permits in accordance with CE and FDA regulations. The costs of CE and FDA certifications are capitalized as assets if they meet the capitalization requirements of IAS 38 “Intangible Assets” and are amortized over the entire length of the period during which they are expected to generate revenues.

Technologies and other intangible assets refer for the most part to the values attributed to medical technologies and customer lists in connection with acquisitions. Amortization is computed on a straight line over the estimated useful lives of these assets.

## Inventories

Raw materials and auxiliaries and finished products are valued at the lower of purchase or production cost or market value. Cost is determined by the FIFO method. The valuation process allocates to each inventory category the average actual costs incurred to purchase raw materials, other materials and merchandise and the average actual direct and indirect costs incurred in the production process.

Work in progress is valued at the average cost of production for the year, based on the percentage of completion.
The cost of work in process and finished goods includes the pro-rata share of the depreciation taken on the respective production equipment and indirect production costs.

## Receivables and Other Current Financial Assets

Receivables and other current financial assets include trade receivables and other financial receivables generated in the normal course of business and advances to suppliers. Following initial recognition, they are valued at their amortized cost, using the effective discount rate method, net of any provision for impairment losses, in accordance with the guidelines provided by IAS 39 for financial instruments classified as "loans and receivables." Receivables denominated in foreign currencies are adjusted to year-end exchange rates. Any resulting gains or losses are credited or debited to the income statement.
Sorin Group assigns a portion of its trade receivables through factoring transactions or securitization programs.

*Securitization of Receivables*
Accounts receivable assigned without recourse are deleted from the asset side of the statement of financial position when the assignment transaction transfers substantially all risks and benefits inherent in the ownership of the receivables, as required by IAS 39. In all other cases of assignments without recourse or assignments with recourse, the receivables stay on the statement of financial position and the advance received from the factor is recognized as a financial liability.
Note 11 provides detailed information about the different methods currently used by the Group to assign its receivables.

## Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term deposits, the original maturity of which may not exceed three months.

## Payables and Financial Liabilities

Payables and financial liabilities comprise trade payables, other payables, loans payable, including liabilities for loans received as advances for the assignment of receivables, and obligations under finance leases.
Trade payables and other payables are carried at their face value. Loans payable are initially recognized at cost, which are equal to the fair value of the consideration received, net of incidental costs. Subsequently, these payables are shown at their amortized cost, computed taking into account issue costs and any premium or discount applicable upon settlement.
Payables denominated in foreign currencies are adjusted to year-end exchange rates. Any resulting gains or losses are credited or debited to the income statement.

## Financial Derivatives

Sorin Group uses financial derivatives (mainly forward currency contracts and interest rate swaps) exclusively for the purpose of hedging the risk of fluctuations in foreign exchange and interest rates.

Initially, derivatives are recognized at their fair value on the date when the contracts are executed. Subsequently, their fair value is tested at regular intervals using for the forward currency contracts the forward interest rates applied to contracts with a similar profile and maturity and for the interest rate swaps the market value for similar instruments. Any gain or loss that results from this valuation process is recognized on the statement of financial position as either an asset or a liability from a financial derivative.

Gains or losses that result from the valuation at fair value of financial derivatives that meet the requirements of IAS 39 for hedge accounting treatment are recognized as follows:

- In the income statement when they are realized, if the financial instrument in question is designated as hedging the risk of changes in the fair value of an asset or liability (fair value hedge), thereby offsetting the gains or losses recognized in the income statement as a result of the process of valuing the hedged asset or liability.
- In an equity reserve for the effective portion of the hedge and on the income statement for the ineffective portion of the hedge, if the financial instrument in question is designated as hedging the cash flow of a given asset or liability (cash flow hedge). Gains or losses recognized in equity are transferred to the income statement when the economic effects of the hedged assets or liabilities are reflected in the result for the period. When a hedge expires or is cancelled, any amount previously recognized in equity is transferred to the income statement.
- In the case of financial instruments that hedge the risk associated with translating into euros the shareholders' equities of consolidated subsidiaries that are not denominated in euros, in an equity reserve, for the amount equal to the effective portion of the hedge, or in the income statement, for the amount equal to the ineffective portion. Upon the expiration of a contract, any realized foreign exchange difference is posted to the Reserve for currency translation differences. When the relevant foreign subsidiary is divested, the cumulative amount of the corresponding gains and losses recognized in the abovementioned equity reserve is posted as an adjustment to the gain or loss generated by the divestment. Currently, this situation does not exist at Sorin Group.

Gains or losses from the valuation of financial derivatives that do not qualify for hedge accounting are recognized in profit or loss.

## Accruals and Deferrals

Accrued income and expenses are the offsetting entries of revenues and expenses attributable to two or more years, for which the respective cash entries had not been made on the date of the financial statements.
Prepaid expenses and deferred income represent the portion of cost and revenues attributable to two or more years, which cannot be reflected in the statement of income in the year when the respective cash entry was made.
They are reflected in the financial statements on an accrual basis, in accordance with the general principle of matching costs and revenues.

## Provisions for Risks and Charges and Contingent Liabilities

Provisions for future risks and charges are established to recognize a current (legal or implied) obligation that arises from past events, the satisfaction of which will probably require the use of financial resources in an amount that can be estimated reliably.
Provisions for risks and charges set aside to fund a medium- or long-term obligation of a material amount are discounted and any addition to such provisions required to reflect the passing of time is recognized as a financial expense.

## Employee Benefits

*Provision for Employee Severance Indemnities*
The provision for employee severance indemnities, which is mandatory for Italian companies, is considered:

- A defined-benefit plan with respect to the benefits that vested up to December 31, 2006, as well as with respect to benefits vesting from January 1, 2007 on, but limited to employees of companies with 50 employees or less who chose to leave their vested benefits with the company;
- A defined-contribution plan with respect to benefits vesting from January 1, 2007 on for employees who opted for alternative pension plans and, in the case of companies with more than 50 employees, employees who chose to leave their vested benefits with the company.

When the provision for employee severance indemnities can be construed as a defined-benefit plan, it is valued by the Projected Unit Credit Method, based on actuarial and financial assumptions (actuarial assumptions: mortality, turnover, disability of the population included in the plan; financial assumptions: discount rate, rate of wage increases, capitalization rate). The cost representing an increase in the present value of the provision for employee severance indemnities is recognized as personnel expense. In the case of severance benefits vested up to December 31, 2006, the cost no longer includes a component for future wage increases.

Vested severance benefits under a provision for employee severance indemnities, which can be construed as a defined-contribution plan, are also recognized as personnel expense and, until their actual disbursement, the offsetting statement of financial position entry is posted to other current liabilities.

*Other Provisions for Employee Benefits*
Other provisions for employee benefits, which are recognized by the Group in some European countries, the United States and Japan, are defined-benefit plans. Accordingly, they are valued by the Projected Unit Credit Method, based on actuarial assumptions. The cost representing an increase in the present value of the plans is recognized as personnel expense.

*Other Medium/Long-term Employee Benefits*
Other medium/long-term benefits include a long-term incentive plan (cash settled) for the benefit of a limited number of key Group manager. The Long-Term Incentive Plan – LTIP is based on a three-year incentivizing cycle tied to the Group's performance.

*Equity Settled Compensation Plans*
The Group awards additional benefits to some employees through equity settled compensation plans (stock option and stock grant plans). In accordance with IFRS 2 – Share-based Payment, these plans represent a component of the beneficiary's compensation and their cost is measured based on the fair value of the abovementioned instruments on the grant date. Changes in fair value after the grant date have no effect on the valuation of the plans.
The cost of equity settled transactions and the corresponding increase in shareholders' equity are recognized over the period from the grant date to the vesting date. Until the vesting date, the cumulative costs recognized for such transactions at the end of each reporting period reflect vesting period maturities and the best available estimate of the number of equity instruments that will actually vest. The gain or loss recognized in profit or loss is equal to the difference in the cumulative cost recognized at the beginning and the end of the reporting year.

## Revenue Recognition

Revenues from the sale of goods, net of returns, discounts, allowances, bonuses and directly related taxes, are deemed to have been earned when the risks and benefits significantly inherent in the ownership of the goods have been transferred and the amount of the revenues can be determined reliably. In the case of the sale of goods, this generally occurs when the merchandise is shipped, except when the merchandise is held by the customer (consignment stock). In this case, revenues are recognized when the goods are used by the customer. Service revenues are recognized based on the progress made in providing the services and the amount of the revenues can be determined reliably.

## Income Taxes

Each Group company recognizes its current tax obligation by booking a tax liability based on a reasonable valuation of the amount payable for direct taxes, determined in accordance with the tax laws in force in each country and taking into account any tax loss carryforward or exemptions.
Deferred-tax assets and liabilities are computed on the temporary differences that arise between the carrying amounts and the tax bases of assets and on items like tax loss carryforwards usable in future years that, while not recognized on the statement of financial position, have the potential of creating tax credits un the future.
Deferred-tax assets and liabilities are computed based on projected tax rates in each country in the year in which the assets are realized or the liabilities extinguished.

Deferred-tax liabilities are recognized on all taxable temporary differences, except in the following cases:

- Deferred-tax liabilities on retained earnings of subsidiaries are recognized on retained earnings of subsidiaries only if there is a real intention of distributing those earnings;
- Deferred-tax liabilities on reserves of the Group's Parent Company the taxation of which has been suspended are recognized only if there is a high probability that conditions requiring the payment of income taxes will occur.

Deferred-tax assets, including those arising from a tax loss carryforward and unused tax credits, are recognized in the financial statements only to the extent that it is likely that the Company will generate sufficient taxable income against which these temporary deductible differences can be offset.
Income taxes due on items recognized directly in equity are also reflected directly in equity.

## Use of Estimates

The preparation of the consolidated financial statements in accordance with the international accounting principles required the formulation of estimates and assumptions that have an impact on the amounts of assets and liabilities and on revenues and expenses. These estimates were based on past experience and on other factors that were deemed to be reasonable under the relevant circumstances. However, the actual results that will ultimately be recognized may be different from the estimates.
Estimates and valuations are used mainly to recognize any non-recoverable value of non-current assets, including goodwill; additions to the allowances for doubtful accounts and for obsolete and slow-moving inventory items; deferred-tax assets and liabilities and, in general, additions to provisions.
Estimates and assumptions are reviewed on a regular basis and the impact of any change in the estimates is reflected in the result for the period during which the change was made.

## New Principles, Amendments and Interpretations Adopted by the European Union not Yet in Effect

IAS 24 Revised – “Related-party Disclosures”
Amendment to IAS 32 – “Financial Instruments: Presentation: Classification of Rights Issues”
IFRIC 14 – “Prepayments of a Minimum Funding Requirement”
IFRIC 19 – “Extinguishing Financial Liabilities with Equity Instruments.”

## 3 – PROPERTY, PLANT AND EQUIPMENT

| | LAND AND BUILDINGS | PLANT AND MACHINERY | MANUFACT. AND DISTRIB. EQUIPMENT | CONSTRUC-TION IN PROGRESS | ASSETS UN-DER FINANCE LEASES | OTHER ASSETS | TOTAL |
|---|---|---|---|---|---|---|---|
| At December 31, 2008 | | | | | | | |
| • Gross value | 55,652 | 64,981 | 114,607 | 6,250 | 5,877 | 27,022 | 274,389 |
| • Accum. depreciation and impairment losses | (25,626) | (48,232) | (84,652) | -- | (3,472) | (21,893) | (183,875) |
| • Net carrying value | 30,026 | 16,749 | 29,955 | 6,250 | 2,405 | 5,129 | 90,514 |
| At December 31, 2009 | | | | | | | |
| • Gross value | 56,018 | 68,996 | 100,586 | 9,715 | 5,515 | 26,455 | 267,285 |
| • Accum. depreciation and impairment losses | (28,052) | (51,956) | (73,234) | -- | (3,952) | (18,397) | (175,591) |
| • Net carrying value | 27,966 | 17,040 | 27,352 | 9,715 | 1,563 | 8,058 | 91,694 |
| At December 31, 2010 | | | | | | | |
| • Gross value | 58,582 | 70,234 | 112,776 | 12,361 | 5,385 | 28,498 | 287,836 |
| • Accum. depreciation and impairment losses | (31,206) | (52,925) | (84,640) | -- | (4,405) | (19,822) | (192,998) |
| • Net carrying value | 27,376 | 17,309 | 28,136 | 12,361 | 980 | 8,676 | 94,838 |

(in thousands of euros)

The table below shows for each component of property, plant and equipment the changes in net carrying value that occurred in 2010:

| | LAND AND BUILDINGS | PLANT AND MACHINERY | MANUFACT. AND DISTRIB. EQUIPMENT | CONSTRUC-TION IN PROGRESS | ASSETS UN-DER FINANCE LEASES | OTHER ASSETS | TOTAL |
|---|---|---|---|---|---|---|---|
| Net carrying value at 12/31/08 | 30,026 | 16,749 | 29,955 | 6,250 | 2,405 | 5,129 | 90,514 |
| • Additions | 945 | 4,683 | 3,731 | 1,657 | -- | 5,046 | 16,062 |
| • Increases for internal production | -- | -- | 4,461 | 2,048 | -- | 138 | 6,647 |
| • IFRS 3 business combinations | -- | 200 | -- | 331 | -- | -- | 531 |
| • Disposals | -- | (12) | (328) | -- | -- | (82) | (422) |
| • Impairment losses recognized in the income statement | -- | -- | (310) | -- | -- | (780) | (1,090) |
| • Depreciation | (2,852) | (4,363) | (10,632) | -- | (698) | (1,506) | (20,051) |
| • Currency translation differences | (99) | (26) | (39) | 15 | -- | 57 | (92) |
| • Other changes | (351) | (20) | (17) | (17) | -- | -- | (405) |
| • Reclassifications | 297 | (171) | 531 | (569) | (144) | 56 | -- |
| Net carrying value at 12/31/09 | 27,966 | 17,040 | 27,352 | 9,715 | 1,563 | 8,058 | 91,694 |
| • Additions | 1,044 | 3,299 | 2,002 | 8,612 | -- | 1,468 | 16,425 |
| • Increases for internal production | -- | -- | 4,465 | 3,061 | -- | 130 | 7,656 |
| • IFRS 3 business combinations | -- | 75 | -- | -- | -- | -- | 75 |
| • Disposals | (112) | (243) | (639) | -- | -- | (26) | (1,020) |
| • Decreases due to sale of Angel product lines | -- | -- | (551) | -- | -- | -- | (551) |
| • Impairment losses recognized in the income statement | -- | -- | (575) | -- | -- | (42) | (617) |
| • Depreciation | (2,523) | (4,036) | (12,063) | -- | (583) | (1,919) | (21,124) |
| • Currency translation differences | 1,001 | 83 | 963 | 80 | -- | 129 | 2,256 |
| • Other changes | | | (16) | 60 | | | 44 |
| • Reclassifications | -- | 1,091 | 7,198 | (9,167) | -- | 878 | -- |
| Net carrying value at 12/31/10 | 27,376 | 17,309 | 28,136 | 12,361 | 980 | 8,676 | 94,838 |

(in thousands of euros)

The table below provides a breakdown of assets held under leases, which consist mainly of plant and machinery, and shows the changes that occurred in each asset group in 2010.

| | LAND AND BUILDINGS | PLANT AND MACHINERY | MANUFACT. AND DISTRIB. EQUIPMENT | OTHER ASSETS | TOTAL |
|---|---|---|---|---|---|
| Net carrying value at December 31, 2009 | 13 | 946 | 202 | 402 | 1,563 |
| • Depreciation | (4) | (403) | (80) | (96) | (583) |
| Net carrying value at December 31, 2010 | 9 | 543 | 122 | 306 | 980 |

(in thousands of euros)

Some buildings in Saluggia, which had a net carrying value of 4,577,000 euros at December 31, 2010 (4,952,000 euros at December 31, 2009), were used as collateral to secure medium- and long-term loans used by Sorin Biomedica Cardio S.r.l. and Sorin Site Management S.r.l. (formerly Sorin Biomedica S.r.l.) to finance a portion of the price of real estate assets purchased at the end of 2004.

No capitalized financial expense was added to property, plant and equipment in 2010.

The minimum and maximum depreciation rates applied in 2010 were as follows:

| | |
|---|---|
| Buildings | 3/20% |
| Plant and machinery | 6/33% |
| Manufacturing and distribution equipment | 10/40% (1) |
| Other assets | 5/33% |

Assets held under finance leases are depreciated at the rates applicable to the asset categories to which they belong.

## 4 – Other Intangible Assets

| | DEVELOP-MENT COSTS | PATENTS AND PATENT LICENSES | TRADEMARKS, CONCESSIONS, LICENSES AND SIMILAR RIGHTS | WORK IN PROGRESS | TECHNOL-OGIES AND SUNDRY INTANGIBLES | TOTAL |
|---|---|---|---|---|---|---|
| At December 31, 2008 | | | | | | |
| • Gross value | 34,866 | 40,731 | 62,399 | 1,295 | 100,145 | 239,436 |
| • Accumulated amortization and impairment losses | (2,456) | (34,383) | (39,353) | -- | (49,739) | (125,931) |
| • Net carrying value | 32,410 | 6,348 | 23,046 | 1,295 | 50,406 | 113,505 |
| At December 31, 2009 | | | | | | |
| • Gross value | 48,189 | 40,812 | 68,675 | 225 | 104,434 | 262,335 |
| • Accumulated amortization and impairment losses | (4,707) | (35,870) | (43,031) | -- | (56,750) | (140,358) |
| • Net carrying value | 43,482 | 4,942 | 25,644 | 225 | 47,684 | 121,977 |
| At December 31, 2010 | | | | | | |
| • Gross value | 64,902 | 41,303 | 73,970 | 315 | 113,723 | 294,213 |
| • Accumulated amortization and impairment losses | (7,825) | (37,412) | (46,127) | -- | (67,858) | (159,222) |
| • Net carrying value | 57,077 | 3,891 | 27,843 | 315 | 45,865 | 134,991 |

(in thousands of euros)

The table below shows for each component of intangible assets the changes in net carrying value that occurred during the year:

(1) In some cases, the maximum depreciation rate is 50%, since it is based on the length of the contract that applies to assets provided to third parties under gratuitous loans.

| | DEVELOP-MENT COSTS | PATENTS AND PATENT LICENSES | TRADEMARKS, CONCESSIONS, LICENSES AND SIMILAR RIGHTS | WORK IN PROGRESS | TECHNOL-OGIES AND SUNDRY INTANGIBLES | TOTAL |
|---|---|---|---|---|---|---|
| Net carrying value at 12/31/08 | 32,410 | 6,348 | 23,046 | 1,295 | 50,406 | 113,505 |
| • Additions | 754 | 195 | 2,166 | 159 | 770 | 4,044 |
| • Increases for internal production | 11,952 | -- | 3,298 | -- | -- | 15,250 |
| • IFRS 3 business combinations | -- | -- | -- | -- | 3,797 | 3,797 |
| • Amortization | (2,251) | (1,534) | (4,008) | -- | (7,065) | (14,858) |
| • Currency translation differences | 605 | (19) | (270) | (4) | (73) | 239 |
| • Reclassifications | 12 | (48) | 1,412 | (1,225) | (151) | -- |
| Net carrying value at 12/31/09 | 43,482 | 4,942 | 25,644 | 225 | 47,684 | 121,977 |
| • Additions | 42 | 319 | 1,347 | 230 | 738 | 2,676 |
| • Increases for internal production | 16,140 | -- | 4,011 | 11 | -- | 20,162 |
| • IFRS 3 business combinations | -- | -- | -- | -- | 3,274 | 3,274 |
| • Decreases due to sale of Angel product lines | -- | -- | (60) | -- | -- | (60) |
| • Amortization | (2,679) | (1,410) | (4,820) | -- | (8,670) | (17,579) |
| • Currency translation differences | 901 | 40 | 1,061 | -- | 2,636 | 4,638 |
| • Other changes | (509) | -- | 632 | (123) | (97) | (97) |
| • Reclassifications | (300) | -- | 28 | (28) | 300 | -- |
| Net carrying value at 12/31/10 | 57,077 | 3,891 | 27,843 | 315 | 45,865 | 134,991 |
| - assets with a finite useful life | 57,077 | 3,891 | 24,326 | 315 | 45,865 | 131,474 |
| - assets with an indefinite useful life | -- | -- | 3,517 | -- | -- | 3,517 |

(in thousands of euros)

Development costs refer to about 25 projects that concern all business units.
In accordance with the alternative accounting method allowed by IAS 20, Paragraph 27, which is explained in Note 2, the amount shown for Increases for internal production is net of capital grants directly attributable to specific projects amounting to 1,095,000 euros.

Patents and licenses for patents includes 2,941,000 euros for Medtronic licenses on devices to control heart rhythm.

The largest amount included under trademarks, concessions, licenses and similar rights refers to the capitalized costs incurred to secure FDA (Food and Drug Administration) approval to sell Group products in the United States. At December 31, 2010, the net carrying value of this asset was 19,822,000 euros (17,533,000 euros at December 31, 2009). This asset class also includes the Carbomedics trademark (3,517,000 euros) and sundry intangibles of 4,504,000 euros that consist mainly of software licenses. The Carbomedics trademark is deemed to have an indefinite useful life, since the Company believes that there is no time limit to its use and to the future economic benefits associated with it. Consequently, this trademark is not amortized. It is tested for impairment at least annually or whenever the occurrence of events or circumstances indicates that an impairment loss may have occurred. The test is carried out using the method provided in IAS 36 “Impairment of Assets.” A test of this asset and goodwill for the Heart Valves cash generating unit provided no indication that an impairment loss occurred in 2010. The main assumptions used for impairment test purposes are explained in Note 6.

Technologies and sundry intangibles reflect mainly the values attributed to medical technologies and customer lists in earlier years in connection with acquisitions of operations in North America.

In 2010, consistent with the adoption of IAS 23R, financial expense totaling 70,000 euros was capitalized under intangible assets. The rate used to determine capitalizable financial expense was 4.5%, which is the Group’s average borrowing cost.

The minimum and maximum amortization rates applied in 2010 were as follows:

| | |
|---|---|
| Development costs | 7/20%(1) |
| Patents and patent licenses | 5/20% |
| Trademarks, concessions, licenses and similar rights | 7/33% |
| Technologies and sundry intangibles | 7/25% |

Research and development costs totaling 66,919,000 euros were charged in full to income in 2010, compared with 59,018,000 euros in 2009. Development costs that are charged to income in the year they are incurred are those that do not meet the requirements for capitalization.

## 5 – Goodwill

| | GROSS VALUE | IMPAIRMENT LOSSES | NET VALUE |
|---|---|---|---|
| Balance at December 31, 2008 | 192,284 | -- | 192,284 |
| • Currency translation differences | (303) | -- | (303) |
| Balance at December 31, 2009 | 191,981 | -- | 191,981 |
| • Currency translation differences | 912 | -- | 912 |
| Balance at December 31, 2010 | 192,893 | -- | 192,893 |

(in thousands of euros)

As allowed under an option provided by IFRS 1, the Group decided not to apply IFRS 3 "Business Combinations" retroactively to business acquisitions completed before January 1, 2004. As a result, the carrying amount of goodwill recognized as of that date was the same as the amount determined in accordance with Italian accounting principles, provided it was fully recoverable, net of accumulated amortization through January 1, 2004.
Moreover, insofar as acquisitions completed prior to 1993 and received by the Company as a result of the Snia S.p.A. demerger are concerned, goodwill does not include the amount by which certain investments exceeded the interests held in the shareholders' equities of the consolidated companies. This is because the excess amount was deducted directly from reserves, as allowed by the rules then in effect, and was not recognized as an asset.

The Group tests goodwill for impairment annually (at December 31) and whenever circumstance indicate the recoverable value of goodwill may have been impaired. The test performed to determine whether the value of goodwill and other intangible assets with and indefinite useful life has been impaired is based on computing the value in use of these assets. Value in use was computed by discounting projected cash flows (discounted cash flow method). The variables used to determine the recoverable value of the cash generating units (CGUs), which correspond to the business units, are reviewed in the  Note that follows.

The impairment test performed at the end of 2010 showed that no impairment loss had occurred.

(1) Based on the useful life of the product for which the development costs were incurred.

## 6 – Goodwill Impairment Test

For the purpose of performing an impairment test, the goodwill acquired though business combinations was allocated to the following cash generating units:

- Cardiopulmonary
- Heart Valves
- Cardiac Rhythm Management,

consistent with the Group's operating characteristics and management's strategic vision.

The recoverable value of the cash generating units was determined based on their value in use, computed by projecting their future cash flows in accordance with the latest 2011-2015 five-year strategic plan approved by the Board of Directors of Sorin S.p.A. and using the same impairment method as in previous years. The main assumptions used for computation purposes are the following:

- The cash flow projection period includes five years of explicit projection and a terminal value based on projecting the last year of the explicit plan for an additional 15 years, with no growth assumed for the year following the explicit projection year (*g*=0%). In the case of the Heart Valves CGU, in keeping with the approach followed the previous year, the explicit plan period was extended by two years in order to better reflect the results of development projects currently under way, which are expected to produce the most significant results beyond the horizon of the five years of the explicit plan.
- The revenue growth rate for the explicit projection period is consistent with the average growth rate forecasted for the market of the Cardiopulmonary CGU, which operates in a more mature market segment in which the Group is the leader, and is higher than the average growth rate forecasted for the Heart Valves and Cardiac Rhythm Management CGUs due to greater market opportunities and the existing product pipeline.
- All of the CGUs are expected to improve their marginal profitability, due to a more profitable product/market mix, the impact of the restructuring and reorganization plans and the effects of programs specifically designed to increase industrial margins.
- The discount rate applied to projected cash flows was equal to the weighted average cost of capital (WACC) after taxes:

| | 2010 | 2009 |
|---|---|---|
| - Cardiopulmonary | 7.3% | 7.8% |
| - Heart Valves | 7.7% | 8.1% |
| - Cardiac Rhythm Management | 7.4% | 7.9% |
| - Sorin Group | 7.5% | 7.9% |

  Compared with the previous year, the discount rate used was more favorable on average due to the positive impact of a reduction in the components used to compute the cost of equity capital and a reduction in borrowing costs.
- The debt/equity ratio used for all CGUs was the same as that of Sorin Group at the end of 2010.
- Different ß levered coefficients were used for each CGU. These coefficients, which were computed as the average of the ß coefficients of the main competitors for the past two years, are as follows:

| | |
|---|---|
| - Cardiopulmonary | 0.59 |
| - Heart Valves | 0.57 |
| - Cardiac Rhythm Management | 0.59 |
| - Sorin Group | 0.59 |

- The yield rate for riskless assets used was 4.2% (ten-year Italian treasury bonds). The market risk premium was computed for each CGU based on the geographic distribution of its revenues.
- The average cost of debt capital used was 4.5% (3.0% net of the tax effect).

The net carrying value of goodwill attributed to each CGU is as follows:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Cardiopulmonary | 107,611 | 107,519 |
| • Heart Valves | 15,434 | 14,614 |
| • Cardiac Rhythm Management | 69,848 | 69,848 |
| Total | 192,893 | 191,981 |

(in thousands of euros)

A sensitivity analysis of all three CGUs showed no indication of problems, even assuming a deterioration of the *WACC* (+1.5%) or of the *g* parameter (-1%).

## 7 – Investments in Associates Valued by the Equity Method

The items included in this account are the investments held in La Bouscarre S.C.I (50%), carried at 14,000 euros, and LMTB – Laser und Medizin Technologie GmbH (22.548%), carried at 3,000 euros.
Given the inconsequential amount involved, the investment in LMTB – Laser und Medizin Technologie GmbH is valued at cost.

## 8 –Non-current Financial Assets

Non-current financial assets consist of investments in other companies. The table below shows the value of these investments:

| | 12/31/10 | | 12/31/09 | |
|---|---|---|---|---|
| | % INTEREST HELD | THOUSANDS OF EUROS | % INTEREST HELD | THOUSANDS OF EUROS |
| • Istituto Europeo di Oncologia S.r.l. | 1.194% | 951 | 1.194% | 951 |
| • Sphere Medical Holding PLC | 0.909% | 267 | 1.231% | 267 |
| • Consorzio Medal Energia | 7.692% | 1 | 15.384% | 2 |
| • Sundry companies | -- | 2 | -- | 2 |
| Total | | 1,221 | | 1,222 |

(in thousands of euros)

At December 31, 2010, non-current financial assets included medium- and long-term loans receivable totaling 84,000 euros (1,000 euros at December 31, 2009), including 75,000 euros for the portion due after one year of the receivable owed by Cytomedix Inc. for the sale of the Angel product lines. The receivable owed by Cytomedix Inc. is shown net of an allowance for doubtful accounts that takes into account general and contingent market situations.

## 9 – Deferred-Tax Assets and Deferred-Tax Liabilities

Deferred-tax assets, net of deferred-tax liabilities, amounted to 27,936,000 euros, compared with 27,130,000 euros at the end of the previous year.

| | 12/31/10 | | 12/31/09 | |
|---|---|---|---|---|
| | AMOUNT OF DIFFER-ENCES | TAX EFFECT | AMOUNT OF DIFFER-ENCES | TAX EFFECT |
| Deferred-tax liabilities for: | | | | |
| - Depreciation/Amortization tangible and intangible assets | 55,796 | 18,301 | 51,673 | 17,066 |
| - Revaluations at fair value | 5,407 | 1,599 | 245 | 82 |
| - Recognition (Derecognition) of assets (liabilities) | 3,625 | 1,042 | 4,428 | 1,303 |
| - Other items | 5,888 | 1,696 | 13,340 | 4,676 |
| Total deferred-tax liabilities (A) | 70,716 | 22,638 | 69,686 | 23,127 |
| Deferred-tax assets arising from: | | | | |
| - Provision for risks and charges | 39,886 | 11,566 | 42,190 | 13,097 |
| - Depreciation/Amortization tangible and intangible assets | 17,797 | 5,401 | 10,602 | 3,132 |
| - Value adjustments on financial assets | - | - | 11,391 | 3,797 |
| - Inventories and eliminations of inventory gains | 40,919 | 13,017 | 32,991 | 10,512 |
| - Revaluations at fair value | 14,539 | 4,597 | 2,628 | 848 |
| - Recognition (Derecognition) of liabilities (assets) | 834 | 191 | 611 | 198 |
| - Other items | 9,578 | 2,991 | 9,737 | 3,049 |
| Subtotal (B) | 123,553 | 37,763 | 110,150 | 34,633 |
| Deferred-tax assets arising from tax loss carryforward (C) | 42,221 | 12,811 | 52,974 | 15,624 |
| Total deferred-tax assets (B + C) | 165,774 | 50,574 | 163,124 | 50,257 |
| Total deferred-tax assets, net of deferred-tax liabilities (B + C - A) | | 27,936 | | 27,130 |
| Temporary differences excluded from the computation of deferred taxes for: | | | | |
| - Reserves the taxation of which has been suspended | 33,824 | 10,225 | 33,824 | 10,225 |
| - Other items | 1,414 | 389 | 1,414 | 389 |
| Total | 35,238 | 10,614 | 35,238 | 10,614 |
| Temporary differences excluded from the computation of deferred-tax assets | 200,150 | 28,682 | 182,882 | 27,412 |
| Tax loss carryforward excluded from the computation of deferred-tax assets | 212,967 | 65,795 | 224,676 | 69,205 |

(in thousands of euros)

Temporary differences related to reserves the taxation of which has been suspended were excluded from the computation of deferred taxes because the Company does not expect to use those reserves in a manner that would

make them taxable. Moreover, deferred taxes were not computed on the retained earnings of subsidiaries because there is no plan to distribute those earnings.
The computation of prepaid taxes does not include a portion of the amounts attributable to the tax loss carryforward and other temporary differences because the Company believes that, in all likelihood, the Group companies will generate sufficient earnings to utilize them within the deadline set forth in the tax law.

At December 31, 2010, the Group's tax loss carryforward amounted to 255,188,000 euros. A breakdown by expiration date is as follows:

| Year of expiration | |
|---|---|
| - 2011 | 23,693 |
| - 2012 | 43,106 |
| - 2013 | 18,550 |
| - 2014 | 6,028 |
| Expiration after 2014 | 136,735 |
| No expiration date | 27,076 |
| Total tax loss carryforward | 255,188 |

(in thousands of euros)

Note 35 shows a breakdown of the income taxes recognized in the income statement and provides a reconciliation between the tax liability at the statutory rate and the tax liability actually recognized.

## 10 – INVENTORIES

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Raw materials and auxiliaries | 31,872 | 34,760 |
| • Work in process and semifinished goods | 30,993 | 34,670 |
| • Finished goods and merchandise | 68,483 | 69,950 |
| Total | 131,348 | 139,380 |

(in thousands of euros)

Inventories are net of an allowance for inventory writedowns that amounted to 14,044,000 euros at the end of 2010 (14,007,000 euros at December 31, 2009).

The size of the inventory of finished goods reflects the policy, standard in the cardiovascular business, of allowing customers to hold on deposit a certain volume of products, particularly with regard to implantable products (pacemakers, defibrillators and heart valves).

## 11 – Trade Receivables

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Trade receivables: | | |
| - from outsiders | 182,571 | 185,507 |
| - from associated companies | -- | -- |
| - from other related parties | -- | -- |
| Total | 182,571 | 185,507 |

(EURO/MIGLIAIA)

Trade receivables include 6.0 million euros related to the Vascular Therapy and Renal Care business operations, which were divested at the end of 2008 (18.7 million euros at December 31, 2009), net of an allowance for doubtful accounts of 5.0 million euros (1.4 million euros at December 31, 2009).

Trade receivables are shown net of an allowance for doubtful accounts, which is detailed below:

| | |
|---|---|
| Balance at December 31, 2008 | 23,763 |
| - Additions | 4,683 |
| - Utilizations | (1,226) |
| - Reversals in earnings | (15) |
| - Reclassifications | 18 |
| - Currency translation differences | (19) |
| Balance at December 31, 2009 | 27,204 |
| - Additions | 4,142 |
| - Utilizations | (311) |
| - Reversals in earnings | (328) |
| - IFRS 3 business combinations | 14 |
| - Currency translation differences | 59 |
| Balance at December 31, 2010 | 30,780 |

(in thousands of euros)

In 2010, no amount was added to the allowance for doubtful accounts to cover receivables assigned under the securitization program.

The days of sales outstanding index improved from 91 days at December 31, 2009 to 81 days at the end of 2010, showing that the trend of steady improvement is continuing (see Note 24 for additional information).

The Group's customer base includes hospitals, other health care facilities, distributors, organized buying groups and public or private entities with which the users (medical specialists) are associated. The actual payment terms vary greatly, depending on the type of customer (public or private institution) and the geographic region. Given the lengthy payment terms and the resulting high level of trade receivables, the Group has always used factoring arrangements, both with and without recourse, as part of its overall funds procurement strategy.

*Securitization and Factoring Contracts*

At the end of 2006, the Group established a five-year, pan-European securitization program with Crédit Agricole (formerly Calyon). Because the contract signed with Crédit Agricole did not meet the deconsolidation requirements of

IAS 39, the Group continued to show these trade receivables on its financial statements and carried the amounts it received from Crédit Agricole as liabilities for advances.

In 2008, acting within the framework of the existing securitization program, Sorin entered into an additional agreement with Crédit Agricole for the assignment on a revolving basis of receivables owed by a portfolio of Italian and French customers. Under this agreement, the full credit risk was transferred to Crédit Agricole and, consequently, the Group deconsolidated the assigned receivables. Sorin's only remaining risk was the risk of dilution (credit notes), for which Sorin S.p.A. provided a deposit as cash collateral.

With regard to the derecognition of assigned assets, the outstanding receivables assigned with recourse to Crédit Agricole totaled 31,694,000 euros at December 31, 2010 (31,119,000 euros at December 31, 2009) and Sorin S.p.A. established separate security deposits for Italy and France totaling 4,361,000 euros (4,132,000 euros at December 31, 2009) (Note 14).
As of the same date, the total value of outstanding receivables assigned without recourse to Crédit Agricole and to three other factors amounted to 44,195,000 euros (36,733,000 euros at December 31, 2009).

In March 2010, the Group signed a factoring contract with Ifitalia (BNP Paribas Group) for the assignment without recourse of receivables owed by Italian customers, among those assigned with the previous contract of May 2009. This transaction and the contract meet the deconsolidation requirements of IAS 39

In June 2010, the non-recourse factoring contract signed with Ifitalia in 2009 was also applied to Sorin Group España for the assignment of a portfolio of receivables owed by public hospitals.
Because this transaction does not meet the deconsolidation requirements of IAS 39, the Group continues to show these trade receivables as assets and carries the amounts it received from the factor as liabilities for advances.

In December 2010, the Group signed a factoring contract with Unicredit Factoring for the assignment with recourse on a revolving basis of receivable owed by Italian customers for a maximum amount of 30 million euros.

At December 31, 2010, trade receivables included receivables assigned through factoring/securitization that did not meet the deconsolidation requirements of IAS 39, totaling 24,191,000 euros (16,485,000 euros at December 31, 2009). These assigned receivables were offset by liabilities for advances of the same amount (16,400,000 euros at December 31 2009) (Note 18).

A breakdown of assigned trade receivables is provided below:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Assigned trade receivables | | |
| - Not removed from the financial statements: | | |
| . Assigned to Crédit Agricole (formerly Calyon) | 4,988 | 7,139 |
| . Assigned to Ifitalia | 12,076 | 7,762 |
| . Assigned to Unicredit Factoring | 6,820 | -- |
| . Assigned to other factors | 307 | 1,584 |
| | 24,191 | 16,485 |
| - Removed from the financial statements: | | |
| . Assigned to Crédit Agricole (formerly Calyon) | 31,694 | 31,119 |
| . Assigned to Ifitalia | 4,330 | -- |
| . Assigned to other factors | 8,171 | 5,614 |
| | 44,195 | 36,733 |

(in thousands of euros)

## 12 – OTHER RECEIVABLES

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Other receivables: | | |
| - from outsiders | 12,444 | 9,182 |
| - from associated companies | -- | -- |
| - from other related parties | -- | -- |
| • Advances to suppliers | 1,033 | 3,590 |
| • Prepaid expenses | 9,823 | 6,770 |
| Total | 23,300 | 19,542 |

(in thousands of euros)

Other receivables, which are not interest bearing, consist mainly of current security and guarantee deposits, and receivables from employees and social security and employee benefit entities.

## 13 – ASSETS AND LIABILITIES FROM FINANCIAL DERIVATIVES

| | 12/31/10 | | | 12/31/09 | | |
|---|---|---|---|---|---|---|
| | CURRENT | NON-CURRENT | TOTAL | CURRENT | NON-CURRENT | TOTAL |
| Assets from financial derivatives | | | | | | |
| - Foreign exchange contracts [(1)] | - | - | - | 1,343 | - | 1,343 |
| - Interest rate contracts [(2)] | - | - | - | - | - | - |
| | - | - | - | 1,343 | - | 1,343 |
| Liabilities from financial derivatives | | | | | | |
| - Foreign exchange contracts [(1)] | 4,107 | - | 4,107 | 152 | - | 152 |
| - Interest rate contracts [(2)] | 578 | 6,450 | 7,028 | 90 | 6,068 | 6,158 |
| | 4,685 | 6,450 | 11,135 | 242 | 6,068 | 6,310 |

(in thousands of euros)

(1) The impact on earnings is included in foreign exchange translation differences.
(2) The impact on earnings is included in interest income and expense.

### *Financial Derivatives that Hedge the Risk of Fluctuations in Foreign Exchange Rates*

The Group uses different types of contracts to hedge the risk of fluctuations in foreign exchange rates. Specifically, with regard to the foreign exchange risk associated with commercial transactions, in 2010, the Group hedged almost 100% of the net positions determined based on projected revenue and expense flows denominated in U.S. dollars, Canadian dollars, Japanese yen, British pounds and Swiss francs. For trade flows that involve less used currencies (Swedish kronor, Polish zloty, etc.) the Group establishes special hedges whenever a foreign currency receivable or payable arises.

As of January 1, 2010, in accordance with the provisions of IAS 39, the Group adopted the tools needed to apply hedge accounting to financial derivatives that hedge the risk of fluctuations in foreign exchange rates on commercial transactions in a foreign currency of a highly probable nature (cash flow hedge).

The effective hedging portion of gains or losses from the measurement of financial derivatives that qualify for hedge accounting treatment under IAS 39 is recognized in a shareholders' equity reserve, while the non-effective portion is recognized in profit or loss, provided the financial derivative has been designated as a cash flow hedge (hedging the cash flows of an asset or liability). Gains or losses recognized in equity are transferred to the income statement when the economic effects of the hedged assets and liabilities is reflected in the result for the period. If a hedging instrument expires or is closed out, the amounts previously recognized in equity are transferred to income statement.
Gains and losses resulting from the measurement of financial derivatives that do not qualify for hedge accounting are recognized in profit or loss.

Additional information about the market risk created by fluctuations in foreign exchange rates is provided in Note 24.

The table below shows a breakdown of contracts hedging foreign exchange risk that were outstanding at December 31, 2010. All of the contracts expire in 2011.

| FINANCIAL DERIVATIVES THAT HEDGE FOREIGN EXCHANGE RISKS | POSITION | TYPE OF TRANSACTION | CURRENCY | NOTIONAL AMOUNT | MEASUREMENT AT FAIR VALUE |
|---|---|---|---|---|---|
| On commercial flows | Buy | Forward | Australian dollar | 300 | (4) |
| | Sell | Forward | U.S. dollar | 59,379 | 819 |
| | | | Japanese yen | 43,007 | (3,837) |
| | | | British pound | 11,369 | 65 |
| | | | Canadian dollar | 8,750 | (154) |
| | | | Australian dollar | 8,062 | (391) |
| | | Option | U.S. dollar | 8,198 | 290 |
| | | Option | Japanese yen | 35,390 | (261) |
| Total hedge accounting | | | | | (3,473) |
| On commercial flows | Sell | Forward | Polish zloty | 813 | (3) |
| | | | Swedish kronor | 80 | (1) |
| On medium/long-term borrowings | Buy | Forward | U.S. dollar | 45,003 | (718) |
| On other assets/ liabilities | Buy | Forward | U.S. dollar | 2,515 | (18) |
| | | | Japanese yen | 828 | 2 |
| | | | British pound | 5,284 | (62) |
| | | | Canadian dollar | 27,338 | 151 |
| | Sell | Forward | U.S. dollar | 6,863 | 145 |
| | | | Japanese yen | 10,741 | (116) |
| | | | British pound | 997 | 15 |
| | | | Swiss franc | 1,125 | (11) |
| | | | Australian dollar | 2,348 | (13) |
| | | | Norwegian kroner | 748 | (5) |
| Total non-hedge accounting | | | | | (634) |
| TOTAL | | | | | (4,107) |

(in thousands of euros)

The Group's Finance Department performs periodically prospective and retrospective tests to verify the effectiveness of the existing hedges.
The effectiveness of the hedges is tested by comparing only the changes in the foreign exchange component of the hedging derivatives, which, consequently, are computed against the spot exchange rate, with the changes in the value of the future underlying sales for the hedged risk.
Prospective tests, which are suitable for showing whether, at the beginning and for the entire duration of an established hedging relationship, a hedging instrument is highly effecting in compensating for changes in the value of the underlying cash flows caused by the hedged risk, are performed using simulations of spot exchange rates.
Retrospective tests are performed to verify the effectiveness of a highly effective hedging relationship, quantified within a range of 80% to 125%, as required by the reference accounting principle.

At December 31, 2010, the cash flow hedge reserve, which reflects changes in the values of instruments hedging the risk of fluctuations in foreign exchange rates, had a negative balance of 4,487,000 euros (3,141,000 euros net of tax effect).

The table below shows the changes that occurred in the cash flow hedge reserve:

| | 12/31/09 | 12/31/10 |
|---|---|---|
| Cash flow hedge reserve - Foreign exchange risk | | |
| Opening balance | -- | -- |
| Amount to CHF reserve during the year | (15,202) | -- |
| Amount from CHF reserve to income statement: | | |
| - as operating revenues adjustment | (10,706) | -- |
| - as financial expense/income for overhedge | (9) | -- |
| Closing balance | (4,487) | -- |

(in thousands of euros)

## Financial Derivatives that Hedge the Risk of Fluctuations in Interest Rates

The Group executes interest rate swaps to hedge the risk of the impact of fluctuations in interest rates on its medium- and long-term borrowings by converting variable-rate borrowings into fixed-rate facilities.

As of January 1, 209, the Group adopted the tools necessary to verify whether a financial derivative that hedged the risk of fluctuations in interest rates (cash flow hedge) qualified for hedge accounting and, consequently, began to apply hedge accounting treatment.
The effective hedging portion of gains or losses from the measurement of financial derivatives that qualify for hedge accounting treatment under IAS 39 is recognized in a shareholders' equity reserve, while the non-effective portion is recognized in profit or loss, provided the financial derivative has been designated as a cash flow hedge (hedging the cash flows of an asset or liability). Gains or losses recognized in equity are transferred to the income statement when the economic effects of the hedged assets and liabilities is reflected in the result for the period. If a hedging instrument expires or is closed out, the amounts previously recognized in equity are transferred to income statement.

Gains or losses from the measurement of financial derivatives that do not qualify for hedge accounting are recognized in profit or loss.

Additional information about the market risk created by fluctuations in interest rates is provided in Note 24.

At December 31, 2010, the status of interest rate swaps hedging interest risk was as follows:

| DERIVATIVE | HEDGED BORROWINGS[1] | EXPIRATION DATE | NOTIONAL AMOUNT | MEASUREMENT AT FAIR VALUE | FIXED RATE |
|---|---|---|---|---|---|
| Cash flow hedge | tranche EUR 22,953,000 | 6/22/12 | EUR 23,678 | 496 | 4.042% [2] |
| | tranche USD 10,438,000 (syndicated Mediobanca, Intesa San Paolo, MCC and BNP Paribas medium/ long-term facility) | 12/22/11 | USD 10,439 | 82 | 2.043% [2] |
| Cash flow hedge | tranche EUR 59,500,000 | 6/30/14 | EUR 59,500 | 4,614 | 4.266% [2] |
| | tranche USD 48,690,000 (EIB medium/long-term facility) | 6/30/14 | USD 48,690 | 1,836 | 2.947% [2] |
| Total hedge accounting | | | | 7,028 | |

(in thousands of euros)

(1) The amount of the facilities shown above includes incidental costs and the current portion of the loans.

(2) Average fixed rate.

The Group's Finance Department performs periodically prospective and retrospective tests to verify the effectiveness of the existing hedges.
The effectiveness of hedging transactions is documented both at the transaction's inception and periodically (as a minimum, in connection with the publication of the annual report and interim reports) and is measured by comparing changes in the fair values of the derivative and in the underlying item, both measured on the date of the financial statements based on actual end-of-period data (retrospective test) and on market conditions shock assumptions (prospective test).
Prospective tests are suitable for showing whether, at the beginning and for the entire duration of an established hedging relationship, a hedging instrument is highly effecting in compensating for changes in the underlying cash flow caused by the hedged risk.
Retrospective tests are performed to verify the effectiveness of a highly effective hedging relationship, quantified within a range of 80% to 125%.

At December 31, 2010, the cash flow hedge reserve, which reflects changes in the values of instruments hedging the risk of fluctuations in interest rates, had a negative balance of 4,496,000 euros (3,044,000 euros net of tax effect). The table below shows the changes that occurred in the cash flow hedge reserve:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| Cash flow hedge reserve - Interest rate risk | | |
| Opening balance | (2,558) | -- |
| Amount to CHF reserve during the year | (5,941) | (5,159) |
| Amount from CHF reserve to income statement:<br>- as financial expense/income | (4,003) | (2,601) |
| Closing balance | (4,496) | (2,558) |

(in thousands of euros)

The table that follows provides a forward projection of the hedged flows of interest expense that, based on the forward curves of market interest rates at December 31, the Group estimates it will be required to pay, based on the financial liabilities subject of cash flow hedging, net of contractual spreads:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| Flows within 3 months | -- | -- |
| Flows from 3 to 6 months | (1,075) | (563) |
| Flows from 6 months to 1 year | (1,005) | (883) |
| Flows from 1 to 2 years | (1,518) | (2,416) |
| Flows from 2 to 5 years | (564) | (7,405) |
| Flows after 5 years | -- | -- |
| Total | (4,162) | (11,267) |

(in thousands of euros)

## 14 – Other Current Financial Assets

Other current financial assets totaled 8,962,000 euros (6,293,000 euros at December 31, 2009). This item includes a deposit in the amount of 4,361,000 euros (4,132,000 euros at December 31, 2009) provided as cash collateral in connection with receivables assigned without recourse to Crédit Agricole (formerly Calyon) and the current portion of the financial receivable owed by Cytomedix Inc. for the sale of the Angel product line amounting to 1,497,000 euros (equal to US$2,000,000).
Other financial assets, which accounted for the balance, amounted to 3,104,000 euros (2,161,000 euros at December 31, 2009), net of an allowance for writedowns of 1,549,000 euros, unchanged compared with December 31, 2009.

This item also includes 4,000 euros owed by related parties (Note 41).

## 15 – Tax Credits and Taxes Payable

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Tax credits | 13,712 | 15,480 |
| • Taxes payable | (19,653) | (15,677) |
| Tax credits (taxes payable), net | (5,941) | (197) |

(in thousands of euros)

The net tax credits (taxes payable) represent the Group's position vis-à-vis the tax authorities for income taxes (including regional taxes for Italian Group companies) and indirect taxes.

## 16 – Cash and Cash Equivalents

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Cash on hand | 31 | 33 |
| • Bank and postal accounts | 29,668 | 10,247 |
| Total | 29,699 | 10,280 |

(in thousands of euros)

Cash and cash equivalents, which constitute the liquid assets used by the Group to meet its short-term obligations, earn interest at variable rates.

Bank account credit balances include 15,968,000 euros concerning related parties (Note 41).

## 17 – Consolidated Shareholders' Equity

The consolidated shareholders' equity is entirely owned by the Group.

The shareholders' equity consists exclusively of common shares, par value 1 euro each:

| | Share capital of Sorin S.p.A. | | |
|---|---|---|---|
| | AUTHORIZED | SUBSCRIBED | PAID-IN |
| Number of shares at December 31, 2008 | 507,295,259 | 470,412,144 | 470,412,144 |
| - Options expired on June 30, 2009 (Plans 1, 2 and 3) | (10,440,000) | -- | -- |
| - Options expired on December 31, 2009 (Plan 4) | (8,500,000) | -- | -- |
| Number of shares at December 31, 2009 | 488,355,259 | 470,412,144 | 470,412,144 |
| - Resolution of Extraordinary Shareholders' Meeting of September 14, 2010 (Stock Grant Plan) | 13,000,000 | -- | -- |
| - Subscriptions for exercise of stock options (Plan 5) | -- | 20,000 | 20,000 |
| Number of shares at December 31, 2010 | 501,355,259 | 470,432,144 | 470,432,144 |

(in euros)

The Group maintains an adequate level of capital to meet the growth and operating needs of the business units and protect its viability as a going concern.
The appropriate balance of funding sources, which also serves the purpose of lowering the overall cost of capital, is achieved by an effective mix of risk capital, which is provided permanently by shareholders, and debt capital, which must also be diversified in terms of maturities and currency denominations.
To achieve these goals, management constantly monitors the Group's debt exposure, in terms of the ratios of indebtedness to shareholders' equity and EBITDA, and the business units' cash flow generating ability.

Information about the stock option and stock grant plans is provided in Note 30.

Availing itself of one of the alternatives provided by IFRS 1 upon first-time adoption of the international accounting principles, Sorin Group opted for the undifferentiated inclusion in equity reserves of the differences generated by translating financial statements of foreign companies that had accumulated as of the transition date. Retained earnings (loss carryforward) that had accumulated as of the transition date were also included in other reserves without differentiation.

Consequently, other reserves include the following:

- The reserves of Sorin S.p.A., the Group's Parent Company, with the exception of the additional paid-in capital, which is listed separately.
- Retained earnings (loss carryforward) and translation differences accumulated as of January 2, 2004.
- The reserve generated upon first-time adoption of the international accounting principles.
- Consolidation differences, including the amounts by which the investment carrying values exceeded the pro rata interests held in the shareholders' equities of consolidated companies that could not be attributed to individual assets or liabilities in connection with acquisitions completed prior to 1993 and conveyed upon the Snia S.p.A. demerger. These differences had been deducted from consolidated shareholders' equity, as allowed under the rules then in force (Note 5).

## 18 – NON-CURRENT FINANCIAL LIABILITIES AND OTHER CURRENT FINANCIAL LIABILITIES

| | 12/31/10 | 12/31/09 |
|---|---|---|
| **Non-current financial liabilities** | | |
| Due to banks: | | |
| - Mediobanca, Intesa San Paolo, MCC and BNP Paribas syndicated loan (Tranches A and B) | -- | 30,387 |
| - European Investment Bank (EIB) | 94,589 | 93,364 |
| - Banca Regionale Europea | 2,602 | 2,845 |
| - Intesa San Paolo | 156 | 464 |
| Due under finance leases | 70 | 244 |
| **Total non-current financial liabilities** | 97,417 | 127,304 |
| **Other current financial liabilities** | | |
| Overdraft facilities and other short-term indebtedness | 2,001 | 15,148 |
| Advances on assigned trade receivables (Note 11) | 24,191 | 16,400 |
| Current portion of medium- and long-term indebtedness: | | |
| Due to banks: | | |
| - Mediobanca, Intesa San Paolo, MCC and BNP Paribas syndicated loan (Tranches A and B) | 30,682 | 32,487 |
| - European Investment Bank (EIB) | 1,350 | 750 |
| • Banca Regionale Europea | 244 | 230 |
| • Intesa San Paolo | 154 | 392 |
| Due under finance leases | 204 | 333 |
| Other financial liabilities | 137 | 155 |
| **Total other current financial liabilities** | 58,963 | 65,895 |

(in thousands of euros)

Non-current financial liabilities include the portion of medium- and long-term debt due after one year.

Checking account overdrafts and other short-term indebtedness includes utilizations of revocable credit lines, none of which has been collateralized.
At December 31, 2010, the Group had unused credit lines totaling about 95 million euros (63 million euros at December 31, 2009).

Non-current financial liabilities and Other current financial liabilities include 1,841,000 euros in liabilities arising from transactions with related parties (Note 41).

The table below provides information about the main financing facilities provided to the Group by credit institutions.

| | FACE VALUE IN THOUSANDS OF EUROS (1) | MATURITY | % INTEREST RATE |
|---|---|---|---|
| - Mediobanca, Intesa San Paolo, MCC and BNP Paribas syndicated loan: | | | |
| Tranche A | 22,953 | December 22, 2011 | Six month Euribor + spread from 1.75% to 0.75% (3) |
| Tranche B (2) | 7,811 | December 22, 2011 | Six month Libor + spread from 1.75% to 0.75% (3) |
| | 30,764 | | |
| - EIB: | | | |
| Tranche 1 | 59,500 | June 30, 2014 (4) | Six month Euribor + spread from 1.75% to 0.45% (3) |
| Tranche 2 (2) | 36,439 | June 30, 2014 (4) | Six month Libor + spread from 1.75% to 0.45% (3) |
| | 95,939 | | |
| - Banca Regionale Europea | 2,846 | January 10, 2020 | Six month Euribor + spread of 1.30% |

(in thousands of euros)

(1) Includes current installments.
(2) Loan disbursed in U.S. dollars.
(3) Spread subject to change upon Sorin Group achieving certain ratios of net indebtedness to EBITDA.
(4) Single maturity.

The Mediobanca, Intesa San Paolo, MCC and BNP Paribas syndicated facility and the EIB loan are subject to terms and conditions that are typical of facilities of this type. They include the following:

- Financial parameters that set maximum and minimum limits in the consolidated financial statements for the ratios of debt to equity, debt to EBITDA and EBITDA to net borrowing costs;
- Financial parameters that set maximum and minimum limits in the consolidated financial statements for shareholders' equity, indebtedness and capital expenditures;
- So-called *pari passu* clauses, pursuant to which the financing facility may not be subordinated to other borrowings, except for obligations that enjoy a senior status pursuant to law;
- Negative pledge clauses, which place limits on the Group's ability to provide collateral;
- and other clauses that are normally included in loan agreements of this type, including restrictions on dividend payments and asset sales.

At December 31, 2010, the Group was abundantly in with compliance the covenants of the abovementioned loan agreements.

In 2010, in addition to repaying the installments due during the year totaling 31.9 million euros, Sorin S.p.A. carried out a mandatory early repayment, ahead of the scheduled due dates, of an installment of both facilities for a total of 2.7 million euros, as required by the “excess cash flow” clause. Pursuant to this clause, a portion of the excess cash flow generated the previous year, net of loan installments repaid during the same period, must be used for early repayment of the loan.

With regard to the EIB financing facility, which was provided to Sorin S.p.A. in connection with research and development projects carried out by Sorin Group between 2007 and 2009, as partial funding for the Group’s overall research and development program, the Company supplied all the information required, pursuant to the contract, with regard to the amounts actually expended and invested, compared with the amount budgeted for the abovementioned period and used for loans disbursement purposes.

The loan provided by the Banca Regionale Europea is secured by a mortgage on certain buildings at the Saluggia production facility (Note 3). No collateral has been provided to secure other loans.

## 19 – PROVISIONS

| | PROVISION FOR WARRANTIES | PROVISION FOR RESTRUCTURING PROGRAMS | OTHER PROVISIONS FOR RISKS AND CHARGES | TOTAL |
|---|---|---|---|---|
| NON-CURRENT | | | | |
| Balance at December 31, 2008 | -- | -- | 2,372 | 2,372 |
| • Additions | -- | -- | 38 | 38 |
| • Utilizations | -- | -- | (249) | (249) |
| • Reversals in earnings | -- | -- | (123) | (123) |
| • Reclassifications | -- | -- | 636 | 636 |
| Balance at December 31, 2009 | -- | -- | 2,674 | 2,674 |
| Balance at December 31, 2010 | -- | -- | 2,674 | 2,674 |
| CURRENT | | | | |
| Balance at December 31, 2008 | 1,568 | 11,400 | 7,195 | 20,163 |
| • Additions | 938 | 875 | 8,362 | 10,175 |
| • Utilizations | (935) | (5,922) | (2,994) | (9,851) |
| • Reversals in earnings | (250) | (1,183) | (709) | (2,142) |
| • Currency translation differences | (35) | (82) | (355) | (472) |
| Balance at December 31, 2009 | 1,286 | 5,088 | 11,499 | 17,873 |
| • Additions | 1,614 | 3,659 | 2,391 | 7,664 |
| • Utilizations | (1,188) | (2,793) | (8,826) | (12,807) |
| • Reversals in earnings | -- | (225) | (30) | (255) |
| • Reclassifications | -- | 16 | -- | 16 |
| • Currency translation differences | 45 | 53 | 643 | 741 |
| Balance at December 31, 2010 | 1,757 | 5,798 | 5,677 | 13,232 |

(in thousands of euros)

The provision for warranties represents the Group’s best estimate, based on past experience, of the amount that will be needed to defray future costs arising from contractual commitments to guarantee products sold.

The utilizations of the provision for restructuring programs recognized in 2010 reflect the ongoing implementation of the restructuring process launched in accordance with the programs approved by the Board of Directors of Sorin S.p.A. Specific activities included the following:

- Project to complete the plan of a new manufacturing structure for the Cardiac Rhythm Management business operations at the Clamart facility;
- Downsizing of the organization existing in Denver (Colorado, U.S.A.).

Utilizations of Other current provisions for risks and current charges reflect for the most part the effect of a settlement with the U.S. Department of Justice in connection with an investigation launched in 2006 for alleged violation of the rules of a U.S. federal health care program by the Ela Medical Inc. subsidiary and some of its sales agents. This settlement, under which Sorin agreed to pay US$10 million in October 2010 (7.2 million euros, already recognized in the consolidated financial statements at December 31, 2009) without admitting any violation of any law, was not related in any way whatsoever with any product licensing or safety issues.

## 20 – Provision for Employee Severance Indemnities (PESI) and Other Provisions for Employee Benefits

| | PESI | OTHER PROVISIONS FOR EMPLOYEE BENEFITS | TOTAL |
|---|---|---|---|
| Balance at December 31, 2008 | 18,973 | 4,371 | 23,344 |
| • Additions | 751 | 2,301 | 3,052 |
| • Utilizations (1) | (1,720) | (747) | (2,467) |
| • Currency translation differences | -- | (97) | (97) |
| • Reclassifications | -- | 50 | 50 |
| Balance at December 31, 2009 | 18,004 | 5,878 | 23,882 |
| • Additions | 949 | 2,007 | 2,956 |
| • Utilizations (1) | (892) | (629) | (1,521) |
| • Currency translation differences | -- | 253 | 253 |
| • Reclassifications | -- | (548) | (548) |
| Balance at December 31, 2010 | 18,061 | 6,961 | 25,022 |

(in thousands of euros)

(1) In the case of Other provisions for employee benefits, utilizations refer to benefits disbursed, net of contributions paid by the employer to increase plan assets.

A new Long-term Incentive Plan (LTIP) for the achievement of multi-year objectives and benefiting a select number of key managers was introduced in 2009. This Plan is based on a three-year incentivizing cycle tied to Group performance targets.
Specifically, the Plan calls for the award of a bonus at the end of a cycle. The vesting conditions include the beneficiary's continuing employment at a Group company on the date the bonus is paid and the achievement by the Group of the applicable performance targets.
For financial statement recognition purposes, this Plan was classified in the Other long-term benefits category and accounted for in accordance with the rules provided in IAS 19 for this benefit category, together with the applicable social security contributions.
The cost attributable to 2010, which was included in Other provisions for employee benefits – Amount for defined-benefit plans, totaled 488,000 euros (1,133,000 euros in 2009).

The amount shown for Reclassifications refers to the option provided by Sorin S.p.A. to the beneficiaries of the abovementioned incentive plan to convert into shares of stock the cash bonus originally awarded under the Plan.

Additions to Other provisions for employee benefits includes the social security contributions owed on plans with share based payment (stock grants), accounted for in accordance with IAS 37, amounting to 377,000 euros. The cost of the plan was recognized as an addition to shareholders' equity, as required by IFRS 2.

A breakdown of additions for the year, the entire amount of which was included in personnel costs and is shown net of projected income from plan assets, is as follows:

| | 2010 | | |
|---|---|---|---|
| | PESI | OTHER PROVISIONS FOR EMPLOYEE BENEFITS | TOTAL |
| • Cost of defined-benefit plans: | | | |
| . benefit costs | 29 | 627 | 656 |
| . financial expense | 774 | 509 | 1,283 |
| . actuarial (gains) losses | 146 | 494 | 640 |
| • Cost of plans with share based payment: | | | |
| stock grants (social security cost) | -- | 377 | 377 |
| Total | 949 | 2,007 | 2,956 |

(in thousands of euros)

| | 2009 | | |
|---|---|---|---|
| | PESI | OTHER PROVISIONS FOR EMPLOYEE BENEFITS | TOTAL |
| • Cost of defined-benefit plans: | | | |
| . benefit costs | 27 | 1,147 | 1,174 |
| . financial expense | 854 | 495 | 1,349 |
| . actuarial (gains) losses | (130) | 659 | 529 |
| Total | 751 | 2,301 | 3,052 |

(in thousands of euros)

The provision for employee severance indemnities was computed based on the following assumptions:

*Demographic assumptions*

| | |
|---|---|
| - Mortality rate | IPS55 mortality chart |
| - Disability rate | INPS 2000 tables |
| - Employee turnover rate | 5% |

*Financial assumptions*

| | |
|---|---|
| - Inflation rate | 2.00% |
| - Discount rate | 4.10% |
| - Average rate of wage increase (only for defined-benefit plans) | 3.0% |

A breakdown of defined-benefit plans by geographic region at December 31, 2010 is as follows:

|  | EUROPE | NORTH AMERICA | JAPAN AND AUSTRALIA | TOTAL |
|---|---|---|---|---|
| Obligations under defined-benefit plans | 4,492 | 6,135 | 1,804 | 12,431 |
| Fair value of plan assets | (416) | (4,461) | (970) | (5,847) |
| Total | 4,076 | 1,674 | 834 | 6,584 |

(in thousands of euros)

With regard to other provisions for employee benefits, the changes in obligations assumed under defined-benefit plans and in the fair value of plan assets that occurred in 2010 are shown below:

|  | OBLIGATIONS ASSUMED UNDER DEFINED-BENEFIT PLANS | FAIR VALUE OF PLAN ASSETS |
|---|---|---|
| Balance at December 31, 2009 | 11,175 | (5,297) |
| • Benefit costs | 802 | -- |
| • Expected return on plan assets |  | (175) |
| • Financial expense | 509 | -- |
| • Actuarial (gains) losses | 410 | 84 |
| • Contributions provided by employer | -- | (445) |
| • Benefits disbursed | (684) | 500 |
| • Currency translation differences | 767 | (514) |
| • Reclassifications | (548) | -- |
| Balance at December 31, 2010 | 12,431 | (5,847) |

(in thousands of euros)

Both Group obligations under the defined-benefit plans and the plans' assets were valued in accordance with the actuarial method. The following assumptions were used in 2010:

|  | EUROPE | UNITED STATES | JAPAN |
|---|---|---|---|
| Discount rate (%) | 4.75-4.95 | 5.81 | 1.50 |
| Expected return on plan assets (%) | 4.10 | 5.00 | 0.75 |
| Forecast of remaining number of employee work years | 6.00-10.40 | 11.77 | 6.70 |

In the United States, other provisions for employee benefits refer mainly to Sorin Group USA Inc. and are related to employees of the old Sorin Biomedical Inc., which was merged into Sorin Group USA Inc. in 1999.
At the time of the merger, the employees were not transferred to Sorin Group USA Inc., but the company maintained the obligations that existed under the Sorin Biomedical Inc. pension plan.

## 21 – Trade Payables

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Trade payables owed to: | | |
| - outsiders | 86,127 | 84,507 |
| - associated companies | -- | -- |
| - other related parties | 18 | 38 |
| Total | 86,145 | 84,545 |

(in thousands of euros)

Trade payables do not accrue interest.

The Group produces highly specialized medical devices, the production of which requires the use of very high quality and highly reliable components and materials. Some of these components and materials are purchased from a limited number of strategic suppliers, due to the special characteristics of the materials used and products' safety requirements. The limited number of suppliers used could be a source of price risk. The actions taken by the Group to minimize this risk include both maintaining an ongoing relationship with its existing suppliers and identifying alternative sources.
For risk assessment purposes, the Group discloses that, in terms of exposure, its top five suppliers accounted for 14.3% of the materials and services used (12.5% in 2009).

Both in 2010 and 2009, accounts payable to related parties refer to Mittel Corporate Finance S.p.A., as described in Note 41.

## 22 – Other Payables

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Other current obligations and liabilities owed to: | | |
| - outsiders | 67,673 | 58,689 |
| - associated companies | -- | -- |
| - other related parties | -- | -- |
| • Deferred income | 1,685 | 1,328 |
| Total | 69,358 | 60,017 |

(in thousands of euros)

Other current payables and liabilities do not accrue interest. They consist mainly of amounts owed to pension and social security institutions and to employees, and include the accrued portion of employee payrolls.

## 23 – COMMITMENTS, GUARANTEES PROVIDED AND CONTINGENT LIABILITIES

*Commitments Under Finance Leases*

A breakdown of future lease payments by maturity is as follows:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Due within one year | 214 | 353 |
| • Due between one and five years | 63 | 239 |
| • Due after five years | -- | -- |
| Total lease payments | 277 | 592 |
| (Financial expense) | (3) | (15) |
| Total present value of lease payments | 274 | 577 |

(in thousands of euros)

*Commitments Under Operating Leases and Building Leases*

A breakdown by period of future payments due under operating leases and building leases executed by the Group is as follows:

| | OPERATING LEASES | | BUILDING LEASES | |
|---|---|---|---|---|
| | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 |
| • Due within one year | 4,614 | 4,192 | 10,735 | 10,858 |
| • Due between one and five years | 7,603 | 7,340 | 28,589 | 34,311 |
| • Due after five years | -- | -- | 12,422 | 27,613 |
| Total lease payments | 12,217 | 11,532 | 51,746 | 72,782 |

(in thousands of euros)

*Guarantees Provided*

The following guarantees provided by the Group were outstanding at December 31, 2010:

- Endorsements provided to credit institutions for sureties they provided in connection with submissions in response to calls for tenders for Group products (12,390,000 euros). At December 31, 2009, endorsements totaled 9,953,000 euros.
- Other sureties provided to outsiders, mainly in connection with the provision of services, totaling 2,443,000 euros (2,330,000 euros at December 31, 2009).

In addition, as stated in Note 3, some buildings in Saluggia collateralize loans received to purchase those buildings.

The surety provided to the Italian Tax Administration – Milan VAT Office, in connection with the filing of a consolidated VAT return expired in 2010 (2,416,000 euros at December 31, 2009).

## Litigation and Contingent Liabilities

Even though the Group is exposed to the risk of litigation related to product liability, which is inherent in the development, production and distribution of medical devices, there were no administrative, judicial or arbitration proceedings outstanding at December 31, 2010 that could have a material impact on the Group's operating performance or financial position. Moreover, the Group has secured international insurance coverage that it believes is adequate to cover its civil liability and product liability exposure.

As for proceedings involving issues other than product liability, on November 9, 2010, the French antitrust authorities (L'Autorité de la Concurrence) launched an investigation of the cardiac rhythm management device industry in France. The antitrust authorities requested and received information from all of the companies active in this industry in the French market, including the direct and indirect subsidiaries of Sorin S.p.A. (Sorin CRM S.A.S. and Sorin Group France S.A.S.), and by the French industry association (Syndicat National de l'Industrie des Technologies Médicales - SNITEM). Sorin is fully cooperating with this investigation, which is still ongoing and in connection with which no evidence has been produced or formal charges filed against any Group affiliate. At this preliminary stage, it is impossible to identify or quantify the financial or economic impact, if any, of this investigation.

In a tax audit report notified on October 30, 2009, the Regional Internal Revenue Office of Lombardy informed Sorin Group Italia S.r.l. that, among several issues, it was disallowing in part (for a total of 102.6 million euros) a tax deductible writedown 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 three notices of assessment for 2002, 2003 and 2004. The assessments for 2002 and 2003 were automatically voided by virtue of their lack of merit. In December 210, the Internal Revenue Office issued a notice of assessment for 2005.
The Company, being confident that it can fully justify and defend its position, appealed the assessments for 2004 and 2005 before the Provincial Tax Commissions of venue. No notice of assessment has been received thus far for 2006.
The total amount of the contested losses is 62.6 million euros. The Company did not recognize a provision for this contingent risk because it believes that it correctly interpreted and applied the relevant laws.

*Financial Instruments*

The Group uses a number of instruments to finance its operations, including: medium- and long-term financing facilities provided by credit institutions and other lenders, finance leases, short-term bank loans and advances against trade receivables assigned under factoring and securitization contracts. Other financial instruments available to the Group include trade payables and receivables generated by its operations, equity investments in other companies, assets and liabilities from financial derivatives (mainly interest rate swaps and forward currency contracts) and other receivables and payables, except for those involving transactions with employees, the tax administration and social security institutions.

Consistent with the recommendations of IFRS 7 "Financial Instruments: Disclosures," the schedules provided on subsequent pages of this Report contain the following information: classification of financial instruments, disclosure of fair value, the hierarchical ranking used to determine fair value, and interest income and expense on financial instruments not valued at fair value.

*Classification of Financial Instruments*

The following process was applied in developing a classification of financial instruments in accordance with guidelines provided by IAS 39:

- Assets and liabilities from financial derivative contracts executed to hedge the impact of foreign exchange risk on the import/export flows were classified as "Hedging derivatives," when they met the requirements for hedge accounting treatment, or as "Financial assets/liabilities held for trading (at fair value through profit or loss)," when they did not meet the requirements for hedge accounting treatment.
- Assets and liabilities from financial derivative contracts executed to hedge the impact of interest rate risk were classified under Hedging derivatives, when they met the requirements for hedge accounting, and under Financial assets/liabilities held for trading (at fair value through profit or loss), when they did not meet those requirements.
- Trade receivables include receivables assigned to outsiders under a securitization program and factoring contracts that do not meet the requirements of IAS 39 for deconsolidation. The assignment of these receivables was offset by liabilities for advances, which were classified as Financial liabilities at amortized cost (Note 11).

The schedule that provides a classification of financial instruments also shows the fair value of each line item in the financial statements. The following method was applied to determine fair value:

- Assets and liabilities from financial derivatives that hedge interest rate risk (interest rate swaps): Present value of the interest flows generated on the notional amount, computed separately for the fixed rate portion and the variable rate portion. The computation for the latter was based on the forward rate curve at December 31.
- Assets and liabilities from financial derivatives that hedge foreign exchange risk (forward contracts): Present value of the differentials between the contractual forward exchange rate and the forward rate for similar transactions executed on December 31.
- Financial liabilities at amortized cost: Present value of borrowing flows (counting both principal and interest). Future interest flows were computed using the forward rate curve at December 31 and were discounted to present value using rates adjusted to the market credit spread at December 31, using the curve of the zero-coupon interest rate swaps as of the same date.

The carrying value of other financial instruments was roughly the same as their fair value. Specifically, the carrying value of investments in other companies, which are instruments that are not traded on active markets, is realistically representative of their fair value.
The fair value of the remaining financial assets and liabilities (trade receivables and payables, miscellaneous receivables and payables and short-term financial receivables and payables) is also consistent with their carrying value, of which it represents a reasonable approximation.

SORIN GROUP

*Classification of Financial Instruments at December 31, 2010*

| | CLASSIFICATION | | | | | | | CARRYING VALUE | | | FAIR VALUE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE WITH CHANGES RECOGNIZED IN EARNINGS | FINANCIAL ASSETS/ LIABILITIES HELD FOR TRADING | LOANS AND OTHER RECEIVABLES | HELD-TO-MATURITY FINANCIAL ASSETS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | FINANCIAL LIABILITIES AT AMORTIZED COST | HEDGING DERIVATIVES | TOTAL | CURRENT AMOUNT | NON-CURRENT AMOUNT | |
| <u>Assets</u> | | | | | | | | | | | |
| Financial assets | -- | -- | 84 | -- | 1,221 | -- | -- | 1,305 | -- | 1,305 | 1,305 |
| Other assets | -- | -- | 957 | -- | -- | -- | -- | 957 | -- | 957 | 957 |
| Trade receivables | -- | -- | 182,571 | -- | -- | -- | -- | 182,571 | 182,571 | -- | 182,571 |
| Other receivables | -- | -- | 22,890 | -- | -- | -- | | 22,890 | 22,890 | -- | 22,890 |
| Assets from financial derivatives | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Other financial assets | -- | -- | 8,962 | -- | -- | -- | -- | 8,962 | 8,962 | -- | 8,962 |
| Cash and cash equivalents | -- | -- | 29,699 | -- | -- | -- | -- | 29,699 | 29,699 | -- | 29,699 |
| Total financial assets | -- | -- | 245,163 | -- | 1,221 | -- | -- | 246,384 | 244,122 | 2,262 | 246,384 |
| <u>Liabilities</u> | | | | | | | | | | | |
| Financial liabilities | -- | -- | -- | -- | -- | 130,051 | -- | 130,051 | 32,634 | 97,417 | 127,201 |
| Other liabilities | -- | -- | -- | -- | -- | 3,420 | -- | 3,420 | -- | 3,420 | 3,420 |
| Trade payables | -- | -- | -- | -- | -- | 86,145 | -- | 86,145 | 86,145 | -- | 86,145 |
| Other payables | -- | -- | -- | -- | -- | 21,905 | -- | 21,905 | 21,905 | -- | 21,905 |
| Liabilities from financial derivatives | -- | 634 | -- | -- | -- | -- | 10,501 | 11,135 | 4,685 | 6,450 | 11,135 |
| Other financial liabilities | -- | -- | -- | -- | -- | 26,329 | -- | 26,329 | 26,329 | -- | 26,329 |
| Total financial liabilities | -- | 634 | -- | -- | -- | 267,850 | 10,501 | 278,985 | 171,698 | 107,287 | 276,135 |

(in thousands of euros)

## *Classification of Financial Instruments at December 31, 2009*

| | CLASSIFICATION | | | | | | | CARRYING VALUE | | | FAIR VALUE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE WITH CHANGES RECOGNIZED IN EARNINGS | FINANCIAL ASSETS/ LIABILITIES HELD FOR TRADING | LOANS AND OTHER RECEIVABLES | HELD-TO-MATURITY FINANCIAL ASSETS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | FINANCIAL LIABILITIES AT AMORTIZED COST | HEDGING DERIVATIVES | TOTAL | CURRENT AMOUNT | NON-CURRENT AMOUNT | |
| <u>Assets</u> | | | | | | | | | | | |
| Financial assets | -- | -- | 1 | -- | 1,222 | -- | -- | 1,223 | -- | 1,223 | 1,223 |
| Other assets | -- | -- | 1,268 | -- | -- | -- | -- | 1,268 | -- | 1,268 | 1,268 |
| Trade receivables | -- | -- | 185,507 | -- | -- | -- | -- | 185,507 | 185,507 | -- | 185,507 |
| Other receivables | -- | -- | 19,126 | -- | -- | -- | | 19,126 | 19,126 | -- | 19,126 |
| Assets from financial derivatives | -- | 1,343 | -- | -- | -- | -- | -- | 1,343 | 1,343 | -- | 1,343 |
| Other financial assets | -- | -- | 6,293 | -- | -- | -- | -- | 6,293 | 6,293 | -- | 6,293 |
| Cash and cash equivalents | -- | -- | 10,280 | -- | -- | -- | -- | 10,280 | 10,280 | -- | 10,280 |
| Total financial assets | -- | 1,343 | 222,475 | -- | 1,222 | -- | -- | 225,040 | 222,549 | 2,491 | 225,040 |
| <u>Liabilities</u> | | | | | | | | | | | |
| Financial liabilities | -- | -- | -- | -- | -- | 161,496 | -- | 161,496 | 34,192 | 127,304 | 152,418 |
| Other liabilities | -- | -- | -- | -- | -- | 2,030 | -- | 2,030 | -- | 2,030 | 2,030 |
| Trade payables | -- | -- | -- | -- | -- | 84,545 | -- | 84,545 | 84,545 | -- | 84,545 |
| Other payables | -- | -- | -- | -- | -- | 17,530 | -- | 17,530 | 17,530 | -- | 17,530 |
| Liabilities from financial derivatives | -- | 200 | -- | -- | -- | -- | 6,110 | 6,310 | 242 | 6,068 | 6,310 |
| Other financial liabilities | -- | -- | -- | -- | -- | 31,703 | -- | 31,703 | 31,703 | -- | 31,788 |
| Total financial liabilities | -- | 200 | -- | -- | -- | 297,304 | 6,110 | 303,614 | 168,212 | 135,402 | 294,621 |

(in thousands of euros)

## Fair Value – Hierarchical Ranking

The Group uses the following hierarchical ranking to determine and document the fair value of financial instruments, based on valuation techniques:

Level 1: unadjusted prices quoted in an active market for identical assets or liabilities;
Level 2: other techniques in which all inputs that have a material impact on recognized fair value can be observed, either directly or indirectly;
Level 3: techniques in which all inputs that have a material impact on recognized fair value are not based on observable market data.

The Group held the following financial instruments measured at fair value:

| | Amount at | | Level 1 | | Level 2 | | Level 3 | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 |
| Assets measured at fair value | | | | | | | | |
| - Assets from financial derivatives - non-hedging | -- | 1,343 | -- | -- | -- | 1,343 | -- | -- |
| Liabilities measured at fair value | | | | | | | | |
| - Liabilities from financial derivatives - hedging | 10,501 | 6,110 | -- | -- | 10,501 | 6,110 | -- | -- |
| - Liabilities from financial derivatives - non-hedging | 634 | 200 | -- | -- | 634 | 200 | -- | -- |

(in thousands of euros)

During the year ended December 31, 2010, there were no item transfers between Level 1 and Level 2 and no items were transferred to or from Level 3 in the fair value ranking.

## Interest Income and Expense

| | 2010 | 2009 |
|---|---|---|
| Interest earned on financial assets not valued at fair value | | |
| • Trade receivables and other receivables | 1,411 | 1,507 |
| • Other financial assets | 137 | -- |
| • Cash and cash equivalents | 37 | 35 |
| Interest paid on financial liabilities not valued at fair value | | |
| • Other payables | 60 | -- |
| • Taxes payable | -- | 344 |
| • Financial liabilities and other financial liabilities | 442 | 1,370 |
| • Borrowings | 2,761 | 6,150 |

(in thousands of euros)

## Managing Financial Risks

Because of the nature of its business operations, the Group is exposed to the following financial risks:

- Credit risk, which rather than to the potential insolvency of customers is related to a high level of trade receivables, reflective of DSO (Days of Sales Outstanding) averages that in some geographic regions are quite high.
- Liquidity risk, which reflects the need to meet financial obligations arising from operating and investing activities in accordance with stipulated terms and deadlines.
- Market risk, which includes both the foreign exchange risk and the interest rate risk.

To address these risks Sorin S.p.A., the Group's Parent Company, has taken the following actions:

- It published policies and procedures that are binding on all Group companies.
- Through corporate-level departments, it constantly monitors risk exposure levels.
- It uses derivatives exclusively for non-speculative purposes.
- It acts as the only counterparty of Group companies in derivatives that hedge market risk related to fluctuations in foreign exchange rates.
- It manages the Group's financial resources through a centralized cash management system, obtaining adequate credit lines and monitoring liquidity projections, consistent with the corporate planning process.
- It appropriately balances the average maturity, flexibility and diversification of funding sources.

Quantitative and qualitative information about the Group's exposure to financial risks is provided below.

## Credit Risk

The table below shows the Group' s maximum theoretical exposure to risk. The amounts are those recognized in the financial statements at December 31, 2010 and 2009.

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Financial assets | 1,305 | 1,223 |
| • Other assets | 957 | 1,268 |
| • Trade receivables | 182,571 | 185,507 |
| • Other receivables | 13,067 | 12,356 |
| • Assets from financial derivatives | -- | 1,343 |
| • Other financial assets | 8,873 | 6,206 |
| • Bank and postal accounts | 29,668 | 10,247 |
| • Irrevocable commitments to provide financing | -- | -- |
| • Guarantees | 14,833 | 14,699 |
| Total | 251,274 | 232,849 |

(in thousands of euros)

The risk related to bank accounts, financial assets and assets from financial derivatives is quite small because all bank and financial counterparts have very high credit ratings.

Most of the guarantees provided by the Group derive from statutory obligations (endorsements given to credit institutions for sureties they provided in connection with submissions in response to calls for tenders). As historical data show, any resulting risk is remote.

Because they operate in the medical technology industry, the companies of the Group are not exposed to a significant risk of non-payment by customers because public institutions represent a significant portion of the customer portfolio.

However, because their trade receivable balance is large due to a high DSO index, they are exposed to a liquidity risk due to the aging of the receivables.

While the Group addresses positions that have become objectively uncollectible (bankruptcies, litigation, etc.) by writing down the corresponding receivables, in order to monitor and minimize the credit risk on its trade receivable exposure, Sorin S.p.A. has issued the following policies:

- Credit and Collection Management Policy, which sets forth a series of control, prevention and verification activities to monitor and manage credit risk in terms both of default and delinquency. Specifically, the Policy establishes procedures regarding:
  - credit limits for individual private-sector customers;
  - authorization levels required to exceed those limits;
  - guidelines for securing payment guarantees by customers in at-risk countries (in certain countries sales are allowed only against the issuance of a letter of credit);
  - guidelines for granting payment terms that deviate from standard market terms.

  In addition, pursuant to the Policy, a Credit Committee has been established to supervise risk situations.
- The Bad Debt Policy, which, based on the average DSO of each Group company and the aging of each receivable, defines the method that should be used to compute the amount that should be added to the allowance for past-due accounts of private-sector customers.

The changes that occurred in allowances for doubtful accounts are discussed in Notes 11 and 14.

A schedule showing the ageing of Sorin Group's financial assets is provided below, as part of the credit risk disclosure:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| Trade receivables | | |
| • Current | 113,228 | 107,104 |
| • Less than 30 days past due | 15,243 | 18,604 |
| • 31 to 60 days past due | 7,102 | 6,796 |
| • 61 to 90 days past due | 4,609 | 4,416 |
| • 91 to 180 days past due | 11,663 | 12,151 |
| • 181 to 270 days past due | 7,477 | 6,548 |
| • 271 to 365 days past due | 5,184 | 6,078 |
| • 366 to 730 days past due | 11,515 | 14,010 |
| • more than 730 days past due | 6,550 | 9,800 |
| Total | 182,571 | 185,507 |

(in thousands of euros)

Of the receivables that were more than one year past due, which amounted to 18,065,000 euros at December 31, 2010 (23,810,000 euros at December 31, 2009), 81% was owed by public hospitals, mainly in Italy and Spain, that require from their suppliers payment terms averaging more than six months. The remaining 19% was owed by private-sector customers, clinics and distributors, with whom the Group has negotiated repayment plans and new payment terms.
Out of the total past due accounts outstanding, trade receivables totaling 10,206,000 euros were included in 23 repayment plans at December 31, 2010, compared with 16,690,000 euros and 62 repayment plans at December 31, 2009.

Current trade receivables (receivables that were not past due and not written down) totaled 113,228,000 euros (107,104,000,000 euros at December 31, 2009). As the table below shows, public institutions owed 28.7% of this amount (43.5% at December 31, 2009):

| | 12/31/10 | | | 12/31/09 | | |
|---|---|---|---|---|---|---|
| | TOTAL | CURRENT | PAST DUE | TOTAL | CURRENT | PAST DUE |
| BY SECTOR | | | | | | |
| • Public | 69,139 | 32,472 | 36,667 | 84,737 | 46,556 | 38,181 |
| • Private | 113,432 | 80,756 | 32,676 | 100,770 | 60,548 | 40,222 |
| Total | 182,571 | 113,228 | 69,343 | 185,507 | 107,104 | 78,403 |

(in thousands of euros)

The breakdown by geographic region shown in the table that follows is being provided to further facilitate an assessment of the risk entailed by Sorin Group's trade receivables:

| | 12/31/10 | | | | 12/31/09 | | | |
|---|---|---|---|---|---|---|---|---|
| | D.S.O. | TOTAL | CURRENT | PAST DUE | D.S.O. | TOTAL | CURRENT | PAST DUE |
| BY GEOGRAPHIC REGION | | | | | | | | |
| Italy | 169 | 41,028 | 15,067 | 25,961 | 202 | 46,410 | 15,081 | 31,329 |
| Spain | 272 | 26,091 | 8,721 | 17,370 | 250 | 23,116 | 8,736 | 14,380 |
| France | 42 | 14,866 | 12,022 | 2,844 | 45 | 15,284 | 11,077 | 4,207 |
| Germany | 30 | 3,878 | 2,923 | 955 | 35 | 4,454 | 3,418 | 1,036 |
| Rest of Europe | 67 | 23,586 | 17,564 | 6,022 | 81 | 26,035 | 16,981 | 9,054 |
| North America | 50 | 22,793 | 18,612 | 4,181 | 51 | 25,375 | 17,815 | 7,560 |
| Japan | 53 | 6,628 | 3,379 | 3,249 | 51 | 8,979 | 8,948 | 31 |
| Rest of the world | 110 | 43,701 | 34,940 | 8,761 | 153 | 35,854 | 25,048 | 10,806 |
| Total | 81 | 182,571 | 113,228 | 69,343 | 91 | 185,507 | 107,104 | 78,403 |

(in thousands of euros)

The Group's five largest customers in terms of exposure (equal to 10.9% of the total in 2010 and 9.4% in 2009) accounted for 2.7% of revenues (3.0% in 2009).

The improvement in the days of sales outstanding (DSO) ratio is the combined result of a better quality of credit and a decrease in the remaining receivables related to the Renal Care and Vascular Therapy operations divested in 2008.

The DSO ratio is computed as the ratio of total trade receivables at the end of the period to revenues for the preceding 12 months:
DSO ratio = (Trade receivables/Revenues) * 365
In order to make data homogeneous, revenues include VAT.

To complete the information provided with regard to credit risk, the Group discloses that Other assets, Other receivables and Other financial assets do not include material amounts that are past due.

## Liquidity Risk

The liquidity risk is the risk that the financial resources available to the Group may not be sufficient to meet financial obligations arising from operating and investment activities in accordance with stipulated terms and deadlines.
The Group's policy is to achieve a balance between average maturity and flexibility and diversification of financial sources. Because the Parent Company manages directly the Group's financial resources (centralized management of liquidity and bank borrowings, negotiation of adequate credit lines and monitoring of future liquidity needs consistent with the corporate planning process), this goal is generally pursued by securing access to overdraft facilities, medium- and long-term financing, finance leases, securitization/factoring of trade receivables and, lastly, maintaining a minimum required level of liquidity.
At December 31, 2010, the Group had unused short-term credit lines of about 95 million euros (63 million euros at December 31, 2009). On the same date, medium- and long-term borrowings, with an average maturity of about 2.5 years, were equal to about 80.7% of the Group's total net indebtedness (73.4% at December 31, 2009, not counting current installments). Additional information about non-current and current financial liabilities is provided in Note 18.

At December 31, 2010, the Group was fully in compliance with the covenants of the financing facility syndicated by Mediobanca, Intesa San Paolo, MCC and BNP Paribas and the facility provided by the European Investment Bank.

As part of the process of disclosing information about Sorin Group's exposure to the liquidity risk, the schedules that follow provide a breakdown by maturity of the its financial liabilities. Because the amounts shown in the abovementioned schedules represent cash flows that have not been discounted, liabilities that are presented in the financial statements at their amortized cost are being shown here at their face value.

The following information is relevant with regard to guarantees:

- 12,390,000 euros arise from statutory obligations, such as endorsements given to credit institutions for sureties they provided in connection with submissions in response to calls for tenders;
- 2,443,000 euros are for guarantees provided mainly in connection with the supply of services.

Considering the resources that will be generated by the Group's operations, the existing cash and cash equivalents, which are readily convertible into cash, and its available lines of credit, the Group believes that it will be able to meet its obligations as they arise from its investing activities, working capital requirements and debt repayment obligations, based on their scheduled due dates.

Breakdown by Maturity at December 31, 2010

| | WITHIN 6 MONTHS | 6 MONTHS TO 1 YEAR | 1 TO 2 YEARS | 2 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Financial instruments other than derivatives | | | | | | |
| Trade payables | 86,145 | -- | -- | -- | -- | 86,145 |
| Borrowings | | | | | | |
| • committed lines | 20,356 | 12,156 | 389 | 95,471 | 1,487 | 129,859 |
| • uncommitted lines (*) | 662 | 12,991 | 10,893 | -- | -- | 24,546 |
| Financial liabilities | 2,936 | 904 | 808 | 1,112 | 86 | 5,846 |
| Other liabilities | 11,205 | 328 | 9,568 | 1,908 | -- | 23,009 |
| Total | 121,304 | 26,379 | 21,658 | 98,491 | 1,573 | 269,405 |
| Liabilities from financial derivatives | | | | | | |
| - for foreign exchange risk | 29 | 3,982 | 96 | -- | -- | 4,107 |
| - for interest rate risk | 1,756 | 1,562 | 2,708 | 4,062 | -- | 10,088 |
| Total | 123,089 | 31,923 | 24,462 | 102,553 | 1,573 | 283,600 |
| (1) Amount for interest on borrowings and financial liabilities. | 971 | 882 | 740 | 1,110 | 86 | 3,789 |

(in thousands of euros)

(*) Includes the flows from Advances on assigned trade receivables.

Breakdown by Maturity at December 31, 2009

| | WITHIN 6 MONTHS | 6 MONTHS TO 1 YEAR | 1 TO 2 YEARS | 2 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Financial instruments other than derivatives | | | | | | |
| Trade payables | 84,495 | 50 | -- | -- | -- | 84,545 |
| Borrowings | | | | | | |
| • committed lines | 18,396 | 15,592 | 30,879 | 94,511 | 1,789 | 161,167 |
| • uncommitted lines (*) | 11,354 | 18,768 | -- | -- | -- | 30,122 |
| Financial liabilities | 3,328 | 1,437 | 2,231 | 4,612 | 90 | 11,698 |
| Other liabilities | 10,601 | 475 | 5,720 | 865 | -- | 17,661 |
| Total | 128,174 | 36,322 | 38,830 | 99,988 | 1,879 | 305,193 |
| Liabilities from financial derivatives | | | | | | |
| - for foreign exchange risk | -- | 152 | -- | -- | -- | 152 |
| - for interest rate risk | 2,318 | 2,065 | 4,824 | 8,791 | -- | 17,998 |
| Total | 130,492 | 38,539 | 43,654 | 108,779 | 1,879 | 323,343 |
| (1) Amount for interest on borrowings and financial liabilities. | 1,526 | 1,325 | 1,992 | 4,607 | 90 | 9,540 |

(in thousands of euros)

(*) Includes the flows from Advances on assigned trade receivables.

## Market Risk Related to Fluctuations in Foreign Exchange Rates

Sorin Group includes companies located both in Europe and elsewhere in the world (a list of Group companies is

provided in Note 43). Accordingly, it manufactures and distributes its products around the world and settles its commercial transactions in various currencies. As a result of the geographic footprint of its operations, the currencies to which the Group has its greatest exposure are the U.S. dollar, the Japanese yen, the British pound and the Canadian dollar.
With regard to financial instruments denominated in currencies other than the reporting currency of the company holding them, the largest exposures are those in U.S. dollars and Japanese yen. A breakdown by currency is provided below:

| | 12/31/10 | | | | |
|---|---|---|---|---|---|
| | EUR | USD | JPY | OTHER | TOTAL |
| Assets | | | | | |
| Cash and cash equivalents in foreign currencies | 2 | 2,528 | 10 | 271 | 2,811 |
| Foreign currency trade receivables | 409 | 17,114 | 6,650 | 3,168 | 27,341 |
| Foreign currency financial assets | -- | -- | -- | 62 | 62 |
| Other foreign currency assets | -- | 11 | 10 | 57 | 78 |
| Total assets | 411 | 19,653 | 6,670 | 3,558 | 30,292 |
| Liabilities | | | | | |
| Foreign currency trade payables | (29) | (5,498) | (26) | (1,168) | (6,721) |
| Foreign currency financial liabilities | -- | (44,254) | -- | -- | (44,254) |
| Other foreign currency liabilities | (50) | (47) | -- | (23) | (120) |
| Total liabilities | (79) | (49,799) | (26) | (1,191) | (51,095) |
| Net exposure | 332 | (30,146) | 6,644 | 2,367 | (20,803) |
| Assets from financial derivatives | | | | | |
| - non-hedging (1) | -- | -- | -- | -- | -- |
| - hedging | -- | -- | -- | -- | -- |
| Liabilities from financial derivatives | | | | | |
| - non-hedging (1) | -- | (591) | (114) | 71 | (634) |
| - hedging | -- | (809) | (4,098) | (484) | (5,391) |
| Total | -- | (1,400) | (4,212) | (413) | (6,025) |
| Net overall exposure | 332 | (31,546) | 2,432 | 1,954 | (26,828) |

(in thousands of euros)

(1) For hedging transactions that do not qualify for hedge accounting.

| | 12/31/09 | | | | |
|---|---|---|---|---|---|
| | EUR | USD | JPY | OTHER | TOTAL |
| Assets | | | | | |
| Cash and cash equivalents in foreign currencies | 121 | 382 | -- | 184 | 687 |
| Foreign currency trade receivables | 233 | 20,644 | 895 | 2,886 | 24,658 |
| Foreign currency financial assets | -- | -- | -- | 7 | 7 |
| Other foreign currency assets | 153 | 448 | 3 | 94 | 698 |
| Total assets | 507 | 21,474 | 898 | 3,171 | 26,050 |
| Liabilities | | | | | |
| Foreign currency trade payables | -- | (3,629) | (6) | (411) | (4,046) |
| Foreign currency financial liabilities | -- | (52,169) | -- | -- | (52,169) |
| Other foreign currency liabilities | -- | (36) | -- | (212) | (248) |
| Total liabilities | -- | (55,834) | (6) | (623) | (56,463) |
| Net exposure | 507 | (34,360) | 892 | 2,548 | (30,413) |
| Assets from financial derivatives | | | | | |
| - non-hedging (1) | -- | 851 | 693 | (201) | 1,343 |
| Liabilities from financial derivatives | | | | | |
| - non-hedging (1) | -- | (152) | -- | -- | (152) |
| - hedging | -- | (396) | -- | -- | (396) |
| Total | -- | 303 | 693 | (201) | 795 |
| Net overall exposure | 507 | (34,057) | 1,585 | 2,347 | (29,618) |

(in thousands of euros)

(1) For hedging transactions that do not qualify for hedge accounting.

In order to minimize its foreign exchange risk exposure, the Group uses both indebtedness in currencies other than the euro and financial derivatives to hedge in the forward market import/export flows into and from the euro zone.

To support the implementation of the abovementioned guidelines, Sorin S.p.A. published a Foreign Exchange Management Policy that defines the following:

- The distinction between “transactional” risk, which is quantified at the outset in the budget, and “translation” risk, which arises from the translation of the shareholders’ equities of foreign subsidiaries that prepare their financial statements in currencies other than the euro.
- The criteria for determining and quantifying risk.
- The approach that must be followed with regard to hedging foreign exchange risk: mandatory for “transactional” risk, with 100% coverage of the net positions determined in the annual budget, and optional for “translation” risk.
- The management level that can authorize hedging the abovementioned risks.
- The operational procedures, pursuant to which subsidiaries are not allowed to execute hedging transactions with outsiders. Only Sorin S.p.A. can hedge the foreign exchange risk of its subsidiaries, using approved instruments, and having as its counterparts Group companies on one side and, on the other, one of the credit and financial institutions included in a list provided in the Policy.
- The functions and responsibilities of Sorin S.p.A., which is responsible for defining guidelines for the management of foreign exchange risk, identifying their occurrence within the Group and determining and monitoring their magnitude.
- The financial instruments that may be used as hedges: forward foreign exchange contracts, currency swaps, borrowings in foreign currencies and foreign exchange options.

In 2010, with regard to transactional risk, the Group hedged about 100% of its net positions in U.S. dollars, Canadian dollars, Japanese yen, British pounds and Swiss francs. The derivatives used included forward foreign exchange contracts and options. Beginning on January 1, 2010, the Group adopted the necessary tools to apply hedge accounting treatment to financial derivatives that hedge the risk of fluctuations in foreign exchange rates (cash flow hedges).
The effective hedging portion of gains or losses from the valuation of financial derivatives that qualify for hedge accounting treatment under IAS 39 is recognized in a shareholders' equity reserve, while the non-effective portion is recognized in profit or loss, provided the financial derivative has been designated as a cash flow hedge (hedging the cash flows of an asset or liability). Gains or losses recognized in equity are transferred to the income statement when the economic effects of the hedged assets and liabilities is reflected in the result for the period. When a hedging instrument expires or is closed out, the amounts previously recognized in equity are transferred to income statement.
Gains or losses from the valuation of financial derivatives that do not qualify for hedge accounting are recognized in profit or loss.
In 2010, the nature and structure of the Group's exposure to transactional risk and its hedging policies did not materially differ from the previous year.

Additional details about the financial instruments used to hedge foreign exchange risk is provided in Note 13.

In order to illustrate the risk to which the Group is exposed as a result of changes in foreign exchange rates, a sensitivity analysis that shows the impact on the income statement of upward and downward changes in the parities between the euro and other currencies is provided on the following page.

The variation used for sensitivity analysis purposes was +/-10% from the exchange rate at December 31, applied to the euro/U.S. dollar, euro/Japanese yen and euro/other currencies exchange rates for all financial instruments included in the financial statements.

| | USD | | JPY | | OTHER CURRENCIES | |
|---|---|---|---|---|---|---|
| | 12/31/10 | | 12/31/10 | | 12/31/10 | |
| | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN |
| Assets | | | | | | |
| Cash and cash equivalents in foreign currencies | -230 | +281 | -1 | +1 | -27 | +29 |
| Foreign currency trade receivables | -1,556 | +1,902 | -605 | +739 | -296 | +343 |
| Foreign currency financial assets | -- | -- | -- | -- | -6 | +6 |
| Other foreign currency assets | -1 | +1 | -1 | +1 | -7 | +7 |
| Total assets | -1,787 | +2,184 | -607 | +741 | -336 | +385 |
| Liabilities | | | | | | |
| Foreign currency trade payables | +500 | -611 | +2 | -3 | +106 | -129 |
| Foreign currency financial liabilities | +4,023 | -4,917 | -- | -- | -- | -- |
| Other foreign currency liabilities | +4 | -5 | -- | -- | +2 | -2 |
| Total liabilities | +4,527 | -5,533 | +2 | -3 | +108 | -131 |
| Assets from financial derivatives | | | | | | |
| - non-hedging (1) | -- | -- | -- | -- | -- | -- |
| - hedging | -- | -- | -- | -- | -- | -- |
| Liabilities from financial derivatives | | | | | | |
| - non-hedging (1) | -3,620 | +4,425 | +910 | -1,112 | -2,411 | +2,941 |
| - hedging | +5,628 | -10,106 | +5,317 | -6,160 | +2,548 | -3,110 |
| Total financial derivatives | +2,008 | -5,681 | +6,227 | -7,272 | +137 | -169 |
| Total | +4,748 | -9,030 | +5,622 | -6,534 | -91 | +85 |

(in thousands of euros)

(1) For hedging transactions that do not qualify for hedge accounting.

| | USD | | JPY | | OTHER CURRENCIES | |
|---|---|---|---|---|---|---|
| | 12/31/09 | | 12/31/09 | | 12/31/09 | |
| | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN |
| **Assets** | | | | | | |
| Cash and cash equivalents in foreign currencies | -35 | +42 | -- | -- | -18 | +19 |
| Foreign currency trade receivables | -1,877 | +2,294 | -81 | +99 | -263 | +320 |
| Foreign currency financial assets | -- | -- | -- | -- | -1 | +1 |
| Other foreign currency assets | -41 | +50 | -- | -- | -9 | +10 |
| Total assets | -1,953 | +2,386 | -81 | +99 | -291 | +350 |
| **Liabilities** | | | | | | |
| Foreign currency trade payables | +330 | -403 | +1 | -1 | +38 | -45 |
| Foreign currency financial liabilities | +4,743 | -5,797 | -- | -- | -- | -- |
| Other foreign currency liabilities | +3 | -4 | -- | -- | +21 | -21 |
| Total liabilities | +5,076 | -6,204 | +1 | -1 | +59 | -66 |
| Assets from financial derivatives | | | | | | |
| - non-hedging (1) | +1,556 | -1,739 | +4,521 | -5,529 | +1,953 | -2,383 |
| Liabilities from financial derivatives | | | | | | |
| - hedging | +36 | -44 | -- | -- | -- | -- |
| Total financial derivatives | +1,592 | -1,783 | +4,521 | -5,529 | +1,953 | -2,383 |
| Total | +4,715 | -5,601 | +4,441 | -5,431 | +1,721 | -2,099 |

(in thousands of euros)

(1) For hedging transactions that do not qualify for hedge accounting.

## Market Risk Related to Fluctuations in Interest Rates

Sorin Group is exposed to the risk that arises from fluctuations in interest rates because the cost of all of its financial liabilities is incurred at variable rates.
To minimize the risk posed by increases in short-term interest rates, Sorin S.p.A. issued an "Interest rate Risk Management Policy" that provides guidelines with regard to:

- The need to assess on a regular basis the interest rate risk and its impact on the Group's income statement;
- The roles and responsibilities with regard to risk management decision, with the requirement that all planned hedging transactions must be approved by the Board of Directors in advance;
- Interest rate risk hedging transactions executed for specific financing facilities or transactions and the terms of the hedging instruments used, so as to ensure that they are entirely consistent with the hedged financing facilities or financial liabilities;
- The types of financial derivatives that may be used (interest rate swaps and options) and the approved bank counterparties for transactions hedging variable-rate financing facilities (up to 100% of the risk exposure may be hedged).

With regard to its medium- and long-term indebtedness, the Group executed derivatives that hedge the risk of interest rate fluctuations for a notional amount of 127.4 million euros, equal to about 76% of the consolidated financial liabilities at December 31, 2010. At December 31, 2009, the notional amount of interest rate derivatives was 162 million euros, equal to about 81% of the consolidated financial liabilities.

Beginning on January 1, 2009, as required by the "Interest Rate Risk Management" policy published by Sorin S.p.A. at the end of 2008, the Group adopted appropriate procedures to determine whether financial derivatives that hedge the risk of fluctuations in interest rates (cash flow hedges) meet the requirements for hedge accounting treatment.
The effective hedging portion of gains or losses from the valuation of financial derivatives that qualify for hedge accounting treatment under IAS 39 is recognized in a shareholders' equity reserve, while the non-effective portion is recognized in profit or loss, provided the financial derivative has been designated as a cash flow hedge (hedging the cash flows of an asset or liability). Gains or losses recognized in equity are transferred to the income statement when the economic effects of the hedged assets and liabilities is reflected in the result for the period. When a hedging instrument expires or is closed out, the amounts previously recognized in equity are transferred to income statement.
Gains or losses from the valuation of financial derivatives that do not qualify for hedge accounting are recognized in profit or loss.
The status of the abovementioned contracts at December 31, 2010 is shown in Note 13.

In order to illustrate the risks to which the Group is exposed as a result of fluctuations in interest rates, a sensitivity analysis that shows the impact on the income statement of changes in interest rates is provided below.

The following assumptions were used to perform the sensitivity analysis in 2010:

- Interest bearing assets: change of + 0.25% - 0.25% for short-term interest rates at December 31, 2010;
- Financial liabilities, including derivatives: change of + 1% - 0.5% in the interest rate curve at December 31, 2010, for euro and U.S. dollar interest rates.

The following assumptions were used to perform the sensitivity analysis in 2009:

- Interest bearing assets: change of + 0.25% - 0.10% over short-term interest rates at December 31, 2009;
- Financial liabilities, including derivatives: change of + 1% - 0.3% in the interest rate curve at December 31, 2009, for euro and U.S. dollar interest rates.

In the table that follows, a plus sign in the "income statement" columns means an increase in financial expense, while a plus sign in the "reserves" columns means an increase in reserves.

*Sensitivity Analysis*

| | REFERENCE RATE | CARRYING VALUE | | INCOME STATEMENT | | | | RESERVES | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Shock up | | Shock down | | Shock up | | Shock down | |
| | | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 |
| Interest bearing assets (1) | Eonia | 28,205 | 16,304 | -71 | -41 | +71 | +16 | -- | -- | -- | -- |
| Non-hedged variable rate financial liabilities (1) | Six-month Euribor<br>Six-month USD Libor | (28,042) | (73,978) | +280 | +740 | -140 | -222 | -- | -- | -- | -- |
| Hedged variable rate financial liabilities | Six-month Euribor<br>Six-month USD Libor | (126,621) | (156,988) | +1,266 | +1,562 | -633 | -469 | -- | -- | -- | -- |
| Derivatives that do not qualify for hedge accounting - cash flow (2) | Six-month Euribor<br>Six-month USD Libor | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Derivatives that do not qualify for hedge accounting | Six-month Euribor<br>Six-month USD Libor | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Derivatives that qualify for hedge accounting - cash flow (2) | Six-month Euribor<br>Six-month USD Libor | -- | -- | -1,274 | -1,562 | +637 | +469 | -- | -- | -- | -- |
| Derivatives that qualify for hedge accounting (3) | Six-month Euribor<br>Six-month USD Libor | (7,008) | (6,068) | -42 | -334 | +49 | +77 | -- | -- | -- | -- |
| Derivatives that qualify for hedge accounting (4) | Six-month Euribor<br>Six-month USD Libor | -- | -- | -- | -- | -- | -- | +2,858 | +3,903 | -1,455 | -1,224 |
| Total | | (133,466) | (220,730) | +159 | +365 | -16 | -129 | +2,858 | +3,903 | -1,455 | -1,224 |

(in thousands of euros)

(1) Average of the quarterly values

(2) Shock values in the year

(3) Interest rate swaps: non-effective component

(4) Interest rate swaps: effective component

## 25 – NET REVENUES AND OTHER REVENUES AND INCOME

| | 2010 | 2009 |
|---|---|---|
| Sales revenues | 739,888 | 683,641 |
| Service revenues | 3,361 | 2,928 |
| Recoveries of costs | 2,800 | 3,206 |
| Divested operations | (228) | (780) |
| Net revenues | 745,821 | 688,995 |
| Grants and other research income | 8,057 | 6,192 |
| Royalty income | 105 | 87 |
| Gains on the sale of property, plant and equipment | 1,271 | 183 |
| Gains on the sale of intangibles | -- | 1,005 |
| Other income | 13,682 | 7,616 |
| Divested operations | (203) | (428) |
| Other revenues and income | 22,912 | 14,655 |

(in thousands of euros)

Research grants and other research income were provided to Italian, French and Spanish companies. All of the conditions required to receive the grants have been met and there is no risk with regard to their collection.

Net revenues and income from divested operations reflect the effect of residual activities carried out during the transition phase, including revenues from sales of products on behalf of third parties.

In 2010, Other revenues and income include nonrecurring revenues totaling 4,459,000 euros, broken down as follows: 1,198,000 euros from the sale of a building in Saluggia, 1,834,000 euros from the sale of the Angel® (whole blood separation system) and activAT® (autologous thrombin preparation system) product lines to Cytomedix Inc., 1,039,000 euros from the acquisition of Gish Biomedical Inc. from Ventizz Capital Partners, 338,000 euros from the collection of an unexercised real estate put option and 50,000 euros from the reversal in earnings of excess provisions recognized in previous years.

In 2009, Other revenues and income include nonrecurring revenues totaling 1,971,000 euros, broken down as follows: 686,000 euros from the acquisition of the business operations consisting of the Clearglide® endoscopic vessel harvesting product line from Datascope Inc., 1,005,000 euros from the sale of intangible assets to Japan Lifeline Co. Ltd. (JLL) within the framework of a long-term agreement granting exclusive distribution rights for the products of the Heart Valves business unit in Japan, and 280,000 euros from the reversal in earnings of excess provisions recognized in previous years.

## 26 – CHANGE IN INVENTORY OF WORK IN PROGRESS, SEMIFINISHED GOODS AND FINISHED GOODS

This account, which had a negative balance of 9,757,000 euros (negative balance of 4,060,000 euros in 2009), includes a negative nonrecurring change of 1,293,000 euros for a writedown of the finished goods inventory bought from distributors upon the termination of distribution contracts.
The negative nonrecurring amount of 331,000 euros shown in 2009 refers to the writedown of the endovascular inventory required by the early termination of a subcontracting supplier relationship (Datascope) implemented in the first quarter of 2010.

## 27 – INCREASE IN COMPANY-PRODUCED ADDITIONS TO NON-CURRENT ASSETS

| | 2010 | 2009 |
|---|---|---|
| • Property, plant and equipment | 7,608 | 6,657 |
| • Intangibles | 21,173 | 15,229 |
| **Increase in Company-produced additions to non-current assets** | 28,781 | 21,886 |

(in thousands of euros)

Company-produced additions to intangibles refer mainly to development costs incurred by the Cardiac Rhythm Management, Cardiopulmonary and Heart Valves business units amounting to 17,155,000 euros (11,933,000 euros in 2009) and costs incurred to secure approval from the Food and Drug Administration (FDA) to sell valves and pacemakers in the United States totaling 4,007,000 euros in 2010 (2,794,000 euros in 2009).

## 28 – COST OF RAW MATERIALS, OTHER MATERIALS AND SERVICES USED, AND MISCELLANEOUS OPERATING COSTS

| | 2010 | 2009 |
|---|---|---|
| Purchases of raw materials and other materials | 180,478 | 178,870 |
| Change in inventories | 3,332 | 2,571 |
| Divested operations | (121) | (580) |
| **Cost of raw materials and other materials** | 183,689 | 180,861 |
| Industrial services | 25,357 | 26,641 |
| Rent, rentals and lease payments | 17,297 | 15,921 |
| Royalty expense | 689 | 920 |
| Variable selling costs | 36,230 | 36,624 |
| Consulting and other professional services | 39,527 | 40,412 |
| Advertising and promotions | 19,119 | 15,234 |
| Internal transportation, travel and ancillary expenses | 24,641 | 21,315 |
| Janitorial and security services | 3,824 | 5,042 |
| Communications, telephone, and postage expenses, etc. | 3,650 | 3,340 |
| Insurance | 2,887 | 3,002 |
| Employee training and development | 3,466 | 2,268 |
| Other services | 21,762 | 23,147 |
| Divested operations | (93) | (203) |
| **Service costs** | 198,356 | 193,663 |
| Losses on the sale of property, plant and equipment | 450 | 304 |
| Other costs | 27,789 | 15,633 |
| Divested operations | (91) | (460) |
| **Miscellaneous operating costs** | 28,148 | 15,477 |

(in thousands of euros)

Cost of raw material and other materials includes nonrecurring charges totaling 207,000 euros incurred to terminate a contract with a Swiss distributor.

Other services include the costs of information technology and fees paid to Statutory Auditors and Independent Auditors. Fees paid to the Statutory Auditors of the Group's Parent Company totaled 156,000 euros.

In 2010, service costs reflect nonrecurring expenses of 179,000 euros, including 110,000 euros for the acquisition of the Group's distributor in Austria and 69,000 euros for the sale of a building in Saluggia.

In 2010, Miscellaneous operating costs include 10,706 ,000 euros for the reversal of the cash flow hedge reserve for fluctuations in foreign exchange rates, due to the recognition in the result for the period of the economic effects of the hedged assets and liabilities.
They also include nonrecurring charges of 2,700,000 euros broken down as follows: 1,502,000 euros for disputed items and litigation, 806,000 euros for the acquisition of Gish Biomedical Inc., 300,000 euros to transfer the ATS lines from Sorin Group Italia S.r.l. to Sorin Group Deutschland GmbH, 67,000 euros for the sale of the Angel product line, and 25,000 euros for prior-period expenses.

In 2009, miscellaneous operating costs included 491,000 euros in nonrecurring charges for disputed items and litigation.

Transactions with related parties generated service costs totaling 204,000 euros (60,000 euros in 2009) (Note 41).

## 29 – Personnel Expense

| | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 249,004 | 224,935 |
| Additions to provision for employee severance indemnities and other provisions for employee benefits: | | |
| - Amount for defined-benefit plans | 2,091 | 1,919 |
| - Amount for defined-contribution plans (1) | 3,042 | 2,540 |
| - Amount for Long Term Incentive Plan | 488 | 1,133 |
| Cost of stock options | 232 | 547 |
| Cost of stock grants | 2,789 | -- |
| Divested operations | -- | 63 |
| Personnel expense | 257,646 | 231,137 |
| Number of employees: | | |
| - At December 31 | 3,749 | 3,665 |
| - Average for the year | 3,738 | 3,631 |

(in thousands of euros)

(1) The undisbursed portion is recognized as a current liability on the statement of financial position.

At December 31, 2010, 44 employees were enrolled in the Special Layoff Benefits Fund, the same as at the end of 2009.

A Long-term Incentive Plan (LTIP) for the achievement of multi-year objectives and benefiting a select number of key managers was introduced in 2009. This Plan is based on a three-year incentivizing cycle tied to Group performance targets.
Specifically, the Plan calls for the award of a bonus at the end of the three-year period. The vesting conditions include the beneficiary's continuing employment at a Group company on the date the bonus is paid and the achievement by the Group of the applicable performance targets.

The cost attributable to 2010, which was included in Other provisions for employee benefits – Amount for long-term incentive plan, totaled 488,000 euros (1,133,000 euros in 2009).

In addition, as required by IFRS 2, the Group recognized costs of 2,789,000 euros attributable to 2010 for the long-term incentive plan with grants of Sorin S.p.A. stock, approved by the Shareholders' Meeting of September 14, 2010. The Plan, which runs for three cycles of three years each, is tied to and conditional on the achievement by the Group of specific EBITDA margin and consolidated net profit targets and the beneficiary's continuing employment at a Group company on the date the bonus is paid.
The abovementioned amount includes social security contributions totaling 377,000 euros.

Personnel expense includes fees paid to the Directors of the Group's Parent Company, amounting to 2,595,000 euros (2,641,000 euros in 2009).

This item also included nonrecurring charges of 407,000 euros (205,000 euros in 2009) recognized due to the measurement in accordance with IAS 19 of the defined-benefit plan of former U.S. employees of SBI (Sorin Biomedical, Inc.).

## 30 – SHARE-BASED PAYMENTS

*Stock Options*

The Group established five stock option plans, four of which expired in 2009.

Information about these stock option plans is provided in the section of the Report on Operations entitled "Report on Corporate Governance and the Company's Ownership Structure."

The table below shows the number of options awarded and the average option exercise price:

| | 12/31/10 | | 12/31/09 | |
|---|---|---|---|---|
| | NUMBER OF OPTIONS | AVERAGE EXERCISE PRICE EUROS | NUMBER OF OPTIONS | AVERAGE EXERCISE PRICE EUROS |
| **Options outstanding at January 1** | 8,915,000 | 1.598 | 17,521,000 | 1.932 |
| New options awarded | -- | -- | 550,000 | 1.480 |
| Expired options | -- | -- | (6,695,000) | 2.397 |
| Cancelled options (1) | (424,000) | 1.707 | (2,461,000) | 1.775 |
| Options exercised | (20,000) | 1.566 | -- | -- |
| **Options outstanding at December 31** | 8,471,000 | 1.593 | 8,915,000 | 1.598 |
| - options exercisable at December 31 | 8,471,000 | 1.593 | 4,775,700 | 1.603 |

(1) These options, which can no longer be exercised, had been awarded to plan beneficiaries who later left the Group.

The new options awarded in 2009 are those of Stock Option Plan No 5.
The expired options are those of Stock Option Plans No. 1, No. 2, No. 3 and No. 4.

*Valuation of Stock Options*

Stock options are valued at fair value on grant date, in accordance with the method provided in IFRS 2. The cost thus determined is allocated over the entire length of the period between grant date and vesting date.

A total of 8,471,000 stock options were outstanding at December 31, 2010 (8,915,000 at December 31, 2009). Their remaining life was 0.50 years and the exercise price spread is 1.480 – 1.940 euros.

The weighted average fair value of the stock options is 0.270 euros.

Fair value was computed using a binomial model, based on the following assumptions:

| | OPTIONS AWARDED ON: | | | | | | |
|---|---|---|---|---|---|---|---|
| | 7/30/09 | 12/13/07 | 11/8/07 | 6/20/07 | 3/6/07 | 9/8/06 | 7/28/06 |
| Annual interest rate on riskless investments | 1.74% | 4.57% | 4.36% | 4.80% | 4.08% | 3.87% | 3.92% |
| Expected volatility | 47.22% | 23.67% | 23.46% | 22.60% | 22.61% | 23.11% | 22.85% |
| Average intensity of dividend expectations | 0 | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Option's remaining life | 1.92 YEARS | 3.55 YEARS | 3.64 YEARS | 4.03 YEARS | 4.32 YEARS | 4.81 YEARS | 4.93 YEARS |

The expected volatility, which is estimated on the basis of historical data, reflects the assumption that historical volatility is indicative of future trends. This may not always be the case.
The life of an option is computed as the difference between grant date and expiration date.
The amount of 232,000 euros was recognized as the cost attributable to 2010 for Stock Option Plan No. 5 (354,000 euros at December 31, 2009). This cost was determined based on the fair value per option and the number of options that vested at the end of 2010.

The final exercise deadline for Stock Option Plan No. 5 is June 30, 2011.

*Stock Grants*

On September 14, 2010, the Shareholders' Meeting approved a stock grant plan reserved for the Chairman, the Chief Executive Officer and employees of Sorin Group, which will be implemented either through a bonus capital increase, pursuant to Article 2349 of the Italian Civil Code, or by using the treasury shares acquired through the buyback plan, and granted to the Board of Directors all necessary and appropriate powers to establish and implement the plan.
The Plan, which is designed to incentivize and increase the loyalty of management, further align the interests of management with those of the shareholders and achieve the medium/long-term objectives of the Strategic Plan, is tied to and conditional on the Group attaining specific targets in terms of EBITDA margin and consolidated net profit.
Specifically, the Shareholders' Meeting approved the following resolutions:
i) Convened in extraordinary session, pursuant to Article 2443 of the Italian Civil Code, a resolution authorizing the Board of Directors, for a period of five years from the date of the resolution, to carry out a bonus capital increase, in one transaction or multiple transactions, for a maximum amount of 13,000,000 euros, through the issuance of up to 13,000,000 common shares, which would be awarded to employees in accordance with existing and future stock grant plans implemented by the Company, in accordance with Article 2349 of the Italian Civil Code;
ii) Convened in ordinary session, a resolution approving the Plan and granting to the Board of Directors the powers required to implement it, as well as a plan to purchase and dispose of treasury shares, pursuant to Article 2357 and Article 2357-*ter* of the Italian Civil Code and granting to the Board of Directors the power required to implement it. The authorization to purchase the treasury shares was granted for a period of up to 18 months from the date of the approval resolution by the Shareholders' Meeting and is valid for 4,704,121 common shares, par value 1 euro each, equal to1% of the subscribed capital.

The plan runs for three cycles of three years each (2009-2011, 2010-2012 and 2011-2013). The first cycle is limited to the beneficiaries of the 2009 Long-term Cash Incentive Plan who joined the Plan and exercised the option of converting into shares the cash bonus originally provided by the abovementioned 2009 Long-term Incentive Plan.

Additional information about the stock grant plan is provided in the section of the Report on Operations entitled "Report on Corporate Governance and the Company's Ownership Structure."

The table below shows the number of share awarded and outstanding at December 31, 2010:

| Plan | Number of shares | *Cycle* |
|---|---|---|
| 2010 stock grant | 1,079,372<br>2,940,516 | 2009-2011<br>2010-2012 |

*Valuation of Stock Grants*

Stock grants are value at fair value on the grant date, in accordance with the method of IFRS 2, and the cost thus determined is allocated over the period between grant date and vesting date.

The fair value used to compute the cost attributable to 2010 for the abovementioned plan was 1.729 euros, which corresponds to the price of Sorin S.p.A. shares on the grant date.
The total cost recognized in profit or loss in 2010 for the abovementioned plan, which amounted to 2,789,000 euros (including social security contribution of 377,000 euros), was determined based on the number of shares awarded, taking into account the probability of exercise by the plan's beneficiaries between the grant date and the vesting date.

## 31 – Depreciation, Amortization, Writedowns and Provisions for Risks and Charges

| | 2010 | 2009 |
|---|---|---|
| Depreciation of property, plant and equipment | 21,124 | 20,051 |
| Amortization of intangible assets | 17,579 | 14,858 |
| Writedowns of property, plant and equipment | 617 | 1,090 |
| Writedowns of intangible assets | -- | -- |
| Writedowns of receivables | 4,142 | 4,683 |
| Divested operations | (3,565) | (1,201) |
| **Depreciation, amortization and writedowns** | 39,897 | 39,481 |
| Addition to the provision for product warranties | 1,614 | 938 |
| Addition to other provisions for risks and charges | 2,391 | 8,400 |
| **Additions to provisions for risks and charges** | 4,005 | 9,338 |

(in thousands of euros)

The amounts shown in both years for Divested operations refer to writedowns of receivables.

In 2010, additions to other provisions for risks and charges included 2,086,000 euros for nonrecurring costs broken down as follows: 634,000 euros for plant safety projects at some facilities in Saluggia, 110,000 euros for planned costs in connection with the sale of a building in Saluggia, and 1,342,000 euros for additions related to litigation.

In 2009, additions to other provisions for risks and charges included 8,032,000 euros for nonrecurring costs related to litigation and disputes with former employees and 7,170,000 euros (US$10,000,000) set aside in connection with a settlement agreement between the Ela Medical Inc. subsidiary and the U.S. Department of Justice

## 32 – RESTRUCTURING CHARGES AND PROVISIONS

Restructuring charges and provisions amounted to 1,084,000 euros and 3,659,000 euros, respectively, in 2010, including 989,000 euros to dissolve Gish Biomedical Inc., while the residual is related to programs to reorganize the Group and increase its efficiency account for the balance. The overall amount is net of the reversal in earnings of a portion (210,000 euros) of a restructuring provision established in previous years that was found to be larger than necessary in 2010.

## 33 – FINANCIAL EXPENSE, FINANCIAL INCOME AND CURRENCY TRANSLATION DIFFERENCES

| | 2010 | 2009 |
|---|---|---|
| Interest paid and other bank charges | 4,021 | 8,144 |
| Losses on financial derivatives | 3,547 | 2,226 |
| Losses from discounting assets and liabilities to present value | 226 | 274 |
| Financial discounts and fees resulting from the factoring of trade receivables | 3,425 | 5,990 |
| Financial discounts granted to customers | 1,312 | 1,290 |
| Other expenses | 125 | 1,192 |
| Divested operations | (904) | (1,254) |
| **Financial expense** | 11,752 | 17,862 |
| Bank interest earned | 37 | 35 |
| Gains on financial derivatives | -- | 61 |
| Gains from discounting assets and liabilities to present value | 110 | 148 |
| Income from junior notes | -- | 1,900 |
| Delinquent interest earned | 1,301 | 1,359 |
| Other income | 779 | 475 |
| **Financial income** | 2,227 | 3,978 |
| **Foreign exchange gains (losses)** | (2,065) | 3,601 |
| **Total net financial expense (income)** | 11,590 | 10,283 |

(in thousands of euros)

Net financial expense increased by 1,307,000 euros compared with the previous year, reflecting primarily the impact of translation differences, which were negative by 2,065,000 euros in 2010, as against positive translation differences of 3,601,000 euros in 2009. When the data are restated without the translation differences, net financial expense shows a reduction of 4.359,000 euros. The main reasons for this decrease compared with the previous year include:

- a smaller average indebtedness for the year;
- a reduction in the interest rate spread on medium/long-term borrowings due to the ratchet mechanism, which causes borrowing costs to decrease if the Group achieves certain operating and financial performance targets;
- lower net expense (including lower junior notes proceeds) for discounting charges and fees on trade receivable factoring transactions and securitization programs, due to a lower average discount rate on non-recourse factoring transactions.

Please note that, in 2010, the Group adopted the tools required to apply hedge accounting treatment to financial derivatives that hedge the risk of fluctuations in exchange rates on commercial transactions in a foreign currency that qualify as highly probable (cash flow hedges). As a result, the effective portion of changes in the fair value of hedging derivatives is no longer recognized directly in profit or loss.

As explained in Note 41, related-party transactions generated financial expense of 60,000 euros.

## 34 – INCOME FROM (EXPENSES ON) INVESTMENTS IN ASSOCIATES

The entire amount recognized as expenses on investments in associates (34,000 euros) refers to an adjustment to the carrying value of the investment in La Bouscarre S.C.I.

## 35 – INCOME TAXES

| | 2010 | 2009 |
|---|---|---|
| Taxes on the income statement: | | |
| *Current taxes* | | |
| - for the year | 15,349 | 11,510 |
| - for previous years | 50 | 628 |
| | 15,399 | 12,138 |
| *Deferred taxes* | | |
| - depreciation/amortization of tangible and intangible assets | 607 | (831) |
| - revaluations at fair value | 1,517 | 81 |
| - recognition (derecognition) of assets (liabilities) | (263) | (538) |
| - other items | (3,240) | 2,289 |
| | (1,379) | 1,001 |
| *Prepaid taxes* | | |
| - taxed provisions for risks and charges | 1,777 | (4,108) |
| - depreciation/amortization of tangible and intangible assets | (2,124) | (99) |
| - value adjustments on financial assets | 3,797 | (9) |
| - inventories and eliminations of inventory gains | (2,440) | 1,321 |
| - revaluations at fair value | (1,777) | 40 |
| - recognition (derecognition) of liabilities (assets) | 7 | (1) |
| - other items | 89 | 478 |
| - tax loss carryforward | 3,081 | 3,764 |
| | 2,410 | 1,386 |
| | 16,430 | 14,525 |
| Divested operations | 1,077 | 90 |
| | 17,507 | 14,615 |

(in thousands of euros)

A reconciliation of the theoretical tax liability to the tax liability recognized in the income statements is as follows:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Corporate income taxes (IRES) | Regional taxes (IRAP) | Total | Corporate income taxes (IRES) | Regional taxes (IRAP) | Total |
| **Profit (Loss) before taxes** | 59,859 | -- | 59,859 | 41,240 | -- | 41,240 |
| Profit (Loss) before taxes from divested operations | (4,347) | -- | (4,347) | (2,604) | -- | (2,604) |
| Loss on divestment | -- | -- | -- | (906) | -- | (906) |
| **Pre-tax profit (loss) before divestment** | 55,512 | -- | 55,512 | 37,730 | -- | 37,730 |
| **Theoretical tax liability** (1) | 15,266 | 4,780 | 20,046 | 10,376 | 4,347 | 14,723 |
| - Utilization of tax loss carryforward (2) | (1,763) | -- | (1,763) | (4,446) | -- | (4,446) |
| - Tax impact of permanent differences | (131) | (1,188) | (1,319) | 3,097 | (1,224) | 1,873 |
| - Unrecognized (deferred)/prepaid taxes for the year | (388) | -- | (388) | (1,327) | -- | (1,327) |
| - Deferred/(Prepaid) taxes for previous years recognized and/or derecognized in the year | (2,276) | 3 | (2,273) | (41) | 212 | 171 |
| - Income taxes paid outside Italy | 142 | -- | 142 | 144 | -- | 144 |
| - Greater (Lesser) impact of tax liability of foreign companies | 1,881 | -- | 1,881 | 2,467 | -- | 2,467 |
| - Other items | 104 | -- | 104 | 920 | -- | 920 |
| | 12,835 | 3,595 | 16,430 | 11,190 | 3,335 | 14,525 |
| Divested operations | 1,081 | (4) | 1,077 | 116 | (26) | 90 |
| **Income tax liability for the year** | 13,916 | 3,591 | 17,507 | 11,306 | 3,309 | 14,615 |

(in thousands of euros)

(1) The theoretical income tax liability was computed by applying the corporate income tax (IRES) rate in force in Italy (27.5%).

(2) Tax loss carryforward for which prepaid taxes have not been recognized.

The decrease in the tax rate from 35.4% to 29.2% reflects primarily an improvement in projected profitability, which justified the recognition of deferred-tax assets for tax losses generated in previous years.

## 36 – PROFIT (LOSS) FROM DIVESTED OPERATIONS

Two major transactions involving divestments of business operations were executed in the closing months of 2008:

- On November 30, 2008, the Group sold its Vascular Therapy business unit, which included Sorin's global vascular coronary business operations and the related portfolio of intellectual property assets, to CID Investimenti S.r.l., an investment consortium headed by IP Investimenti e Partecipazioni S.p.A., an independent private equity company.
- On December 30, 2008, the Group completed the sale of its Renal Care business unit, which included all of the business activities that operate globally in the kidney hemodialysis area with the Bellco and Laboratoire Soludia brands. The buyer was a consortium headed by Argos Soditic, an independent European private equity fund, and MPS Venture SGR, which represented the Emilia Venture closed-end fund.

As required by IFRS 5, the residual profit or loss attributable to the divested Vascular Therapy and Renal Care business operations is shown separately in the income statement as Profit (Loss) from divested operations. A breakdown of the loss from divested operations is provided below:

| | 2010 | 2009 |
|---|---|---|
| **Net revenues** | 228 | 780 |
| Other revenues and income | 203 | 428 |
| Change in inventory of work in progress, semifinished goods and finished goods | (4) | (177) |
| Cost of raw materials and other materials | (121) | (580) |
| Cost of services used | (93) | (203) |
| Personnel expense | -- | 63 |
| Miscellaneous operating costs | (91) | (460) |
| Depreciation, amortization and writedowns | (3,565) | (1,201) |
| **EBIT** | (3,443) | (1,350) |
| Financial income (expense) | (904) | (1,254) |
| **Profit (Loss) before taxes** | (4,347) | (2,604) |
| Income taxes | 1,077 | 90 |
| **Net profit (loss)** | (3,270) | (2,514) |
| Gain (Loss) on divestment | -- | (906) |
| **Profit (Loss) from divested operations** | (3,270) | (3,420) |

(in thousands of euros)

| | | |
|---|---|---|
| Earnings per share (in euros):<br>- basic and diluted from divested operations | (0.007) | (0.007) |

With regard to the divested Renal Care business operations, the transaction's final price adjustment was defined in the first half of 2009, resulting in the recognition of a net divestment loss of 906,000 euros.

## 37 – EARNINGS PER SHARE

Basic earnings per share were computed by dividing the Group's interest in net profit by the weighted average number of shares outstanding during the year.

Diluted earnings per share were computed by dividing the Group's interest in net profit by the weighted average number of shares outstanding during the year, augmented by the number of potential shares that could be issued if the stock options were exercised.

The table below shows the data used to compute earnings per share.

| | 2010 | 2009 |
|---|---|---|
| Profit (loss) from continuing operations | 42,352 | 26,625 |
| Profit (loss) from divested operations | (3,270) | (3,420) |
| Net profit (loss) | 39,082 | 23,205 |
| Weighted average number of Sorin S.p.A. shares | 470,417,671 | 470,412,144 |
| Dilutive effect: | | |
| - Stock options | 19,462 | -- |
| Adjusted weighted average number of Sorin S.p.A. shares | 470,437,133 | 470,412,144 |
| Earnings per share (in euros) | | |
| - basic net profit (loss) | 0.083 | 0.049 |
| - diluted net profit (loss) | 0.083 | 0.049 |
| - basic net profit (loss) from continuing operations | 0.090 | 0.057 |
| - diluted net profit (loss) from continuing operations | 0.090 | 0.057 |

(in thousands of euros)

## 38 – ACQUISITIONS AND DIVESTMENTS

*Acquisitions*

On February 25, 2010, as part of a program to strengthen the direct sales organization, the Group's Austrian subsidiary completed the purchase of the business operations of a major distributor operating mainly in Austria, for an initial payment of 1,400,000 euros, a deferred consideration tied to sales targets for the three-year period from 2010 to 2013 estimated at 2,111,000 euros (present value of 1,874,000 euros), the buyback of 2,054,000 euros in finished products and the recognition of intangible assets (customer list) valued at 3,274,000 euros.

The fair value of the identifiable assets on the date of acquisition is as follows:

| | FAIR VALUE RECOGNIZED AT ACQUISITION |
|---|---|
| Intangible assets | 3,274 |
| Inventories | 2,054 |
| Net assets | 5,328 |
| Excess over cost | - |
| Total cost | 5,328 |

(in thousands of euros)

Transaction costs of 110,000 euros are reflected in the income statement under Cost of services used and in the statement of cash flows under Cash flow from operating activities.

In addition, on June 8, 2010, the Company closed the purchase of Gish Biomedical Inc. from Ventizz Capital Partners, a private equity group specialized in technology companies, at a price of US$0.2 million (140,000 euros) and assumption of debt amounting to US$0.9 million (672,000 euros). Gish Biomedical, a U.S. company based in California (USA), develops and produces medical devices for cardiovascular surgery, with special emphasis on perfusionists. As shown in the table below, which lists the fair value of the net assets on the date of acquisition, the price paid for Gish Biomedical and the surplus fair value of the acquired assets over the price paid, this acquisition generated a gain of 1,039,000 euros (gain from a bargain purchase).

| | FAIR VALUE RECOGNIZED AT ACQUISITION | |
|---|---|---|
| | (thousands of EUR) | (thousands of USD) |
| Property, plant and equipment [1] | 75 | 100 |
| Inventories [1] | 1,557 | 2,080 |
| Trade receivables [1] | 1,383 | 1,848 |
| Other non-current assets [1] | 90 | 120 |
| Other receivables [1] | 46 | 62 |
| Cash and cash equivalents [1] | 1 | 1 |
| Other non-current liabilities [1] | (36) | (48) |
| Trade payables [1] | (683) | (913) |
| Other payables [1] | (433) | (579) |
| Other financial liabilities [1] | (672) | (898) |
| Taxes payable [1] | (156) | (208) |
| Net assets [1] | 1,171 | 1,565 |
| Excess over cost [2] | 1,039 | 1,378 |
| Total cost [1] | 140 | 187 |

(1) Amount translated at year-end exchange rates.

(2) Amount translated at average exchange rates for the year.

| | LIQUIDITY IMPACT OF ACQUISITION (thousands of EUR) | (thousands of USD) |
|---|---|---|
| Net liquidity of subsidiary (1) | 1 | 1 |
| Payments (1) | (140) | (187) |
| Net liquidity (1) | (139) | (186) |

(1) Amount translated at year-end exchange rates.

Acquisition costs of 806,000 euros are reflected in the income statement under Miscellaneous operating costs and in the statement of cash flows under Cash flow from operating activities.

*Divestments*

On April 9, 2010, the Company completed the sale of the Angel® (whole blood separation system) and activAT® (autologous thrombin preparation system) product lines to Cytomedix Inc., a company engaged in the development of biologically active regenerative therapies for wound care, inflammations and angiogenesis.
The sales price was US$7,000,000. A portion of this amount (US$2,000,000) was collected at closing, with payment of the balance deferred up to October 2012. The first installment of the deferred amount (US$800,000) was collected on schedule, in October 2010.
This transaction generated a gain of US$2,431,000 euros (1,834,000 euros at the average exchange rate for the year).
An allowance for doubtful accounts that takes into account general and contingent market situations was recognized with regard to the deferred portion of the sales price.

The value of the divested assets is as follows:

| | FAIR VALUE RECOGNIZED AT DIVESTMENT (thousands of EUR) | (thousands of USD) |
|---|---|---|
| Property, plant and equipment (1) | 551 | 736 |
| Intangible assets (1) | 60 | 80 |
| Inventories (1) | 1,237 | 1,653 |
| Net assets (1) | 1,848 | 2,469 |
| Net price proceeds (1) | 3,667 | 4,900 |
| Gain (2) | 1,834 | 2,431 |

(1) Amount translated at year-end exchange rates.

(2) Amount translated at average exchange rates for the year.

Transaction costs of 67,000 euros are reflected in the income statement under Miscellaneous operating costs and in the statement of cash flows under Cash flow from operating activities.

## 39 – Impact of Material Nonrecurring Events and Transactions

The following material nonrecurring transactions affecting the income statement occurred in 2010:

- sale of a building located in Saluggia (Notes 25 and 28);
- acquisition of the business operations of a distributor operating mainly in Austria (Note 38);
- acquisition of Gish Biomedical Inc. (Note 38);
- sale of the Angel® (whole blood separation system) and activAT® (autologous thrombin preparation system) product lines to Cytomedix Inc. (Note 38);
- project to ensure the safety of the radioactive material storage facility at the Saluggia plant (Note 31);
- valuation in accordance with IAS 19 of the defined-benefit plan of former U.S. employees of Sorin Biomedical, Inc. (SBI), merged into Sorin Group USA in 1999 (Note 29);
- litigation, various disputes and settlements (Notes 25, 28 and 31);
- restructuring and reorganization programs that affected several Group companies (Note 32).

The table below shows the main impact of these transactions on the Group's income statement:

| | PROFIT (LOSS) BEFORE TAXES (thousands of EUR) | % |
|---|---|---|
| 2010 financial statement amounts | 59,859 | 100.0 |
| Net proceeds from the sale of a building in Saluggia | 1,019 | 1.70 |
| Costs directly attributable to the acquisition of the operations of a distributor in Austria | (1,359) | (2.27) |
| Gish Biomedical Inc. acquisition | 233 | 0.39 |
| Net proceeds from the sale of the Angel product lines | 1,767 | 2.95 |
| to ensure the safety of storage facility at the Saluggia plant | (634) | (1.06) |
| Valuation of the defined-benefit plan for former SBI employees in the U.S.A. | (407) | (0.68) |
| Litigation, various disputes and sundry items | (3,032) | (5.07) |
| Impact of restructuring programs | (4,533) | (7.57) |
| Total impact of material nonrecurring events and transactions | (6,946) | |
| 2010 financial statement amounts before the impact of material nonrecurring events and transactions | 66,805 | 111.60 |

## 40 – NET FINANCIAL POSITION

A breakdown of Sorin Group's net financial position is provided below:

| | | 12/31/10 | | | 12/31/09 | | |
|---|---|---|---|---|---|---|---|
| | | Total | Amount with related parties | % of total | Total | Amount with related parties | % of total |
| - Cash on hand | | 31 | -- | -- | 33 | -- | -- |
| - Bank and postal accounts | | 29,668 | 15,968 | 53.8 | 10,247 | -- | -- |
| Cash and cash equivalents | 1) | 29,699 | 15,968 | 53.8 | 10,280 | -- | -- |
| - Current financial assets | 1) | 8,962 | 4 | -- | 6,293 | -- | -- |
| - Assets from financial derivatives | 1) | -- | -- | -- | 1,343 | -- | -- |
| Current financial receivables | | 8,962 | 4 | -- | 7,636 | -- | -- |
| - Overdraft facilities and other current financial liabilities | | (2,001) | -- | -- | (15,148) | (864) | 5.7 |
| - Current portion of on-current debt | | (32,634) | (1,841) | 5.6 | (34,192) | (1,949) | 5.7 |
| - Advances on assigned trade receivables | | (24,191) | -- | -- | (16,400) | -- | -- |
| - Miscellaneous financial liabilities | | (137) | -- | -- | (155) | -- | -- |
| Other current financial liabilities | 1) | (58,963) | -- | -- | (65,895) | -- | -- |
| Liabilities from financial derivatives | 1) | (4,685) | -- | -- | (242) | -- | -- |
| Current financial liabilities | | (63,648) | (1,841) | 2.9 | (66,137) | (2,813) | 4.3 |
| Net current indebtedness | | (24,987) | 14,131 | n.m. | (48,221) | (2,813) | 5.8 |
| Non-current financial receivables | 2) | 84 | -- | -- | 1 | -- | -- |
| - Liabilities from financial derivatives | 1) | (6,450) | -- | -- | (6,068) | -- | -- |
| - Non-current bank debt | | (97,347) | | -- | (127,060) | (1,823) | 1.4 |
| - Non-current liabilities under finance leases | | (70) | -- | -- | (244) | -- | -- |
| Non-current financial liabilities | | (103,867) | -- | -- | (133,372) | (1,823) | 1.4 |
| Net non-current indebtedness | | (103,783) | -- | -- | (133,371) | (1,823) | 1.4 |
| Net indebtedness | | (128,770) | 14,131 | n.m. | (181,592) | (4,636) | 2.6 |

(in thousands of euros)

(1) Statement of financial position item.

(2) Non-current financial assets, as listed on the statement of financial position, excluding Investments in other companies.

## 41 – TRANSACTIONS WITH RELATED PARTIES

Sorin Group's consolidated financial statements include the financial statements of Sorin S.p.A., the Group's Parent Company, and those of Italian and foreign companies that are controlled directly and indirectly by Sorin S.p.A. A list of Sorin Group companies and schedules showing the changes in the scope of consolidation that occurred in 2010 are provided in Note 43.

Intra-Group transactions between consolidated companies have been eliminated and are not covered in this Note.

None of the transactions executed with related parties can be classified as atypical or unusual.

### *Transactions with Unconsolidated Group Companies*

Balances at December 31, 2010 include financial receivables of 4,000 euros for dividends owed by La Bouscarre and service costs of 39,000 euros with LMTB – Laser und Medizin Technologie GmbH.

### *Transactions with Other Related Parties*

The table below shows the income statement and statement of financial position items generated by transactions with other related parties:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | | % OF TOTAL | | % OF TOTAL |
| - Service costs: | | | | |
| • Mittel Corporate Finance S.p.A. | 65 | - | 60 | - |
| • Studio Zulli, Tabanelli & Associati | 100 | 0.1% | -- | - |
| - Financial expense: | | | | |
| • Banca Monte Paschi Siena S.p.A. (1) | 60 | 0.5% | 20 | 0.1% |

(in thousands of euros)

(1) The amounts for 2009 refer to the period between 11/18/09 and 12/31/09.

| | 12/31/10 | | 12/31/09 | |
|---|---|---|---|---|
| | | % OF TOTAL | | % OF TOTAL |
| - Cash and cash equivalents: | | | | |
| • Banca Monte Paschi Siena S.p.A. | 15,864 | 53.4% | -- | - |
| • UGF Banca S.p.A. | 104 | 0.4% | -- | - |
| - Trade payables: | | | | |
| • Mittel Corporate Finance S.p.A. | 18 | - | 38 | - |
| - Non-current financial liabilities and other current financial liabilities: | | | | |
| • Banca Monte Paschi Siena S.p.A. | 1,841 | 1.2% | 4,636 | 2.4% |

(in thousands of euros)

In 2010, the Company renewed the contracts with Mittel Corporate Finance S.p.A., a company whose Chief Executive Officer is Francesco Silva, a Director of Sorin S.p.A., calling for the provision of consulting and other services in the area of subsidized financing and consulting services in the area of taxation, for a total annual amount of 70,000 euros.

Both contracts were submitted for approval to the Board of Directors, which took into account the recommendations of the Internal Control Committee, in accordance with the guidelines of the Corporate Governance Code.

Also in 2010, Studio Zulli, Tabanelli & Associati, a consultancy in which Claudio Zulli, a Director of Sorin S.p.A., is a partner, provided consulting services in the area of taxation, for the amount of 100,000 euros, approved by the Board of Directors in accordance with the abovementioned guidelines.

Banca Monte dei Paschi di Siena S.p.A. is a related party through MPS Investments S.p.A., a shareholder of Sorin S.p.A. that, jointly with other parties who signed a shareholders' agreement concerning the Sorin S.p.A. shares that became effective on November 18, 2009, owns an equity interest greater than 10%.
Financial transactions with this credit institution, which are executed on market terms and for which no guarantee was provided, refer to its participation, for the amount of 1,841,000 euros, in the medium/long-term facility syndicated by Mediobanca, Intesa San Paolo, MCC and BNP Paribas, and to the credit balances in checking accounts opened at the abovementioned bank by Group companies, for a total of 15,864,000 euros.

UGF Banca S.p.A., a member of Unipol Gruppo Finanziario S.p.A. of which Claudio Albertini, a Director of Sorin S.p.A., is an officer, provided short-term overdraft facilities to some Sorin Group companies for a total amount of 7 million euros. At December 31, 2010, the checking account opened at this bank had a credit balance of 104,000 euros.

*Benefits Provided to Directors and Group Executives with Strategic Responsibilities*

The compensation paid to Directors and Group executives with strategic responsibilities is shown below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | DIRECTORS | EXECUTIVES | DIRECTORS | EXECUTIVES |
| - Fees/Salaries (1) | 1,011 | 2,077 | 1,000 | 1,752 |
| - Other compensation (2) (3) | 1,087 | 2,150 | 1,143 | 1,585 |
| Total annual compensation | 2,098 | 4,227 | 2,143 | 3,337 |
| - Provision for severance indemnities at December 31 (4) | -- | 4 | -- | 4 |
| Number of stock options awarded (5) (6) | 1,600,000 | 2,325,000 | 1,600,000 | 2,325,000 |
| - Number of stock options exercised | -- | -- | -- | -- |
| Number of stock grants awarded (5) | 760,160 | 1,342,942 | -- | -- |

(in thousands of euros)

1) Excluding fees paid to the companies to which the Directors belonged and not to the Directors themselves.
2) Including non-cash benefits.
3) Other compensation paid to Directors includes the salary paid to the Chief Executive Officer as a Company employee.
4) As stated in Note 20, the amount of severance benefits vested at December 31, 2006 was updated based on actuarial computations.
5) Total number of options/stock grants awarded and outstanding at the end of the year.
6) Options awarded to Directors include those awarded to the current Chief Executive Officer when he was an employee of another Group company.

Additional information about the stock option and stock grant plans is provided in Note 30 and in the section of the Report on Operations entitled "Report on Corporate Governance and the Company's Ownership Structure."

## 42 – Segment Information by Areas of Business and Geographic Regions

The operating segments through which the Group carries out its activities were identified consistent with the reports that management uses to assess performance and make strategic decisions.
These reports, which reflect the Group's current organizational structure, are based on the different products and services offered by the Group and are produced using the same accounting principles and valuation criteria as those adopted to prepare the consolidated financial statements, as described in Note 2 "Principles of Consolidation, Valuation Criteria and Accounting Principles."

The chosen operating segments generate revenues through their core production and sales activities, as follows:

- The Cardiopulmonary segment generates revenues through the production and marketing of disposable biomedical devices and systems for extracorporeal circulation during surgery.
- The Heart Valves segment generates revenues through the production and marketing of implantable prostheses to replace or repair native heart valves (and acting as an indirect supplier in the endovascular segment).
- The Cardiac Rhythm Management segment generates revenues through the production and marketing of implantable devices, monitoring systems and accessories to treat cardiac rhythm dysfunctions.

No operating segment was aggregated to create operating segments for reporting purposes.

The segment revenues shown are those directly booked by or attributed to a segment and are generated by the segment's core business. Revenues include both the amounts generated by transactions with external customers and those from transactions with other segments.

The operating performance of each segment is measured in terms of the EBIT it generates.

The segment assets included in management's review process are those that a segment uses in its core business activities or which can reasonably be allocated to a segment, consistent with the segment's core business activities. These assets include: Property, plant and equipment; Goodwill and Other intangible assets; Investments in associates valued by the equity method; Investments in other companies; and Inventories.

*Segment Information by Areas of Business*

| | CONTINUING OPERATIONS | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CARDIOPULMUNARY OPERATIONS | | HEART VALVES OPERATIONS | | CARDIAC RHYTM M. OPERATIONS | | HOLDING COS. AND NON-ATTRIBUT. AMTS | | TOTAL | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Net revenues | | | | | | | | | | |
| - Net revenues from outsiders | 337,805 | 316,706 | 121,455 | 114,763 | 284,588 | 255,631 | 1,973 | 1,895 | 745,821 | 688,995 |
| - Inter-Segment net revenues | | -- | | -- | | -- | | -- | -- | -- |
| Total net revenues | 337,805 | 316,706 | 121,455 | 114,763 | 284,588 | 255,631 | 1,973 | 1,895 | 745,821 | 688,995 |
| EBIT | 59,542 | 47,642 | 6,063 | 6,530 | 27,310 | 8,689 | (21,432) | (11,342) | 71,483 | 51,519 |
| | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 |
| Segment assets | 239,328 | 234,736 | 136,211 | 133,059 | 175,422 | 173,053 | 4,347 | 5,461 | 555,308 | 546,309 |
| Unallocated Group assets | | | | | | | 309,859 | 289,971 | 309,859 | 289,971 |
| Total assets | | | | | | | | | 865,167 | 836,280 |

(in thousands of euros)

*Segment Information by Geographic Regions*

The Group is based in Italy. Revenues from external customers generated in Italy totaled 80,788,000 euros in 2010 (78,446,000 euros in 2009), while revenues generated in the Rest of the World amounted to 665,033,000 euros (610,549,000 euros in 2009).

A breakdown of revenues from external customers generated in the Rest of the World is provided below:

| | 2010 | 2009 |
|---|---|---|
| France | 118,466 | 113,257 |
| Germany | 43,004 | 41,718 |
| Spain | 33,183 | 32,066 |
| United Kingdom | 24,158 | 23,132 |
| Other countries in Europe | 101,471 | 96,894 |
| Total Europe (excluding Italy) | 320,282 | 307,067 |
| United States | 170,272 | 149,475 |
| Canada | 38,075 | 33,784 |
| Total North America | 208,347 | 183,259 |
| Japan | 68,399 | 61,299 |
| China | 16,441 | 14,474 |
| Other countries | 51,564 | 44,450 |
| Total countries outside Europe and North America | 136,404 | 120,223 |
| Total revenues from external customers in the Rest of the World | 665,033 | 610,549 |

(in thousands of euros)

Lastly, both in 2010 and in 2009, no single external customer generated revenues amounting to more than 10% of the Group's total revenues.

The total value of non-current assets, excluding financial instruments and Group deferred-tax assets, located in Italy amounted to 97,355,000 euros at December 31, 2010 (86,952,000 euros at December 31, 2009) , while the total value of non-current assets located in the Rest of the World totaled 325,384,000 euros (318,755,000 euros at December 31, 2009).

A breakdown of non-current assets located in the Rest of the World is as follows:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| France | 104,269 | 101,124 |
| Germany | 12,081 | 10,934 |
| Spain | 1,127 | 1,102 |
| United Kingdom | 3,090 | 3,218 |
| Other countries in Europe | 7,856 | 5,611 |
| Total Europe (excluding Italy) | 128,423 | 121,989 |
| | | |
| United States | 175,329 | 176,926 |
| Canada | 18,411 | 17,340 |
| Total North America | 193,740 | 194,266 |
| Japan | 2,816 | 2,091 |
| Australia | 387 | 395 |
| Other countries | 18 | 14 |
| Total countries outside Europe and North America | 3,221 | 2,500 |
| Total non-current assets in the Rest of the World | 325,384 | 318,755 |

(in thousands of euros)

## 43 – List of Sorin Group Companies and Changes in the Scope of Consolidation

*Sorin Group Companies at December 31, 2010*

This list includes all of the companies in which Sorin S.p.A. has a consolidated direct or indirect Group interest equal to or greater than 10%.

| COMPANY | REGISTERED OFFICE | CUR-RENCY | EQUITY CAPITAL AT 12/31/10 | PAR VALUE PER SHARE OR PARTNERSHIP INTEREST | CONSOLIDATED % INTEREST HELD BY THE GROUP | INVESTOR COMPANY | |
|---|---|---|---|---|---|---|---|
| | | | | | | NAME | % INTEREST HELD (1) |
| *Parent Company* | | | | | | | |
| Sorin S.p.A. | Milan | EUR | 470,432,144 | 1 | -- | | -- |
| *Companies Consolidated Line by Line:* | | | | | | | |
| Sorin CRM S.A.S. | Clamart (France) | EUR | 50,000,000 | 20 | 100.000 | Sorin S.p.A. | 100.000 |
| Sorin Biomedica Cardio S.r.l. | Milan | EUR | 4,732,000 | 4,732,000 | 100.000 | Sorin S.p.A. | 100.000 |
| Sorin Group Italia S.r.l. | Milan | EUR | 8,479,240 | 1 | 100.000 | Sorin S.p.A.<br>Sorin Site Management S.r.l.<br>Sorin Biomedica Cardio S.r.l.<br>Sorin Biomedica CRM S.r.l. | 87.924<br>7.103<br>3.197<br>1.776 |
| Sorin Group Nederland N.V. | Amsterdam (Netherlands) | EUR | 29,044,000 | 1,000 | 100.000 | Sorin S.p.A. | 100.000 |
| Sorin Site Management S.r.l. | Milan | EUR | 2,489,586 | 1 | 100.000 | Sorin S.p.A.<br>Sorin Biomedica Cardio S.r.l. | 86.423<br>13.577 |
| Sorin Group International S.A. | Lausanne (Switzerland) | CHF | 2,200,000 | 100 | 100.000 | Sorin S.p.A. | 100.000 |
| Sorin Cardio - Comercialização e Distribuição de Equipamentos Medicos Lda | Alges (Portugal) | EUR | 784,314 | 1 | 100.000 | Sorin CRM S.A.S. | 100.000 |
| Sorin Biomedica CRM S.r.l. | Milan | EUR | 5,000,000 | 5,000,000 | 100.000 | Sorin CRM S.A.S. | 100.000 |
| Sorin Group France S.A.S. | Clamart (France) | EUR | 12,200,000 | 10 | 100.000 | Sorin CRM S.A.S. | 100.000 |
| Sorin Group USA Inc. | Wilmington Delaware (USA) | USD | 102.55 | 0.01 | 100.000 | Sorin Group Italia S.r.l. | 100.000 |
| Sorin Group Asia PTE Ltd | Singapore | SGD | 4,864,002 | wpv | 100.000 | Sorin Group Italia S.r.l. | 100.000 |
| Sorin Group Deutschland Gmbh | Munich (Germany) | EUR | 1,667,000 | 1 | 100.000 | Sorin Group Italia S.r.l. | 100.000 |

(1) Unless otherwise stated, the % of voting shares is the same as the % interest held.

*Companies Consolidated Line by Line (continued):*

| COMPANY | REGISTERED OFFICE | CUR-RENCY | EQUITY CAPITAL AT 12/31/10 | PAR VALUE PER SHARE OR PARTNERSHIP INTEREST | CONSOLIDATED % INTEREST HELD BY THE GROUP | INVESTOR COMPANY | |
|---|---|---|---|---|---|---|---|
| | | | | | | NAME | % INTEREST HELD (1) |
| Sorin Group Finland OY | Helsinki (Finland) | EUR | 151,369.13 | 16.82 | 100.000 | Sorin Group Italia S.r.l. | 100.000 |
| Sorin Group Scandinavia AB | Sollentuna (Sweden) | SEK | 2,100,000 | 100 | 100.000 | Sorin Group Italia S.r.l. | 100.000 |
| Ela Medical Inc. | Wilmington Delaware (USA) | USD | 1,527 | 1 | 100.000 | Sorin Group USA Inc. | 100.000 |
| Gish Biomedical Inc. | Rancho Santa Margarita California (USA) | USD | -- | wpv | 100.000 | Sorin Group USA Inc. | 100.000 |
| Sorin Group Canada Inc. | Markham (Canada) | CAD | 943,000 | wpv | 100.000 | Sorin Group USA Inc. | 100.000 |
| Sorin Group Importação e Venda de Dispositivos Medicos Ltda | Bairro São Paulo (Brazil) | BRL | 30,653,526 | 1 | 100.000 | Sorin Group Nederland N.V. | 99.999 |
| | | | | | | Sorin CRM S.A.S. | 0.001 |
| Sorin Group Australia PTY Limited | West End (Australia) | AUD | 3,010,000 | 10 | 100.000 | Sorin Group Nederland N.V. | 100.000 |
| Sorin Group Belgium S.A. | Zaventem (Belgium) | EUR | 6,384,207 | wpv | 100.000 | Sorin Group Nederland N.V. | 99.981 |
| | | | | | | Fiduciari | 0.019 |
| Sorin Group Espana S.L. | Sant Cugat del Valles (Spain) | EUR | 3,149,240 | 6.01 | 100.000 | Sorin Group Nederland N.V. | 57.252 |
| | | | | | | Sorin CRM S.A.S. | 42.748 |
| Sorin Group UK Limited | Gloucester (U.K.) | GBP | 1,540,000 | 1 | 100.000 | Sorin Group Nederland N.V. | 100.000 |
| Sorin Group Japan K.K. | Tokyo (Japan) | JPY | 470,000,000 | svn | 100.000 | Sorin Group Nederland N.V. | 100.000 |
| Sorin Group Austria GmbH | Vienna (Austria) | EUR | 35,000 | 35,000.00 | 100.000 | Sorin Group Nederland N.V. | 100.000 |
| Sobedia Energia | Saluggia (Vercelli) | EUR | 5,000 | 1,250 | 75.000 | Sorin Biomedica Cardio S.r.l. | 25.000 |
| | | | | | | Sorin Biomedica CRM S.r.l. | 25.000 |
| | | | | | | Sorin Site Management S.r.l. | 25.000 |
| Sorin Group Norway AS | Oslo (Norway) | NOK | 200,000 | 2,000 | 100.000 | Sorin Group Scandinavia AB | 100.000 |

(1) Unless otherwise stated, the % of voting shares is the same as the % interest held.
wpv = without par value

| COMPANY | REGISTERED OFFICE | CUR-RENCY | EQUITY CAPITAL AT 12/31/10 | PAR VALUE PER SHARE OR PARTNERSHIP INTEREST | CONSOLIDATED % INTEREST HELD BY THE GROUP | INVESTOR COMPANY | |
|---|---|---|---|---|---|---|---|
| | | | | | | NAME | % INTEREST HELD (1) |
| *Companies Valued by the Equity Method:* | | | | | | | |
| La Bouscarre S.C.I. | Fourquevaux (France) | EUR | 9,180 | 153.00 | 50.000 | Sorin Group France S.A.S. | 50.000 |
| LMTB - Laser und Medizin Technologie GmbH | Berlin (Germany) | EUR | 226,757.97 | 1 | 22.548 | Sorin Group Deuschland Gmbh | 22.548 |

(1) Unless otherwise stated, the % of voting shares is the same as the % interest held.

## *Changes in the Scope of Consolidation in 2010*

### COMPANIES ADDED TO THE SCOPE OF CONSOLIDATION

| COMPANY | REGISTERED OFFICE | CURRENCY | EQUITY CAPITAL AT 12/31/10 | CONSOLIDATED % INTEREST HELD BY THE GROUP |
|---|---|---|---|---|
| *Acquired companies* | | | | |
| Gish Biomedical Inc. | Rancho Santa Margarita California (USA) | USD | -- | 100.000 |

### COMPANIES REMOVED FROM THE SCOPE OF CONSOLIDATION

| COMPANY | REGISTERED OFFICE | CURRENCY | EQUITY CAPITAL AT 12/31/10 | CONSOLIDATED % INTEREST HELD BY THE GROUP |
|---|---|---|---|---|
| *Dissolved companies* | | | | |
| Sorin Cobe CV Inc. | Wilmington Delaware (USA) | USD | 100 | 100.000 |
| *Merged companies* | | | | |
| Carbomedics Inc. (1) | Wilmington Delaware (USA) | USD | 10 | 100.000 |

(1) Merged into Sorin Group USA Inc..

*Translation of Financial Statements of Foreign Companies*

The table below shows the exchange rates used to translate into euros the data of companies outside the euro zone:

| EXCHANGE RATES FOR OTHER CURRENCIES VERSUS THE EURO | AVERAGE FOR 2010 | At 12/31/10 | AVERAGE FOR 2009 | At 12/31/09 |
|---|---|---|---|---|
| Swiss franc | 1.380 | 1.250 | 1.510 | 1.484 |
| British pound | 0.858 | 0.861 | 0.891 | 0.888 |
| Norwegian krone | 8.004 | 7.800 | 8.728 | 8.300 |
| Swedish kronor | 9.537 | 8.966 | 10.619 | 10.252 |
| U.S. dollar | 1.326 | 1.336 | 1.395 | 1.441 |
| Australian dollar | 1.442 | 1.314 | 1.773 | 1.601 |
| Canadian dollar | 1.365 | 1.332 | 1.585 | 1.513 |
| Singapore dollar | 1.806 | 1.714 | 2.024 | 2.019 |
| Japanese yen | 116.240 | 108.650 | 130.340 | 133.160 |
| Brazilian real | 2.331 | 2.218 | 2.767 | 2.511 |

## 45 – EVENTS OCCURRING AFTER DECEMBER 31, 2010

The following events worthy of mention occurred after the end of 2010:

- In January 2011, authorization to market in Europe the Perceval™ S self-anchoring aortic heart valve, which represents the latest generation of cardiac prostheses in terms of technological innovation. It is particularly suitable for replacement of the aortic valve in patients suffering from aortic valve stenosis with a minimally invasive surgical procedure with a very short implementation time. Perceval S is a surgical aortic valve equipped with an exclusive self-expanding, anchoring system that enables surgeons to replace a damaged valve without having to suture the prosthesis to the patient's tissue and, consequently, represents an evolution compared with conventional bioprostheses.
- In February 2011, acquisition of a minority interest in MD Start, Europe's first venture capital incubator supported by operators in the medical technology sector. Based on Lausanne, Switzerland, MD Start offers to promoters of innovative ideas an important opportunity to turn into reality their medical device development projects. MD Start's mission is to stimulate innovation by providing scientists and physicians with the financial and technical competencies and the strategic resources needed to identify and validate new ideas. With this investment, Sorin Group joined Sofinnova Partners, Versant Ventures, Medtronic and Contract Medical International as a partner in MD Start;
- In March 2011, sale of the building in Montrouge (Paris) that housed the manufacturing activities of the CRM business unit in France until 2009, prior to their relocation to Clamart (Paris). The proceeds from the sale amounted to a 5.5 million euros, for a net gain of 3.8 million euros.

No other significant events requiring disclosure occurred after December 31, 2010.

Milan, March 17, 2011

| | |
|---|---|
| Rosario Bifulco<br>Chairman | André-Michel Ballester<br>Chief Executive Officer |

## ANNEX

### DISCLOSURE REQUIRED PURSUANT TO ARTICLE 149-*DUODECIES* OF THE CONSOB'S ISSUERS' REGULATIONS

The table below, which was prepared pursuant to Article 149-*duodecies* of the Consob's Issuers' Regulations, shows the amount attributable to 2010 of the fees paid to Reconta Ernst & Young S.p.A. and other companies within its network for independent auditing services and for services other than those related to the performance of independent audits.

| | PARTY PROVIDING THE SERVICE | PARTY RECEIVING THE SERVICE | FEE AMOUNT ATTRIBUTABLE TO 2010 |
|---|---|---|---|
| Independent auditing | Reconta Ernst & Young S.p.A. | Parent Company - Sorin S.p.A. | 261 |
| | Reconta Ernst & Young S.p.A. | Subsidiaries | 208 |
| | Rete Ernst & Young | Subsidiaries | 666 |
| Attestation services | Reconta Ernst & Young S.p.A. | Parent Company - Sorin S.p.A. (1) | 11 |
| | Reconta Ernst & Young S.p.A. | Subsidiaries (1) | 18 |
| | Rete Ernst & Young | Subsidiaries (1) | 35 |
| Other services | Rete Ernst & Young | Parent Company - Sorin S.p.A. (2) | 99 |
| | Rete Ernst & Young | Subsidiaries (2) | 105 |
| Total | | | 1,403 |

(in thousands of euros)

1) Services provided in connection with tax filings.

2) Other professional services.

# ATTESTATION

## OF THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2010
## PURSUANT TO ARTICLE 154-*BIS* OF LEGISLATIVE DECREE NO. 58/98

1. We, the undersigned André-Michel Ballester, in my capacity as Chief Executive Officer, and Demetrio Mauro, in my capacity as Corporate Accounting Documents Officer of Sorin S.p.A., taking into account the provisions of Article 154-*bis*, Sections 3 and 4, of Legislative Decree No. 58 of February 24, 1998, attest that the administrative and accounting procedures followed during the 2010 reporting year in connection with the preparation of the consolidated financial statements:
   - were adequate in relation to the characteristics of the Group's business operations; and
   - were effectively applied.

2. The methodology and operational approach used to assess the effectiveness of the administrative and accounting procedures followed to prepare the consolidated financial statements at December 31, 2010 were consistent with the operational guidelines of the CoSO framework "ICFR-Guidance for Smaller Public Companies," which constitute a reference model generally accepted internationally.

3. We further attest that:

   3.1 the consolidated financial statements:
   - were prepared in accordance with the applicable International Financial Reporting Standards, as adopted by the European Union pursuant to Regulations (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002, and comply with the regulations enacted to implement Legislative Decree No. 38/2005;
   - are consistent with the data in the books of accounts and other accounting records;
   - adequately provide a truthful and fair presentation of the statement of financial position, operating performance and cash flow of the issuer and of the companies included in the scope of consolidation;

   3.2 the Report on Operations provides a reliable presentation of the issuer's performance and result from operations, as well as of its financial position and the financial position of all of the companies included in the scope of consolidation, and describes the main risks and uncertainties to which they are exposed.

Milan, March 17, 2011

| | |
|---|---|
| André-Michel Ballester<br>Chief Executive Officer | Demetrio Mauro<br>Corporate Accounting<br>Documents Officer |

SORIN S.p.A.

STATUTORY FINANCIAL STATEMENTS

AT DECEMBER 31, 2010

CONTENTS

## STATEMENT OF FINANCIAL POSITION

| | | NOTE | 12/31/10 | 12/31/09 |
|---|---|---|---|---|
| ASSETS | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | (3) | 775,184 | 1,097,635 |
| Intangible assets | | (4) | 4,007,006 | 4,504,817 |
| Investments in subsidiaries | | (5) (6) | 672,818,141 | 672,652,483 |
| Non-current financial assets | (*) | (7) | 1,218,161 | 1,218,161 |
| Deferred-tax assets | | (8) | 4,974,102 | 7,570,610 |
| Other non-current assets | | (9) | 1,950,324 | -- |
| **Total non-current assets** | | | 685,742,918 | 687,043,706 |
| **Current assets** | | | | |
| Trade receivables | | (10) | 1,860,482 | 1,581,584 |
| Other receivables | | (11) | 13,422,672 | 4,973,510 |
| Assets from financial derivatives | (*) | (12) | 4,962,929 | 1,665,448 |
| Other current financial assets | (*) | (13) | 109,421,299 | 105,174,017 |
| Tax credits | | (14) | 5,636,840 | 868,395 |
| Cash and cash equivalents | (*) | (15) | 21,331,501 | 302,918 |
| **Total current assets** | | | 156,635,723 | 114,565,872 |
| **Total assets** | | | 842,378,641 | 801,609,578 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| **Shareholders' equity** | | | | |
| Share capital | | | 470,432,144 | 470,412,144 |
| Additional paid-in capital | | | 16,636 | -- |
| Statutory reserve | | | 62,792,784 | 62,685,870 |
| Other reserves | | | 34,143,923 | 30,260,657 |
| Net profit (loss) for the year | | | 9,989,671 | 2,138,274 |
| **Total shareholders' equity** | | (16) | 577,375,158 | 565,496,945 |
| **Non-current liabilities** | | | | |
| Liabilities from financial derivatives | (*) | (12) | 6,450,195 | 6,068,455 |
| Non-current financial liabilities | (*) | (17) | 94,589,032 | 123,863,393 |
| Provision for employee severance indemnities and other provisions for employee benefits | | (18) | 295,662 | 517,433 |
| Deferred-tax liabilities | | (8) | 263,095 | 743,918 |
| **Total non-current liabilities** | | | 101,597,984 | 131,193,199 |
| **Current liabilities** | | | | |
| Trade payables | | (19) | 4,245,811 | 3,707,249 |
| Other payables | | (20) | 11,468,189 | 2,565,583 |
| Liabilities from financial derivatives | (*) | (12) | 5,058,274 | 1,873,435 |
| Other current financial liabilities | (*) | (17) | 142,371,825 | 96,487,796 |
| Taxes payable | | (14) | 261,400 | 285,371 |
| **Total current liabilities** | | | 163,405,499 | 104,919,434 |
| **Total liabilities and shareholders' equity** | | | 842,378,641 | 801,609,578 |

(in euros)

(*) Financial statement items that are included in the computation of net indebtedness, with the exception of Investments in other companies, which is included in Non-current financial assets.

## INCOME STATEMENT

| | NOTE | 2010 | 2009 |
|---|---|---|---|
| **Net revenues** | (23) | 13,925,554 | 12,622,978 |
| Other revenues and income | (23) | 942,352 | 525,771 |
| Cost of raw materials and other materials | (24) | (119,958) | (85,260) |
| Cost of services used | (24) | (15,699,539) | (14,068,358) |
| Personnel expense | (25) | (8,385,036) | (7,561,580) |
| Miscellaneous operating costs | (24) | (421,837) | (560,380) |
| Depreciation, amortization and writedowns | (27) | (1,388,377) | (1,501,345) |
| **EBIT** | | (11,146,841) | (10,628,174) |
| Financial expense | (28) | (6,813,281) | (10,041,941) |
| Financial income | (28) | 2,238,319 | 4,355,514 |
| Currency translation differences | (28) | (2,022,110) | (1,599,940) |
| Income from (Expenses on) investments in subsidiaries | (29) | 21,570,306 | 15,021,225 |
| **Profit (Loss) before taxes** | | 3,826,393 | (2,893,316) |
| Income taxes | (30) | 6,163,278 | 5,031,591 |
| **Profit (Loss) from continuing operations** | | 9,989,671 | 2,138,275 |
| Profit (Loss) from divested operations | | -- | -- |
| **Net profit (loss)** | | 9,989,671 | 2,138,275 |

(in euros)

## STATEMENT OF COMPREHENSIVE INCOME

| | NOTE | 2010 | 2009 |
|---|---|---|---|
| Net profit (loss) for the year | | 9,990 | 2,138 |
| Gains/(Losses) on cash flow hedges for interest rate fluctuations | (12) | (1,938) | (2,558) |
| Tax effect | | 625 | 827 |
| Other components of comprehensive income net of tax effect | | (1,313) | (1,731) |
| Total comprehensive profit for the year net of tax effect | | 8,677 | 407 |

(in thousands of euros)

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | SHAREHOLDERS' EQUITY | | | | | | |
|---|---|---|---|---|---|---|---|
| | SHARE CAPITAL | ADDITIONAL PAID-IN CAPITAL | STATUTORY RESERVE | OTHER RESERVES | RETAINED EARNINGS (LOSS CARRY-FORWARD) | NET PROFIT (LOSS) FOR THE YEAR | TOTAL |
| Balance at 12/31/08 | 470,412 | 40,910 | 62,686 | 47,211 | -- | (56,676) | 564,543 |
| - Net profit (loss) for the year | -- | -- | -- | -- | -- | 2,138 | 2,138 |
| - Other components of comprehensive income | -- | -- | -- | (1,731) | -- | -- | (1,731) |
| - Total comprehensive profit (loss) | -- | -- | -- | (1,731) | -- | 2,138 | 407 |
| - Replenishment of loss as per Shareholders' Meeting resolution of 4/28/09 | -- | (40,910) | -- | (15,766) | -- | 56,676 | -- |
| - Stock options | -- | -- | -- | 547 | -- | -- | 547 |
| Balance at 12/31/09 | 470,412 | -- | 62,686 | 30,261 | -- | 2,138 | 565,497 |
| - Net profit (loss) for the year | -- | -- | -- | -- | -- | 9,990 | 9,990 |
| - Other components of comprehensive income | -- | -- | -- | (1,313) | -- | -- | (1,313) |
| - Total comprehensive profit (loss) | -- | -- | -- | (1,313) | -- | 9,990 | 8,677 |
| - Appropriation of the net profit of Sorin S.p.A. | -- | -- | 107 | -- | 2,031 | (2,138) | -- |
| - Exercise of stock options | 20 | 17 | -- | (6) | -- | -- | 31 |
| - Stock options | -- | -- | -- | 232 | -- | -- | 232 |
| - Stock grants | -- | -- | -- | 2,938 | -- | -- | 2,938 |
| Balance at 12/31/10 | 470,432 | 17 | 62,793 | 32,112 | 2,031 | 9,990 | 577,375 |

(in thousands of euros)

## STATEMENT OF CASH FLOWS

| | NOTE | 2010 | 2009 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Net profit (loss) for the year | | 9,990 | 2,138 |
| *Adjustments to reconcile the profit (loss) for the year to the net cash flow from operating activities:* | | | |
| Depreciation and amortization | *(3) (4)* | 1,358 | 1,301 |
| (Gains) Losses on disposal of property, plant and equipment | | -- | -- |
| (Revaluations) Writedowns of equity investments | | -- | 409 |
| Non-cash stock option and stock grant costs | | 840 | 129 |
| Amortized costs of medium- and long-term borrowings | | 166 | 274 |
| Non-cash hedging costs | | (1,670) | 1,408 |
| Change in receivables and payables generated by operating activities | | (1,328) | (3,686) |
| Change in provisions for risks and provision for severance indemnities | | (8) | 108 |
| Net cash from (used in) operating activities | | 9,348 | 2,081 |
| Cash flow from investing activities | | | |
| Investments in property, plant and equipment | *(3)* | (55) | (66) |
| Investments in intangibles | *(4)* | (482) | (522) |
| Equity investments in subsidiaries and other companies | | -- | (134) |
| Proceeds from the sale of property, plant and equipment | | -- | 60 |
| Net cash from (used in) investing activities | | (537) | (662) |
| Cash flow from financing activities | | | |
| Capital increase | | 31 | -- |
| Repayments of medium- and long-term borrowings | | (34,615) | (35,314) |
| Change in indebtedness under finance leases | | (186) | (178) |
| Change in financial assets and other loans receivable | | (4,256) | 41,978 |
| Cash impact of derivatives executed as equity hedges | | -- | -- |
| Change in other liabilities and loans payable | | 51,244 | (11,186) |
| Net cash from (used in) financing activities | | 12,218 | (4,700) |
| Increase (Decrease) in cash and cash equivalents | | 21,029 | (3,281) |
| Cash and cash equivalents at the beginning of the year | *(15)* | 303 | 3,584 |
| Cash and cash equivalents at the end of the year | *(15)* | 21,332 | 303 |
| *Additional disclosures:* | | | |
| Income taxes paid | | -- | -- |
| Interest expense paid | | 2,897 | 6,814 |
| Interest income earned | | 2,238 | 2,445 |

(in thousands of euros)

## STATEMENT OF FINANCIAL POSITION (CONSOB RESOLUTION OF 7/27/06)

Pursuant to Consob Resolution No. 15519 of July 27, 2006.

| | | NOTE | 12/31/10 | AMT. WITH RELATED PARTIES (NOTE 32) | 12/31/09 | AMT. WITH RELATED PARTIES (NOTE 32) |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Non-current assets | | | | | | |
| Property, plant and equipment | | (3) | 775 | | 1,098 | |
| Intangible assets | | (4) | 4,007 | | 4,505 | |
| Investments in subsidiaries | | (5) (6) | 672,818 | | 672,652 | |
| Non-current financial assets | (*) | (7) | 1,218 | | 1,218 | |
| Deferred-tax assets | | (8) | 4,974 | | 7,571 | |
| Other non-current assets | | (9) | 1,951 | 1,951 | -- | |
| Total non-current assets | | | 685,743 | | 687,044 | |
| Current assets | | | | | | |
| Trade receivables | | (10) | 1,860 | 1,805 | 1,581 | 1,517 |
| Other receivables | | (11) | 13,422 | 12,387 | 4,974 | 4,635 |
| Assets from financial derivatives | (*) | (12) | 4,963 | 4,963 | 1,665 | 322 |
| Other current financial assets | (*) | (13) | 109,422 | 105,050 | 105,174 | 101,034 |
| Tax credits | | (14) | 5,637 | | 868 | |
| Cash and cash equivalents | (*) | (15) | 21,332 | 15,937 | 303 | |
| Total current assets | | | 156,636 | | 114,565 | |
| Total assets | | | 842,379 | | 801,609 | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Shareholders' equity | | | | | | |
| Share capital | | | 470,432 | | 470,412 | |
| Additional paid-in capital | | | 17 | | -- | |
| Statutory reserve | | | 62,793 | | 62,686 | |
| Other reserves | | | 34,143 | | 30,261 | |
| Net profit (loss) for the year | | | 9,990 | | 2,138 | |
| Total shareholders' equity | | (16) | 577,375 | | 565,497 | |
| Non-current liabilities | | | | | | |
| Liabilities from financial derivatives | (*) | (12) | 6,450 | | 6,068 | |
| Non-current financial liabilities | (*) | (17) | 94,589 | | 123,864 | 1,823 |
| Provision for employee severance indemnities and other provisions for employee benefits | | (18) | 296 | | 517 | |
| Deferred-tax liabilities | | (8) | 263 | | 744 | |
| Total non-current liabilities | | | 101,598 | | 131,193 | |
| Current liabilities | | | | | | |
| Trade payables | | (19) | 4,246 | 263 | 3,707 | 497 |
| Other payables | | (20) | 11,468 | 8,775 | 2,566 | |
| Liabilities from financial derivatives | (*) | (12) | 5,059 | 374 | 1,873 | 1,680 |
| Other current financial liabilities | (*) | (17) | 142,372 | 112,033 | 96,488 | 54,703 |
| Taxes payable | | (14) | 261 | | 285 | |
| Total current liabilities | | | 163,406 | | 104,919 | |
| Total liabilities and shareholders' equity | | | 842,379 | | 801,609 | |

(in thousands of euros)

(*) Financial statement items that are included in the computation of net indebtedness, with the exception of Investments in other companies, which is included in Non-current financial assets.

## INCOME STATEMENT (CONSOB RESOLUTION OF 7/27/06)

Pursuant to Consob Resolution No. 15519 of July 27, 2006.

| | NOTE | 2010 | 2010 AMT. WITH RELATED PARTIES (NOTE 32) | 2009 | 2009 AMT. WITH RELATED PARTIES (NOTE 32) |
|---|---|---|---|---|---|
| **Net revenues** | (23) | 13,926 | 13,845 | 12,623 | 12,160 |
| Other revenues and income | (23) | 942 | 494 | 526 | 244 |
| Cost of raw materials and other materials | (24) | (120) | | (85) | |
| Cost of services used | (24) | (15,700) | (2,356) | (14,068) | (1,555) |
| Personnel expense | (25) | (8,385) | | (7,562) | |
| Miscellaneous operating costs | (24) | (422) | | (561) | |
| Depreciation, amortization and writedowns | (27) | (1,388) | | (1,501) | |
| EBIT | | (11,147) | | (10,628) | |
| Financial expense | (28) | (6,813) | (196) | (10,042) | (213) |
| Financial income | (28) | 2,238 | 2,210 | 4,355 | 2,415 |
| Currency translation differences | (28) | (2,022) | 15,800 | (1,600) | (6,006) |
| Income from (Expenses on) investments in subsidiaries | (29) | 21,570 | | 15,021 | |
| Profit (Loss) before taxes | | 3,826 | | (2,894) | |
| Income taxes | (30) | 6,164 | | 5,032 | |
| Profit (Loss) from continuing operations | | 9,990 | | 2,138 | |
| Profit (Loss) from divested operations | | -- | | -- | |
| Net profit (loss) | | 9,990 | | 2,138 | |

(in thousands of euros)

## 1 – GENERAL INFORMATION

*General Information*

Sorin S.p.A. is a corporation governed by Italian Law that was established on January 2, 2004 upon the partial, proportional demerger of Snia S.p.A. Its shares are traded on the Online Stock Market of the Milan Securities Exchange and its registered office is located in Milan, Italy.
Sorin S.p.A. is the Parent Company of a Group that operates in the field of medical technology, offering products and services to treat cardiovascular diseases.

On March 17, 2011, the Board of Directors approved the draft financial statements of Sorin S.p.A. for the year ended December 31, 2010 and authorized their publication in the manner and within the deadlines required by law.

The 2010 statutory financial statements, which constitute the separate financial statements of Sorin S.p.A., were prepared in accordance with the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB), as approved by the European Union, and are consistent with the regulations enacted to implement Article 9 of Law No. 38/2005. The abbreviation IFRSs also means the International Accounting Standards (IAS) that are still in effect and all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), including interpretations issued previously by the Standing Interpretations Committee (SIC).

The accounting principles used for these financial statements are those that were in effect at December 31, 2010 and are consistent with those used for the financial statements at December 31, 2009, except for the information provided below with regard to revisions and new accounting principles and interpretations issued by the IASB and applicable as of January 1, 2010.

The following amendments, improvements and interpretations that became applicable on January 1, 2010 did not affect the statutory financial statements:

- IFRS 3 Revised – "Business Combinations"
- Amendment to IFRS 2 – "Share-based Payments: Group Cash-settled Share-based Payment Transactions"
- Amendment to IAS 27 – "Consolidated and Separate Financial Statements"
- Amendment to IAS 39 – "Financial Instruments: Recognition and Measurement – Eligible Hedged Items"
- IFRIC 16 – "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 – "Distribution of Non-cash Assets to Owners"
- IFRS improvements (May 2008)
- IFRS improvements (May 2009)

The following interpretations that became applicable on January 1, 2010 concern situations and issues that did not apply to the Company as of the date of these financial statements:

- IFRIC 12 – "Service Concession Arrangements"
- IFRIC 15 – "Agreements for the Construction of Real Estate"
- IFRIC 18 – "Transfer of Assets from Customers"

These financial statements were prepared in accordance with the cost principle, except for derivatives, which were measured at fair value.

The annual financial statements were prepared on a going concern basis. Specifically, the Company concluded that, despite the current challenging economic and financial environment, there are no material uncertainties (as defined in Paragraph 25 of IAS 1) as to the Company's ability to continue as a going concern, owing in part to the actions already taken to address perceived risks and adapt the Company's operating and financial structure to the new economic environment.

The reference date for the financial statements is December 31.

Unless otherwise stated, the amounts listed on the accounting schedules and in the notes to the financial statements are in thousands of euros. This approach could require the rounding of figures.

The financial statements were prepared in accordance with the following methods:

- In the statement of financial position, current and non-current assets and current and non-current liabilities are shown separately;
- In the income statement, costs are broken down by type;
- The indirect method was used to prepare the statement of cash flows.

In the statement of financial position, some of the line items were further subdivided (also for the amounts at December 31, 2009 presented in these financial statements for comparison purposes) as follows:

- trade receivables are shown separately from other receivables;
- trade payables are shown separately from other payables.

Prepaid expenses are included in "Other receivables."

In 2010, the Company did not execute any atypical or unusual transactions.

## 2 – VALUATION CRITERIA AND ACCOUNTING PRINCIPLES

The main valuation criteria and accounting principles applied by Sorin S.p.A. are reviewed below.

### Property, Plant and Equipment

Property, plant and equipment is booked at purchase cost plus any directly attributable incidental expenses that are necessary to make the asset ready for use.
The initial cost of these assets must also include an estimate of asset decommissioning and removal and site remediation costs. The corresponding liability is posted to the provisions for risks and charges.
Maintenance and repair costs that do not extend the useful lives of assets are charged to income in the year they are incurred.

The amounts booked to assets are depreciated annually on a straight-line basis at a rate that reflects the estimated useful lives of the assets. No depreciation is taken until the assets are put into service.

When there is an indication that the value of an asset may have been impaired, its recoverable value is estimated using the method provided by IAS 36 "Impairment of Assets" and any resulting loss is recognized in the income statement, in accordance with the guidelines provided in IAS 36.

Leasehold improvements that meet the requirements of IAS 16 "Property, Plant and Equipment" are classified as property, plant and equipment and depreciated over the asset's remaining useful life or the remainder of the lease, whichever is shorter.

*Leases*
When all risks and benefits inherent in the ownership of the leased assets are transferred to the lessee, assets held under a finance lease are booked as property, plant and equipment and the corresponding liability to the lessor is recognized as a financial liability. At the beginning of a lease, assets held under a finance lease are valued at the lower of their fair value or the present value of the minimum payments owed under the lease. They are depreciated over the asset's estimated useful life in the same manner as property, plant and equipment that the Company owns outright.
Lease payments are broken down between principal, which is deducted from the indebtedness to the lessor, and interest, which is recognized as a financial expense, so that a constant interest rate is applied to the outstanding lease balance.

## Intangible Assets

Intangibles are recognized on the asset side of the statement of financial position when it is likely that the use of an asset will generate future benefits and its cost can be measured reliably. Intangibles are booked at their purchase price or internal production cost, inclusive of incidental charges and borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Intangibles with an indefinite useful life are not amortized. Instead, they are tested at least once a year for impairment.
Intangibles with a finite useful life are amortized on a straight line, based on an asset's estimated useful life. When there is an indication that the value of an asset may have been impaired, the recoverable value of intangibles is computed in accordance with the method provided in IAS 36 "Impairment of Assets" and any resulting loss is recognized in the income statement.

## Investments in Subsidiaries

Interests held in subsidiaries and affiliated companies that represent long-term equity investments are recognized at the cost incurred to acquire them or establish them or is determined by an independent appraiser when an acquisition is carried out by means of a conveyance.
Annually or whenever there is an indication that the value of an investment may have been impaired, the recoverable value of intangibles is computed in accordance with the method provided in IAS 36 "Impairment of Assets" and any resulting loss is recognized in the income statement.

## Available-for-sale Investments in Other Companies

Investments in companies other those in subsidiaries and affiliated companies are classified as available-for-sale investments and, when the information needed to determine their fair value is not available, they are carried at cost, adjusted for any impairment losses.

## Receivables and Other Current Financial Assets

Receivables and other current financial assets include trade receivables and other financial receivables generated by Sorin S.p.A. acting in its capacity as intermediary between Group companies and the banking system. Following initial recognition, receivables and other current financial assets are valued at their amortized cost, using the effective discount rate method, net of any provision for impairment losses, in accordance with the guidelines provided by IAS 39 for financial instruments classified as "loans and receivables." Receivables denominated in foreign currencies are adjusted to year-end exchange rates. Any resulting gains or losses are credited or debited to the income statement.

## Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term deposits, the original maturity of which may not exceed three months.

## Payables and Financial Liabilities

Payables and financial liabilities comprise trade payables; other payables; loans payable, which include obligations under finance leases; and indebtedness generated by Sorin S.p.A. acting in its capacity as intermediary between Group companies and the banking system.
Trade payables and other payables are carried at their face value. Loans payable are initially recognized at cost, which are equal to the fair value of the consideration received, net of incidental costs. Subsequently, these payables are shown at their amortized cost, computed taking into account issue costs and any premium or discount applicable upon settlement.

Payables denominated in foreign currencies are adjusted to year-end exchange rates. Any resulting gains or losses are credited or debited to the income statement.

## Financial Derivatives

Sorin S.p.A., acting primarily in support of its subsidiaries, executes financial derivatives (mainly forward currency contracts and interest rate swaps) exclusively for the purpose of hedging the risk of fluctuations in foreign exchange and interest rates.
Initially, derivatives are recognized at their fair value on the date when the contracts are executed. Subsequently, their fair value is tested at regular intervals using for the forward currency contracts the forward interest rates applied to contracts with a similar profile and maturity and for the interest rate swaps the market value for similar instruments. Any gain or loss that results from this valuation process is recognized on the statement of financial position as either an asset or a liability from financial derivatives.
Gains or losses that result from the valuation at fair value of financial derivatives that meet the requirements of IAS 39 for hedge accounting treatment are recognized as follows:

- In the income statement when they are realized, if the financial instrument in question is designated as hedging the risk of changes in the fair value of an asset or liability (fair value hedge), thereby offsetting the gains or losses recognized in the income statement as a result of the process of valuing the hedged asset or liability.
- In an equity reserve for the effective portion of the hedge and in the income statement for the ineffective portion of the hedge, if the financial instrument in question is designated as hedging the cash flow of a given asset or liability (cash flow hedge). Gains or losses recognized in equity are transferred to the income statement when the economic effects of the hedged assets or liabilities are reflected in the result for the period. When a hedge expires or is cancelled, any amount previously recognized in equity is transferred to the income statement. Currently, this situation does not exist at Sorin S.p.A.

Gains or losses from the valuation of financial derivatives that do not qualify for hedge accounting are recognized in profit or loss.

## Accruals and Deferrals

Accrued income and expenses are the offsetting entries of revenues and expenses attributable to two or more years, for which the respective cash entries had not been made on the date of the financial statements.
Prepaid expenses and deferred income represent the portion of cost and revenues attributable to two or more years, which cannot be reflected in the statement of income in the year when the respective cash entry was made.
They are reflected in the financial statements on an accrual basis, in accordance with the general principle of matching costs and revenues.

## Provisions for Risks and Charges and Contingent Liabilities

Provisions for future risks and charges are established to recognize a current (legal or implied) obligation that arises from past events, the satisfaction of which will probably require the use of financial resources in an amount that can be estimated reliably.
Provisions for risks and charges set aside to fund a medium- or long-term obligation of a material amount are discounted and any addition to such provisions required to reflect the passing of time is recognized as a financial expense.

## Employee Benefits

*Provision for Employee Severance Indemnities*
The provision for employee severance indemnities is treated as:

- A defined-benefit plan with respect to the benefits that vested up to December 31, 2006;
- A defined-contribution plan with respect to benefits vesting from January 1, 2007 on, both for employees who opted for alternative pension plans and for employees who choose to leave their vested benefits with the Company.

Severance indemnities that vested up to December 31, 2006 are valued by the Projected Unit Credit Method, based on actuarial, demographic and financial assumptions, which no longer include the rate of wage increases. The cost representing an increase in the present value of the provision for employee severance indemnities is recognized as personnel expense.
Vested severance benefits under a provision for employee severance indemnities, which can be construed as a defined-contribution plan, are also recognized as personnel expense and, until their actual disbursement, the offsetting entry in the statement of financial position is posted to other current liabilities.

*Other Medium/Long-term Employee Benefits*
Other medium/long-term benefits include a long-term incentive plan (cash settled) for the benefit of a limited number of key Group manager. The Long-Term Incentive Plan – LTIP is based on a three-year incentivizing cycle tied to the Group's performance.

*Equity Settled Compensation Plans*
The Company awards additional benefits to some employees through equity settled compensation plans (stock option and stock grant plans). In accordance with IFRS 2 – Share-based Payment, these plans represent a component of the beneficiary's compensation and their cost is measured based on the fair value of the abovementioned instruments on the grant date. Changes in fair value after the grant date have no effect on the valuation of the plans.
The cost of equity settled transactions and the corresponding increase in shareholders' equity are recognized over the period from the grant date to the vesting date. Until the vesting date, the cumulative costs recognized for such transactions at the end of each reporting period reflect vesting period maturities and the best available estimate of the number of equity instruments that will actually vest. The gain or loss recognized in profit or loss is equal to the difference in the cumulative cost recognized at the beginning and the end of the reporting year.
The cost thus determined is recognized as a personnel expense, for options awarded to employees of Sorin S.p.A., or as an increase in the value of equity investments, for options awarded to employees of other Group companies. In both cases, the offset is posted to an equity reserve.

## Revenue Recognition

Revenues, net of returns, discounts, allowances, bonuses and directly related taxes, are recognized based on the progress made in providing the services and when the amount of the revenues can be determined reliably.

## Dividends

Dividends are recognized in earnings in the year in which they are declared by the disbursing company.

## Income Taxes

The subsidiaries Sorin Site Management S.r.l. (formerly Sorin Biomedica S.r.l.), Sorin Biomedica Cardio S.r.l., Sorin Biomedica CRM S.r.l. and Sorin Group Italia S.r.l. are included in the national consolidated tax return filed by Sorin S.p.A. as the controlling company. As a result, current taxes include, in addition to the provision for regional taxes (IRAP), the corporate income tax obligations/credits that arise from a consolidated tax filing, offset in the statement of financial position by payables to/receivables from the subsidiaries. The current tax obligation is recognized by booking a tax liability based on a reasonable valuation of the amount payable for direct taxes, determined in accordance with the tax laws in force and taking into account any tax loss carryforward or exemptions.
Deferred-tax assets and liabilities are computed on the temporary differences that arise between the values assigned to assets for reporting and tax purposes and on those items, like tax loss carryforwards, that, while not recognized on the statement of financial position, have the potential of creating future tax credits.

Deferred-tax assets and liabilities are computed based on projected tax rates in the year in which the assets are realized or the liabilities extinguished.
Deferred-tax liabilities are recognized on all taxable temporary differences, except for deferred-tax liabilities on reserves the taxation of which has been suspended, which are recognized only if there is a high probability that

conditions requiring the payment of income taxes will occur.
Deferred-tax assets, including those arising from tax loss carryforwards and unused tax credits, are recognized in the financial statements only to the extent that it is likely that the Company will generate sufficient taxable income against which these temporary deductible differences can be offset.
Income taxes due on items recognized directly in equity are also reflected directly in equity.

## Use of Estimates

The preparation of the financial statements in accordance with the international accounting principles required the formulation of estimates and assumptions that have an impact on the amounts of assets and liabilities and on revenues and expenses. These estimates were based on past experience and on other factors that were deemed to be reasonable under the relevant circumstances. However, the actual results that will ultimately be recognized may be different from the estimates.
Estimates and assumptions are reviewed on a regular basis and the impact of any change in the estimates is reflected in the result for the period during which the change was made.

## New Principles, Amendments and Interpretations Adopted by the European Union not Yet in Effect

IAS 24 Revised – “Related-party Disclosures”
Amendment to IAS 32 – “Financial Instruments: Presentation: Classification of Rights Issues”
IFRIC 14 – “Prepayments of a Minimum Funding Requirement”
IFRIC 19 – “Extinguishing Financial Liabilities with Equity Instruments.”

## 3 – PROPERTY, PLANT AND EQUIPMENT

| | MANUFACT. AND DISTRIB. EQUIP. | ASSETS UNDER FINANCE LEASES | OTHER ASSETS | TOTAL |
|---|---|---|---|---|
| At December 31, 2008 | | | | |
| • Gross value | 946 | 893 | 855 | 2,694 |
| • Accumulated depreciation and impairment losses | (390) | (322) | (506) | (1,218) |
| • Net carrying value | 556 | 571 | 349 | 1,476 |
| At December 31, 2009 | | | | |
| • Gross value | 952 | 893 | 751 | 2,596 |
| • Accumulated depreciation and impairment losses | (548) | (452) | (498) | (1,498) |
| • Net carrying value | 404 | 441 | 253 | 1,098 |
| At December 31, 2010 | | | | |
| • Gross value | 952 | 893 | 806 | 2,651 |
| • Accumulated depreciation and impairment losses | (707) | (581) | (588) | (1,876) |
| • Net carrying value | 245 | 312 | 218 | 775 |

(in thousands of euros)

The table below shows for each component of property, plant and equipment the changes that occurred during the year:

| | MANUFACT. AND DISTRIB. EQUIP. | ASSETS UNDER FINANCE LEASES | OTHER ASSETS | TOTAL |
|---|---|---|---|---|
| Net carrying value at 12/31/08 | 556 | 571 | 349 | 1,476 |
| • Additions | 6 | -- | 60 | 66 |
| • Disposals | -- | -- | (60) | (60) |
| • Depreciation | (158) | (130) | (96) | (384) |
| Net carrying value at 12/31/09 | 404 | 441 | 253 | 1,098 |
| • Additions | -- | -- | 55 | 55 |
| • Depreciation | (159) | (129) | (90) | (378) |
| Net carrying value at 12/31/10 | 245 | 312 | 218 | 775 |

(in thousands of euros)

The table below provides a breakdown by type of leased assets, which consist of furniture and fixtures for the Via B. Crespi headquarters, in Milan.

| | MANUFACT. AND DISTRIB. EQUIP | OTHER ASSETS | TOTAL |
|---|---|---|---|
| Net carrying value at 12/31/08 | 269 | 302 | 571 |
| • Depreciation | (77) | (53) | (130) |
| Net carrying value at 12/31/09 | 192 | 249 | 441 |
| • Depreciation | (77) | (52) | (129) |
| Net carrying value at 12/31/10 | 115 | 197 | 312 |

(in thousands of euros)

It is hereby certified that the carrying value of the Company's assets at December 31, 2010 has not been revalued to reflect changes in economic value or the effects of inflation.

No capitalized interest was added to property, plant and equipment in 2010.

The annual depreciation rates applied in 2010 were as follows:

- Manufacturing and distribution equipment 16.66%

Other assets:

- Office furniture and machines and electronic equipment 12%/20%/ 33.33%

Assets held under leases are depreciated at the rates applicable to the types of asset to which they belong.

In 2010, the Company carried out a physical inventory of its assets using the RFID technology provided by CENSIT. Based on the data supplied by the consultants, a reconciliation of the physical inventory of the assets to their accounting inventory is currently under way and should be completed by the end of the first quarter of 2011. CENSIT will also supply a new asset labeling system, which should be activated later in 2011.

## 4 – Intangible Assets

| | PATENTS AND PATENT LICENSES | TRADEMARKS, CONCESSIONS, LICENSES AND SIMIL. RIGHTS | SUNDRY INTANGIBLES | TOTAL |
|---|---|---|---|---|
| At December 31, 2008 | | | | |
| • Gross value | 6,659 | 1,245 | 2,038 | 9,942 |
| • Accumulated amortization and impairment losses | (2,386) | (1,069) | (1,587) | (5,042) |
| • Net carrying value | 4,273 | 176 | 451 | 4,900 |
| At December 31, 2009 | | | | |
| • Gross value | 6,659 | 1,252 | 2,553 | 10,464 |
| • Accumulated amortization and impairment losses | (3,052) | (1,134) | (1,773) | (5,959) |
| • Net carrying value | 3,607 | 118 | 780 | 4,505 |
| At December 31, 2010 | | | | |
| • Gross value | 6,659 | 1,259 | 3,028 | 10,946 |
| • Accumulated amortization and impairment losses | (3,718) | (1,171) | (2,050) | (6,939) |
| • Net carrying value | 2,941 | 88 | 978 | 4,007 |

(in thousands of euros)

The table below shows for each component of intangible assets the changes that occurred during the year:

| | PATENTS AND PATENT LICENSES | TRADEMARKS, CONCESSIONS, LICENSES AND SIMIL. RIGHTS | SUNDRY INTANGIBLES | TOTAL |
|---|---|---|---|---|
| Net carrying value at 12/31/08 | 4,273 | 176 | 451 | 4,900 |
| • Additions | -- | 7 | 515 | 522 |
| • Amortization | (666) | (65) | (186) | (917) |
| Net carrying value at 12/31/09 | 3,607 | 118 | 780 | 4,505 |
| • Additions | -- | 7 | 475 | 482 |
| • Amortization | (666) | (37) | (277) | (980) |
| Net carrying value at 12/31/10 | 2,941 | 88 | 978 | 4,007 |
| - assets with a finite useful life | 2,941 | 88 | 978 | 4,007 |
| - assets with an indefinite useful life | -- | -- | -- | -- |

(in thousands of euros)

Patent licenses refer exclusively to Medtronic licenses on devices to control heart rhythm.
Licenses and sundry intangibles refer to software and to consulting services and research for software development.

No capitalized interest was added to intangible assets in 2010.

The amortization rates applied in 2010, which were approved by the Board of Statutory Auditors, were as follows:

| | |
|---|---|
| Patents and patent licenses | 10% |
| Trademarks, concessions, licenses and similar rights | 20%/33% |
| Sundry intangibles | 20%/33% |

| | |
|---|---|
| Net carrying value at December 31, 2008 | |
| • Cost | 748,860 |
| • Impairment loss | (78,416) |
| • Stock options | 2,199 |
| Net carrying value | 672,643 |
| Net carrying value at December 31, 2009 | |
| • Cost | 748,860 |
| • Impairment loss | (78,825) |
| • Stock options | 2,617 |
| Net carrying value | 672,652 |
| Net carrying value at December 31, 2010 | |
| • Cost | 748,860 |
| • Impairment loss | (78,825) |
| • Stock options | 2,783 |
| Net carrying value | 672,818 |

(in thousands of euros)

The table below shows the changes that occurred in 2010 in the net carrying value of the investments in subsidiaries:

| | |
|---|---|
| Net carrying value at December 31, 2008 | 672,643 |
| • Reversals of writedowns | |
| • Utilization of impairment losses | (409) |
| • Stock options | 418 |
| Net carrying value at December 31, 2009 | 672,652 |
| • Stock options | 166 |
| Net carrying value at December 31, 2010 | 672,818 |

(in thousands of euros)

As required by Article 10 of Law No. 72 of March 19, 1983 and Article 2427 of the Italian Civil Code, it is hereby certified that the carrying value of the Company's equity investments at December 31, 2010 has not been adjusted upwards to reflect changes in economic value or the effects of inflation.

The changes that occurred in 2010 include the following:

- *Stock Options*
  The cost of stock options awarded to employees of other Group companies is treated as a capital contribution to the subsidiaries in question and, consequently, is added to the carrying amount of the investment.

The schedule that follows provides the information about the Company's equity investments required by Article 2427 of the Italian Civil Code.

**LIST OF EQUITY INVESTMENTS IN SUBSIDIARIES**

(pursuant to Article 2427 of the Italian Civil Code)

| COMPANY | HEAD OFFICE | CURRENCY | EQUITY CAPITAL | PAR VALUE PER SHARE OR INTEREST IN CAPITAL | % INTEREST HELD | NUMBER OF SHARES OR INTERESTS IN CAPITAL HELD | COST (EUROS) | IMPAIRMENT LOSS (EUROS) | CARRYING VALUE AT 12/31/10 (EUROS) | SHAREHOLDERS' EQUITY IN LATEST APPROVED FIN. STAT. (EUROS) | PRO RATA INTEREST IN SHAREHOLDERS' EQUITY (EUROS) | EARNINGS IN LATEST APPROVED FINANCIAL STATEM. (EUROS) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **SORIN GROUP ITALIA S.r.l.** | Milan | | | | | | | | | | | |
| Balance at 12/31/09 | | EUR | 8,479,240 | 1 | 87.924 | 7,455,296 | 435,860,737 | 21,600,000 | | | | |
| Stock option effect | | EUR | | | | | 20,532 | | | | | |
| Balance at 12/31/10 | | EUR | 8,479,240 | 1 | 87.924 | 7,455,296 | 435,881,269 | 21,600,000 | 414,281,269 | 279,037,180 | 245,340,650 | 45,756,275 |
| **SORIN CRM S.A.S.** | Clamart (France) | | | | | | | | | | | |
| Balance at 12/31/09 | | EUR | 50,000,000 | 20 | 100.000 | 2,500,000 | 186,357,131 | 7,900,000 | | | | |
| Stock option effect | | EUR | | | | | 76,295 | | | (1) | (1) | (1) |
| Balance at 12/31/10 | | EUR | 50,000,000 | 20 | 100.000 | 2,500,000 | 186,433,426 | 7,900,000 | 178,533,426 | 87,237,137 | 87,237,137 | (892,786) |
| **SORIN BIOMEDICA CARDIO S.r.l.** | Milan | | | | | | | | | | | |
| Balance at 12/31/09 | | EUR | 4,732,000 | 4,732,000 | 100.000 | 1 | 48,208,009 | 5,800,000 | | | | |
| Stock option effect | | EUR | | | | | 33,334 | | | | | |
| Balance at 12/31/10 | | EUR | 4,732,000 | 4,732,000 | 100.000 | 1 | 48,241,343 | 5,800,000 | 42,441,343 | 16,464,342 | 16,464,342 | 865,110 |
| **SORIN GROUP NEDERLAND N.V.** | Amsterdam (Netherlands) | | | | | | | | | | | |
| Balance at 12/31/09 | | EUR | 29,044,000 | 1,000 | 100.000 | 29,044 | 54,000,036 | 33,264,641 | | | | |
| Stock option effect | | EUR | | | | | 1,882 | | | | | |
| Balance at 12/31/10 | | EUR | 29,044,000 | 1,000 | 100.000 | 29,044 | 54,001,918 | 33,264,641 | 20,737,277 | 8,166,000 | 8,166,000 | 1,134,000 |
| **SORIN SITE MANAGEMENT S.r.l.** | Milan | | | | | | | | | | | |
| Balance at 12/31/09 | | EUR | 2,489,586 | 1 | 86.423 | 2,151,586 | 16,185,611 | | | | | |
| Balance at 12/31/10 | | EUR | 2,489,586 | 1 | 86.423 | 2,151,586 | 16,185,611 | | 16,185,611 | 20,771,761 | 17,951,579 | 2,158,940 |
| **SORIN GROUP INTERNATIONAL S.A** | Lausanne (Switzerland) | | | | | | | | | | | |
| Balance at 12/31/09 | | CHF | 2,200,000 | 100 | 100.000 | 22,000 | 10,866,273 | 10,260,672 | | | | |
| Stock option effect | | CHF | | | | | 33,614 | | | (1) | (1) | (1) |
| Balance at 12/31/10 | | CHF | 2,200,000 | 100 | 100.000 | 22,000 | 10,899,887 | 10,260,672 | 639,215 | 605,602 | 605,602 | (319,368) |
| **TOTAL EQUITY INVESTMENTS IN SUBSIDIARIES at 12/31/10** | | EUR | | | | | **751,643,454** | **78,825,313** | **672,818,141** | | | |

(1) Data from the financial statements at December 31, 2009.

## 6 – Impairment Test of the Carrying Value of Equity Investments in Subsidiaries

Even though the companies of Sorin Group are multi-business enterprises and the direct subsidiaries of Sorin S.p.A. in turn control several companies that are mainly distribution companies, the carrying value of equity investments in subsidiaries was tested for impairment based on the same cash generating units as those used for goodwill impairment in the consolidated financial statements (Cardiopulmonary, Heart Valves and Cardiac Rhythm Management).

The recoverable value of the cash generating units was determined based on their value in use, computed by projecting their future cash flows in accordance with the latest 2011-2015 five-year strategic plan approved by the Board of Directors of Sorin S.p.A. and using the same impairment method as in previous years. The main assumptions used for computation purposes are the following:

- The cash flow projection period includes five years of explicit projection and a terminal value based on projecting the last year of the explicit plan for an additional 15 years, with no growth assumed for the year following the explicit projection year (*g*=0%). In the case of the Heart Valves CGU, consistent with the approach followed the previous year, the explicit plan period was extended by two years in order to better reflect the results of development projects currently under way, which are expected to produce the most significant returns beyond the horizon of the explicit five-year plan.
- The revenue growth rate for the explicit projection period is consistent with the average growth rate forecasted for the market of the Cardiopulmonary CGU, which operates in a more mature market segment in which the Group is the leader, and is higher than the average growth rate forecasted for the Heart Valves and Cardiac Rhythm Management CGUs due to greater market opportunities and the existing product pipeline.
- All of the CGUs are expected to improve their marginal profitability, due to a more profitable product/market mix, the impact of restructuring and reorganization plans and the effects of programs specifically designed to increase manufacturing margins.
- The discount rate applied to projected cash flows was equal to the weighted average cost of capital (WACC) after taxes:

| | 2010 | 2009 |
|---|---|---|
| - Cardiopulmonary | 7.3% | 7.8% |
| - Heart Valves | 7.7% | 8.1% |
| - Cardiac Rhythm Management | 7.4% | 7.9% |
| - Sorin Group | 7.5% | 7.9% |

  Compared with the previous year, the discount rate used was more favorable on average due to the effect of lower values for the components used to compute the cost of equity capital and to a reduction in borrowing costs.
- The debt/equity ratio used for all CGUs was the same as that of Sorin Group at the end of 2010.
- Different levered ß coefficients were used for each CGU. These coefficient, which were computed as the average of the ß coefficients of the main competitors for the past two years, are as follows:

| | |
|---|---|
| - Cardiopulmonary | 0.59 |
| - Heart Valves | 0.57 |
| - Cardiac Rhythm Management | 0.59 |
| - Sorin Group | 0.59 |

- The yield rate for riskless assets used was 4.2% (ten-year Italian treasury bonds). The market risk premium was computed for each CGU based on the geographic distribution of its revenues.
- The average cost of debt capital used was 4.5% (3.0% net of the tax effect).

A sensitivity analysis of all three CGUs showed no indication of problems, even assuming a deterioration of the *WACC* (+1.5%) or of the *g* parameter (-1%).

The assumptions summarized above were used to determine the recoverable value for each cash generating unit. The values of the cash generating units thus determined were allocated to the various investments in subsidiaries of Sorin S.p.A. attributing to each subsidiary its pro rata share of the fair value of each cash generating unit based on a set of parameters combined in a manner that would allocate the economic value attributable to industrial and research and development activities separately from that of the sales and marketing activities, in view of the fact that many Group companies operate simultaneously for all three CGUs.

The carrying value of the equity investments was compared with their recoverable value and the results showed that no writedown was required.

## 7 – OTHER NON-CURRENT FINANCIAL ASSETS

The components of other non-current financial assets include equity interests of 1.194% in Istituto Europeo di Oncologia S.r.l. (951,000 euros) and 0.909% in Sphere Medical Holding PLC (267,000 euros).

## 8 – Deferred-tax Assets and Deferred-tax Liabilities

Deferred-tax assets, net of deferred-tax liabilities, amounted to 4,711,000 euros, compared with 6,827,000 euros at the end of 2009.

| | 12/31/10 | | 12/31/09 | |
|---|---|---|---|---|
| | AMOUNT OF DIF-FERENCES | TAX EFFECT | AMOUNT OF DIF-FERENCES | TAX EFFECT |
| Deferred-tax liabilities for: | | | | |
| - Recognition (Derecognition) of assets (liabilities) | 678 | 218 | 852 | 274 |
| - Other items | 164 | 45 | 1,455 | 470 |
| Total deferred-tax liabilities (A) | 842 | 263 | 2,307 | 744 |
| Deferred-tax assets arising from: | | | | |
| - Depreciation/amortization of tangible and int. assets | -- | -- | 1,500 | 72 |
| - Revaluations at fair value | 4,494 | 1,452 | 2,558 | 827 |
| - Recognition (Derecognition) of assets (liabilities) | 299 | 14 | -- | -- |
| - Provision for risks and charges | 149 | 7 | -- | -- |
| - Other items | 3 | 1 | 54 | 3 |
| Subtotal (B) | 4,945 | 1,474 | 4,112 | 902 |
| Deferred-tax assets arising from tax loss carryforward (C) | 12,727 | 3,500 | 24,251 | 6,669 |
| Total deferred-tax assets (B + C) | 17,672 | 4,974 | 28,363 | 7,571 |
| Total deferred-tax assets, net of deferred-tax liabilities (B + C - A) | | 4,711 | | 6,827 |
| Temporary differences excluded from the computation of deferred taxes for: | | | | |
| - Reserves the taxation of which has been suspended | 33,824 | 10,225 | 33,824 | 10,225 |
| Total | 33,824 | 10,225 | 33,824 | 10,225 |
| Temporary differences excluded from the computation of deferred-tax assets | 5,431 | 1,381 | 1,741 | 670 |
| Tax loss carryforward excluded from the computation of deferred-tax assets | 31,522 | 8,669 | 34,262 | 9,422 |

(in thousands of euros)

Temporary differences related to reserves the taxation of which has been suspended were excluded from the computation of deferred-tax liabilities because the Company does not expect to use those reserves in a manner that would make them taxable.
The computation of deferred-tax assets does not include the amounts attributable to the tax loss carryforward and other temporary differences because the Company believes that, in all likelihood, it will generate sufficient taxable earnings to utilize them within the deadline set forth in the tax laws.

At December 31, 2010, the tax loss carryforward of Sorin S.p.A. amounted to 44,249,000 euros. A breakdown by expiration date is as follows:

| Year of expiration | |
|---|---|
| - 2011 | 11,373 |
| - 2012 | 22,738 |
| - 2013 | 10,138 |
| - 2014 | -- |
| Expiration after 2014 | -- |
| No expiration date | -- |
| Total tax loss carryforward | 44,249 |

(in thousands of euros)

Note 30 shows a breakdown of the income taxes recognized in the income statement and provides a reconciliation between the tax liability at the statutory rate and the tax liability actually recognized.

## 9 – Other Non-current Assets

Other non-current assets represent the amounts owed by subsidiaries for the transferred obligation to pay bonuses consisting of stock grants, pursuant to specific contracts.

A breakdown showing the amount owed by each subsidiary is provided below:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Sorin CRM S.A.S. | 551 | -- |
| • Sorin Group USA Inc. | 318 | -- |
| • Sorin Biomedica Cardio S.r.l. | 315 | -- |
| • Sorin Group France S.A.S. | 251 | -- |
| • Sorin Group Italia S.r.l. | 240 | -- |
| • Sorin Group International S.A. | 123 | -- |
| • Sorin Group Canada Inc. | 68 | -- |
| • Ela Medical Inc. | 32 | -- |
| • Sorin Group Deutschland Gmbh | 15 | -- |
| • Sorin Group Espana SL | 13 | -- |
| • Sorin Group Australia | 13 | -- |
| • Sorin Group Asia Pte Ltd | 12 | -- |
| Total | 1,951 | -- |

(in thousands of euros)

## 10 – TRADE RECEIVABLES

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Trade receivables: | | |
| - from outsiders | 55 | 64 |
| - from subsidiaries | 1,805 | 1,517 |
| - from other related parties | -- | -- |
| Total | 1,860 | 1,581 |

(in thousands of euros)

Trade receivables are net of an allowance for doubtful accounts, which is detailed below:

| | |
|---|---|
| Balance at December 31, 2008 | -- |
| - Additions | 200 |
| Balance at December 31, 2009 | 200 |
| - Additions | 30 |
| Balance at December 31, 2010 | 230 |

(in thousands of euros)

All trade receivables were due within one year.

A breakdown showing the amount owed by each subsidiary is provided below:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Sorin Group Italia S.r.l. | 477 | 320 |
| • Sorin Biomedica Cardio S.r.l. | 265 | 285 |
| • Sorin CRM S.A.S. | 262 | 244 |
| • Sorin Group USA Inc. | 173 | 140 |
| • Sorin Biomedica CRM S.r.l. | 104 | 99 |
| • Sorin Group Deutschland Gmbh | 96 | 84 |
| • Sorin Group Canada Inc. | 84 | 148 |
| • Sorin Group Japan K.K. | 82 | 18 |
| • Sorin Group France S.A.S. | 77 | 38 |
| • Ela Medical Inc. | 41 | 23 |
| • Sorin Group UK Ltd. | 27 | 31 |
| • Sorin Group Austria GmbH | 27 | -- |
| • Sorin Group Espana SL | 23 | 14 |
| • Sorin Site Management S.r.l. | 16 | 9 |
| • Sorin Group Belgium S.A. | 11 | 10 |
| • Sorin Group Nederland N.V. | 11 | 7 |
| • Sorin Group International S.A. | 10 | 4 |
| • Sorin Group Australia | 8 | 5 |
| • Sorin Group Scandinavia AB | 6 | 17 |
| • Sorin Cardio Com. Distr. Equip. Medicos Lda | 5 | 16 |
| • Sorin Group Asia Pte Ltd | 1 | 1 |
| • Carbomedics Inc. | -- | 4 |
| • Sorin Group Norway AS | (1) | -- |
| Total | 1,805 | 1,517 |

(in thousands of euros)

## 11 – OTHER RECEIVABLES

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Other receivables: | | |
| - from outsiders | 148 | 55 |
| - from subsidiaries | 12,387 | 4,635 |
| - from other related parties | -- | -- |
| • Prepaid expenses | 887 | 280 |
| • Advances to suppliers | -- | 4 |
| Total | 13,422 | 4,974 |

(in thousands of euros)

Other receivables owed by subsidiaries correspond to positions resulting from the filing of a national consolidated income tax return.

A breakdown showing the amount owed by each subsidiary is provided below:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Sorin Group Italia S.r.l. | 11,045 | 4,442 |
| • Sorin Biomedica CRM S.r.l. | 836 | -- |
| • Sorin Site Management S.r.l. | 506 | 193 |
| Total | 12,387 | 4,635 |

(in thousands of euros)

## 12 – ASSETS AND LIABILITIES FROM FINANCIAL DERIVATIVES

| | 12/31/10 | | | 12/31/09 | | |
|---|---|---|---|---|---|---|
| | CURRENT | NON-CURRENT | TOTAL | CURRENT | NON-CURRENT | TOTAL |
| Assets from financial derivatives | | | | | | |
| - Foreign exchange contracts [1] | 4,963 | - | 4,963 | 1,665 | - | 1,665 |
| - Interest rate contracts [2] | - | - | - | - | - | - |
| | 4,963 | - | 4,963 | 1,665 | - | 1,665 |
| Liabilities from financial derivatives | | | | | | |
| - Foreign exchange contracts [1] | 4,481 | - | 4,481 | 1,831 | - | 1,831 |
| - Interest rate contracts [2] | 578 | 6,450 | 7,028 | 42 | 6,068 | 6,110 |
| | 5,059 | 6,450 | 11,509 | 1,873 | 6,068 | 7,941 |

(in thousands of euros)

(1) The impact on earnings is included in foreign exchange translation differences.

(2) The impact on earnings is included in interest income and expense.

Current liabilities from financial derivatives include 4,685,000 euros from transactions with outsiders and 374,000 euros from transactions with subsidiaries, while current assets reflect transactions with subsidiaries totaling 4,963,000 euros. Non-current liabilities from financial derivatives include 6,450,000 euros owed to outsiders.
At December 31, 2009, current liabilities from financial derivatives included 193,000 euros owed to outsiders and 1,680,000 euros owed to subsidiaries. Current assets reflected transactions both with subsidiaries (322,000 euros) and outsiders (1,343,000 euros). Non-current liabilities from financial derivatives included 6,068,000 euros owed to outsiders.

### *Financial Derivatives that Hedge the Risk of Fluctuations in Foreign Exchange Rates*

In 2010, as part of the financial activities it carries out to help and support its subsidiaries, Sorin S.p.A. executed derivatives (forward currency contracts) with credit institutions, on one side, and with Group companies, on the other side, with the objective of hedging the risk of fluctuations in foreign exchange rates on the flow of imports and exports involving euro-zone subsidiaries.
In addition, the Company executed buy and sell contracts in currencies other than the euro to hedge intra-Group positions.

Additional information about the market risk created by fluctuations in foreign exchange rates is provided in Note 22.

The table below shows a breakdown of contracts hedging foreign exchange risks that were outstanding at December 31, 2010. All of the contracts expire in 2011.

| COUNTERPARTY | POSITION | TYPE OF TRANSACTION | CURRENCY | NOTIONAL AMOUNT | MEASUREMENT AT FAIR VALUE |
|---|---|---|---|---|---|
| Subsidiaries | Buy | Currency swaps | U.S. dollar | 86,715 | (778) |
| | | | British pound | 11,369 | (62) |
| | | | Japanese yen | 60,384 | 4,873 |
| | | | Australian dollar | 8,135 | 401 |
| | | | Polish zloty | 813 | 3 |
| | | | Swedish kronor | 80 | 1 |
| | | | Canadian dollar | 8,770 | 153 |
| | | | | | 4,591 |
| | Sell | Currency swaps | U.S. dollar | 34,127 | (5) |
| | | | Australian dollar | 300 | 3 |
| | | | | | (2) |
| Outsiders | | Option | U.S. dollar | 8,198 | 290 |
| | | Option | Japanese yen | 35,390 | (261) |
| | | | | | 29 |
| | Buy | Forward | U.S. dollar | 47,518 | (736) |
| | | | British pound | 5,284 | (62) |
| | | | Canadian dollar | 27,338 | 151 |
| | | | Australian dollar | 300 | (4) |
| | | | Japanese yen | 828 | 2 |
| | | | | | (649) |
| | Sell | Forward | U.S. dollar | 66,242 | 964 |
| | | | British pound | 12,366 | 80 |
| | | | Japanese yen | 53,748 | (3,953) |
| | | | Australian dollar | 10,410 | (404) |
| | | | Polish zloty | 813 | (3) |
| | | | Norwegian krone | 748 | (5) |
| | | | Swedish kronor | 80 | (1) |
| | | | Canadian dollar | 8,750 | (154) |
| | | | Swiss franc | 1,125 | (11) |
| | | | | | (3,487) |
| | | | | | 482 |

(in thousands of euros)

*Financial Derivatives that Hedge the Risk of Fluctuations in Interest Rates*

Sorin S.p.A. executes interest rate swaps to hedge the risk of the impact of fluctuations in interest rates on its medium- and long-term borrowings by converting variable-rate borrowings into fixed-rate facilities.

Effective January 1, 2009, the Company adopted appropriate procedures to determine whether financial derivatives that hedge the risk of fluctuations in interest rates (cash flow hedges) meet the requirements for hedge accounting treatment. The effective hedging portion of gains or losses from the valuation of financial derivatives that qualify for hedge accounting treatment under IAS 39 is recognized in a shareholders' equity reserve, while the non-effective portion is recognized in profit or loss, provided the financial derivative has been designated as a cash flow hedge (hedging the cash flows of an asset or liability). Gains or losses recognized in equity are transferred to the income statement when the economic effects of the hedged assets and liabilities is reflected in the result for the period. If a hedging instrument expires or is closed out, the amounts previously recognized in equity are transferred to the income statement.

Additional information about the market risk created by fluctuations in interest rates is provided in Note 22, later in this Report.

At December 31, 2010, the status of interest rate swaps hedging interest rate risks was as follows:

| DERIVATIVE | HEDGED BORROWINGS[1] | EXPIRATION DATE | NOTIONAL AMOUNT | MEASUREMENT AT FAIR VALUE | FIXED RATE |
|---|---|---|---|---|---|
| Cash flow hedge | tranche EUR 22,953,000 | 6/22/12 | EUR 23,678 | 496 | 4.042% [2] |
| | tranche USD 10,438,000 (syndicated Mediobanca, Intesa San Paolo, MCC and BNP Paribas medium/ long-term facility) | 12/22/11 | USD 10,439 | 82 | 2.043% [2] |
| Cash flow hedge | tranche EUR 59,500,000 | 6/30/14 | EUR 59,500 | 4,614 | 4.266% [2] |
| | tranche USD 49,690,000 (EIB medium/long-term facility) | 6/30/14 | USD 48,690 | 1,836 | 2.947% [2] |
| Totale hedge accounting | | | | 7,028 | |

(in thousands of euros)

(1) The amount of the facilities shown above includes incidental costs and the current portion of the loans.

(2) Average fixed rate.

The Finance Department of Sorin S.p.A. performs periodically prospective and retrospective tests to verify the effectiveness of the existing hedges.

The effectiveness of hedging transactions is documented both at the transaction's inception and periodically (as a minimum in connection with the publication of the annual report and interim reports) and is measured by comparison changes in the fair values of the derivative and the underlying item, both measured on the date of the financial statements based on actual end-of-period data (retrospective test) and on market conditions shock assumptions (prospective test).

Prospective tests can be used to show whether a hedging instrument is highly effective, from the beginning and over the entire length of the hedging relationship, in compensating for changes in the underlying cash flow caused by the hedged risk.

Retrospective tests are used to verify if the hedging relationship was in fact highly effective, within a range of 80% to 125%.

At December 31, 2010, the cash flow hedge reserve, which reflects changes in the values of instruments hedging the risk of fluctuations in interest rates, had a negative balance of 4,496,000 euros (3,044,000 euros net of tax effect).

The table below shows the changes that occurred in the cash flow hedge reserve:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| Cash flow hedge reserve - Interest rate risk | | |
| Opening balance | (2,558) | -- |
| Amount to cash flow hedge reserve during the year | (5,941) | (5,159) |
| Amount from cash flow hedge reserve to income statement:<br>- to financial expense/income | (4,003) | (2,601) |
| Closing balance | (4,496) | (2,558) |

(in thousands of euros)

The table that follows provides a forward projection of the hedged flows of interest expense that, based on the forward curves of market interest rates at December 31, the Company estimates it will be required to pay, based on the financial liabilities subject of cash flow hedging, net of contractual spreads:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| Flows within 3 months | -- | -- |
| Flows from 3 to 6 months | (1,075) | (563) |
| Flows from 6 months to 1 year | (1,005) | (883) |
| Flows from 1 to 2 years | (1,518) | (2,416) |
| Flows from 2 to 5 years | (564) | (7,405) |
| Flows after 5 years | -- | -- |
| Total | (4,162) | (11,267) |

(in thousands of euros)

## 13 – OTHER CURRENT FINANCIAL ASSETS

At the end of 2006, the Group established a five-year, pan-European securitization program with Crédit Agricole (formerly Calyon). Because the contract signed with Crédit Agricole did not meet the deconsolidation requirements of IAS 39, the Company continued to show these trade receivables on its financial statements and carried the amounts it received from Crédit Agricole as liabilities for advances.

In 2008, acting within the framework of the abovementioned securitization program, Sorin entered into an additional agreement with Crédit Agricole for the assignment on a revolving basis of receivables owed by a portfolio of Italian and French customers. Under this agreement, the full credit risk was transferred to Crédit Agricole and, consequently, allowed the deconsolidation of the assigned receivables. Sorin's only remaining risk was the risk of dilution (credit memos), for which Sorin S.p.A. provided a deposit as cash collateral.

During the first half of 2009, the securitization program established with Crédit Agricole at the end of 2006 gradually came to an end. The closing of this program resulted in the following: (i) a portion of the receivables owed by Italian and French customers was transferred to the receivables factoring program established in 2008; (ii) Sorin bought back the remaining receivables and then assigned a portion of them to Crédit Agricole under a new factoring with recourse program; and (iii) the junior notes underwritten by Sorin S.p.A. as partial guarantee of the original securitization program were repaid.

Other current financial assets totaled 109,422,000 euros at December 31, 2010 (105,174,000 euros at December 31, 2009).
This item also includes a deposit in the amount of 4,361,000 euros (4,132,000 euros at December 31, 2009) provided as cash collateral in connection with receivables assigned without recourse to Calyon under a securitization program and amounts owed by subsidiaries in connection with current accounts they maintain with the Group's Parent Company as part of the centralized cash management system and lending accounts denominated both in euros and foreign currencies.

The exposure of each subsidiary is listed below:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Sorin Biomedica Cardio S.r.l. | 43,178 | 43,866 |
| • Sorin Group Deutschland Gmbh | 22,315 | 10,605 |
| • Sorin Group Japan K.K. | 10,057 | 6,501 |
| • Sorin Group Nederland N.V. | 10,008 | 11,768 |
| • Sorin Group Espana SL | 5,068 | 13,885 |
| • Sorin Group USA Inc. | 4,392 | 9,529 |
| • Sorin Group Austria GmbH | 3,687 | -- |
| • Sorin Group Australia PTY | 2,424 | 1,620 |
| • Sorin Cardio Com. Distr. Equip. Medicos Lda | 2,017 | 508 |
| • Sorin Group International S.A. | 1,140 | -- |
| • Sorin Group Norway AS | 763 | 971 |
| • Sorin Group Scandinavia AB | 1 | 30 |
| • Sorin Site Management S.r.l. | -- | 1,544 |
| • Sorin Group Belgium S.A. | -- | 170 |
| • Sorin Group France | -- | 37 |
| Total | 105,050 | 101,034 |

(in thousands of euros)

## 14 – TAX CREDITS AND TAXES PAYABLE

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Tax credits | 5,637 | 868 |
| • Taxes payable | (261) | (285) |
| Tax credits (taxes payable), net | 5,376 | 583 |

(in thousands of euros)

Tax credits include 18,000 euros (16,000 euros at December 31, 2009) receivable from the tax authorities for taxes withheld on interest income and 5,619,000 euros (852,000 euros at December 31, 2009) in VAT overpayments (including 5,275,000 euros from the filing of a national consolidated VAT return).
Taxes payable reflect amounts withheld on behalf of the tax administration from compensation paid to employees and independent contractors.

## 15 – CASH AND CASH EQUIVALENTS

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Cash on hand | 12 | 10 |
| • Bank and postal accounts | 21,320 | 293 |
| **Total** | 21,332 | 303 |

(in thousands of euros)

The bank account balances include amounts attributable to transactions with related parties totaling 15,937,000 euros (Note 32).

## 16 – SHAREHOLDERS' EQUITY

The shareholders' equity consists exclusively of common shares, par value 1 euro each:

| | Share capital of Sorin S.p.A. | | |
|---|---|---|---|
| | AUTHORIZED | SUBSCRIBED | PAID-IN |
| Number of shares at December 31, 2008 | 507,295,259 | 470,412,144 | 470,412,144 |
| - Options expired on June 30, 2009 (Plans 1, 2 and 3) | (10,440,000) | -- | -- |
| - Options expired on December 31, 2009 (Plan 4) | (8,500,000) | -- | -- |
| Number of shares at December 31, 2009 | 488,355,259 | 470,412,144 | 470,412,144 |
| - Resolution by Extraordinary Shareholders' Meeting of September 14, 2010 (stock grant plan) | 13,000,000 | -- | -- |
| - Subscriptions for exercise of stock options (Plan 5) | -- | 20,000 | 20,000 |
| Number of shares at December 31, 2010 | 501,355,259 | 470,432,144 | 470,432,144 |

(in euros)

The Company maintains an adequate level of capital to meet the growth and operating needs of its subsidiaries and protect its viability as a going concern.
An appropriate balance of funding sources, which also serves the purpose of lowering the overall cost of capital, is achieved by an effective mix of risk capital, which is provided permanently by shareholders, and debt capital, which must also be diversified in terms of maturities and currencies. To achieve these goals, management constantly monitors the Company's debt exposure, in terms of the ratios of indebtedness both to shareholders' equity and EBITDA, and the Business Units' cash flow generating ability.

Information about the stock option and stock grant plans is provided in Note 26.

Additional paid-in capital of 17,000 euros was recognized in 2010 in connection with the share capital increase carried out to implement the stock option plan.

The statutory reserve grew to 62,793,000 euros at December 31, 2010. The increase of 107,000 euros compared with December 31, 2009, reflects the appropriation of the 2009 net profit.

Other reserves include the following:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Reserve for inflation adjustment pursuant to Law No. 72 of 3/19/83 | 20,146 | 20,146 |
| • Reserve for inflation adjustment pursuant to Law No. 413 of 12/30/91 | 844 | 844 |
| • Reserve for reinvested capital gains (Article 1 of Law No. 169/83) | 3,931 | 3,931 |
| • Earnings reserve | 3,798 | 3,798 |
| • Other equity reserves | 832 | 832 |
| • Stock option reserve | 2,667 | 2,441 |
| • Stock grant reserve | 2,938 | -- |
| • Cash flow hedge reserve | (3,044) | (1,731) |
| • Retained earnings | 2,031 | -- |
| Total | 34,143 | 30,261 |

(in thousands of euros)

Availing itself of one of the alternatives provided by IFRS 1 in connection with first-time adoption of the international accounting principles, Sorin S.p.A. opted to include in “Other reserves” the reserve generated upon first-time adoption of the International Financial Reporting Standards, the stock option reserve and all other reserves, with the exception of additional paid-in capital and the statutory reserve, which are shown separately.

The stock option reserve increased by 226,000 euros in 2010. It includes 721,000 euros attributable to employees of Sorin S.p.A. (655,000 euros at December 31, 2009) and 1,946,000 euros attributable to employees of other Group companies (1,786,000 euros at December 31, 2009).

The stock grant reserve refers to the long-term incentive plan with grants of Sorin S.p.A. shares, which was approved by the Shareholders’ Meeting on September 14, 2010. It includes 987,000 euros attributable to employees of Sorin S.p.A. and 1,951,000 euros attributable to employees of other Group companies.

The cash flow hedge reserve, which had a negative balance of 3,044,000 euros, corresponds to the effective portion of the hedges (net of taxes).

The earnings reserve totaled 3,798,000 euros.

It is worth mentioning that, in accordance with a resolution approved by the Shareholders’ Meeting of September 14, 2010 in connection with the Stock Grant Plan, the Company is committed to earmark for purchases of treasury shares an amount corresponding to up to 4,704,121 shares, limited to the amount of the available earnings and reserves shown in the latest approved financial statements.

*Origin of the Components of Shareholders' Equity and Distributable and Available Amounts*

| | AMOUNT | UTILIZATION OPTION | AVAILABLE AMOUNT |
|---|---|---|---|
| Share capital | 470,432 | | |
| Reserves | | | |
| - Additional paid-in capital (1) | 17 | A,B,C | -- |
| - Statutory reserve | 62,793 | B | -- |
| - Reserve for inflation adjustments | 20,990 | A,B | 20,990 |
| - Reserve for reinvested capital gains | 3,931 | A,B,C | 3,931 |
| - Earnings reserve | 3,798 | A,B,C | 3,798 |
| - Other equity reserves | 832 | A,B,C | 832 |
| - Stock option reserve | 2,667 | -- | -- |
| - Stock grant reserve | 2,938 | -- | -- |
| - Cash flow hedge reserve | (3,044) | -- | -- |
| • Retained earnings | 2,031 | A,B,C | 2,031 |
| Total | 567,385 | | |

(in thousands of euros)

Legend:

A: for capital increases

B: to cover losses

C: for distribution to shareholders

(1) Pursuant to Article 2431 of the Italian Civil Code, the entire amount of this reserve can be distributed only if the statutory reserve has reached the level required by Article 2430 of the Italian Civil Code.

## 17 – Non-current Financial Liabilities and Other Current Financial Liabilities

| | 12/31/10 | 12/31/09 |
|---|---|---|
| **Non-current financial liabilities** | | |
| Due to banks: | | |
| - Mediobanca, Intesa San Paolo, MCC and BNP Paribas syndicated loan (Tranches A and B) | 94,589 | 30,387 |
| - European Investment Bank (EIB) | -- | 93,364 |
| Due under finance leases | -- | 113 |
| **Total non-current financial liabilities** | 94,589 | 123,864 |
| **Other current financial liabilities** | | |
| Checking account overdrafts and other short-term indebtedness | 13 | 11,017 |
| Current portion of medium- and long-term indebtedness: | | |
| - Due to banks: | | |
| - Mediobanca, Intesa San Paolo, MCC and BNP Paribas syndicated loan (Tranches A and B) | 30,682 | 32,487 |
| - European Investment Bank (EIB) | 1,350 | 750 |
| - Due under finance leases | 113 | 186 |
| Other financial liabilities toward subsidiaries | 110,192 | 52,002 |
| Other financial liabilities | 22 | 46 |
| **Total other current financial liabilities** | 142,372 | 96,488 |

(in thousands of euros)

Non-current financial liabilities include the portion of medium- and long-term debt due after one year, amounting to 94,589,000 euros.

Checking account overdrafts and other short-term indebtedness includes utilizations of revocable credit lines, none of which has been collateralized.
At December 31, 2010, Sorin S.p.A. has unused credit lines totaling about 78 million euros (48 million euros at December 31, 2009).

Other current financial liabilities include amounts owed to subsidiaries that consist mainly of balances in intra-Group current accounts established as part of the centralized cash management system.

The table below shows a breakdown of the amounts owed to each subsidiary:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Sorin Group Italia S.r.l. | 44,772 | 20,083 |
| • Sorin Group Canada Inc. | 27,571 | 8,054 |
| • Sorin CRM S.A.S. | 16,569 | 17,362 |
| • Sorin Group France S.A.S. | 6,825 | 2,001 |
| • Sorin Biomedica CRM S.r.l. | 5,620 | 212 |
| • Sorin Biomedica UK Ltd | 3,891 | 2,278 |
| • Sorin Group Belgium S.A. | 1,590 | -- |
| • Sorin Group Asia Ltd. | 1,185 | 1,097 |
| • Sorin Site Management S.r.l. | 1,160 | -- |
| • Sorin Group Finland OY | 907 | 902 |
| • Sorin Group Scandinavia AB | 102 | -- |
| • Sorin Group International S.A. | -- | 13 |
| Total | 110,192 | 52,002 |

(in thousands of euros)

At December 31, 2010, Non-current financial liabilities and Other current financial liabilities included items arising from transactions with related parties totaling 1,841,000 euros (Note 32).

The table below provides information about the syndicated financing facility provided by Mediobanca, Intesa San Paolo, MCC and BNP Paribas, and the EIB facility:

| | FACE VALUE IN THOUSANDS OF EUROS (1) | MATURITY | % INTEREST RATE |
|---|---|---|---|
| - Mediobanca, Intesa San Paolo, MCC and BNP Paribas syndicated loan: | | | |
| Tranche A | 22,953 | December 22, 2011 | Six month Euribor + spread from 1.75% to 0.75% (3) |
| Tranche B (2) | 7,811 | December 22, 2011 | Six month Libor + spread from 1.75% to 0.75% (3) |
| | 30,764 | | |
| - EIB: | | | |
| Tranche 1 | 59,500 | June 30, 2014 (4) | Six month Euribor + spread from 1.75% to 0.45% (3) |
| Tranche 2 (2) | 36,439 | June 30, 2014 (4) | Six month Libor + spread from 1.75% to 0.45% (3) |
| | 95,939 | | |

(in thousands of euros)

(1) Includes current installments.

(2) Loan disbursed in U.S. dollars.

(3) Spread subject to change upon Sorin Group achieving certain ratios of net indebtedness to EBITDA.

(4) Single maturity.

The Mediobanca, Intesa San Paolo, MCC and BNP Paribas syndicated facility and the EIB loan are subject to terms and conditions that are typical of facilities of this type. They include the following:

- Financial parameters that set maximum and minimum limits in the consolidated financial statements for the ratios of debt to equity, debt to EBITDA and EBITDA to net borrowing costs;
- Financial parameters that set maximum and minimum limits in the consolidated financial statements for shareholders' equity, indebtedness and capital expenditures;
- So-called *pari passu* clauses, pursuant to which the financing facility may not be subordinated to other borrowings, except for obligations that enjoy a senior status pursuant to law;
- Negative pledge clauses, which place limits on the Group's ability to provide collateral;
- and other clauses that are normally included in loan agreements of this type, including restrictions on dividend payments and asset sales.

At December 31, 2010, the Group was abundantly in with compliance the covenants of the abovementioned loan agreements.

In 2010, in addition to repaying the installments due during the year totaling 31.9 million euros, Sorin S.p.A. carried out a mandatory early repayment, ahead of the scheduled due dates, of an installment of both facilities for a total of 2.7 million euros, as required by the "excess cash flow" clause. Pursuant to this clause, a portion of the excess cash flow generated the previous year, net of loan installments repaid during the same period, must be used for early repayment of the loan.

With regard to the EIB financing facility, which was provided to Sorin S.p.A. in connection with research and development projects carried out by Sorin Group between 2007 and 2009, as partial funding for the Group's overall research and development program, the Company supplied all the information required, pursuant to the contract, with regard to the amounts actually expended and invested, compared with the amount budgeted for the abovementioned period and used for loans disbursement purposes.

Both facilities are secured by a 10-million-euro guarantee provided by Sorin Biomedica Cardio S.r.l., a subsidiary of Sorin S.p.A.

## 18 – Provision for Employee Severance Indemnities (PESI) and Other Provisions for Employee Benefits

| | PESI | OTHER PROVISIONS FOR EMPLOYEE BENEFITS | TOTAL |
|---|---|---|---|
| Balance at December 31, 2008 | 278 | -- | 278 |
| • Intra-Group transfers | (4) | -- | (4) |
| • Additions | 13 | 265 | 278 |
| • Utilizations | (35) | -- | (35) |
| Balance at December 31, 2009 | 252 | 265 | 517 |
| • Intra-Group transfers | (1) | -- | (1) |
| • Additions | 13 | (8) | 5 |
| • Reclassifications | -- | (213) | (213) |
| • Utilizations | (12) | -- | (12) |
| Balance at December 31, 2010 | 252 | 44 | 296 |

(in thousands of euros)

A new Long-term Incentive Plan (LTIP) for the achievement of multi-year objectives and benefiting a select number of key managers was introduced in 2009. This Plan is based on a three-year incentivizing cycle tied to Group performance targets.
Specifically, the Plan calls for the award of a bonus at the end of a cycle. The vesting conditions include the beneficiary's continuing employment at a Group company on the date the bonus is paid and the achievement by the Group of the applicable performance targets.
For financial statement recognition purposes, this Plan was classified in the Other long-term benefits category and accounted for in accordance with the rules provided in IAS 19 for this benefit category, together with the applicable social security contributions.
The provision, negative by 8,000 euros, reflects a revision of the previous year's estimate
The amount shown for Reclassifications refers to the option provided by Sorin S.p.A. to the beneficiaries of the abovementioned incentive plan to convert into Company shares the cash bonus originally awarded under the Plan.

A breakdown of additions to the PESI, the entire amount of which was included in personnel costs, is as follows:

| | 2010 | 2009 |
|---|---|---|
| • Financial expense | 11 | 12 |
| • Actuarial (gains) losses | 2 | 1 |
| **Total** | 13 | 13 |

(in thousands of euros)

The provision for employee severance indemnities was computed based on the following assumptions:

*Demographic assumptions*

| | |
|---|---|
| - Mortality rate | IPS55 mortality chart |
| - Disability rate | INPS 2000 tables |
| - Employee turnover rate | 5% |

*Financial assumptions*

| | |
|---|---|
| - Inflation rate | 2.00% |
| - Discount rate | 4.10% |
| - Average rate of wage increase (only for defined-benefit plans) | 3.00% |

## 19 – Trade Payables

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Trade payables owed to: | | |
| - outsiders | 3,983 | 3,210 |
| - subsidiaries | 245 | 479 |
| - other related parties | 18 | 18 |
| **Total** | 4,246 | 3,707 |

(in thousands of euros)

Trade payables do not accrue interest.

In 2010, accounts payable to other related parties refer to consulting services provided by Mittel Corporate Finance S.p.A., a company whose Chief Executive Officer is Francesco Silva, a Director of Sorin S.p.A. (Note 32).

The table below shows a breakdown of the amounts owed to each subsidiary:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Sorin CRM S.A.S. | 102 | 406 |
| • Sorin Group USA Inc. | 63 | -- |
| • Sorin Group International S.A. | 52 | 43 |
| • Sorin Site Management S.r.l. | 15 | 15 |
| • Sorin Group Italia | 5 | -- |
| • Sorin Biomedica Cardio S.r.l. | 4 | 1 |
| • Sorin Group Belgium | 4 | -- |
| • Sorin Group Asia Pte Ltd | -- | 10 |
| • Sorin Group Japan K.K. | -- | 4 |
| Total | 245 | 479 |

(in thousands of euros)

## 20 – Other Payables

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Other payables and current liabilities: | | |
| - outsiders | 2,693 | 2,566 |
| - subsidiaries | 8,775 | -- |
| - other related parties | -- | -- |
| Total | 11,468 | 2,566 |

(in thousands of euros)

Other current obligations and liabilities do not accrue interest. They consist mainly of amounts owed to pension and social security institutions and to employees, and include the accrued portion of employee payrolls.

At December 31, 2010, accounts payable to subsidiaries included 3,500,000 euros for the national consolidated corporate income tax return and 5,275,000 euros for the national consolidated VAT return.

A breakdown of the amounts owed to each subsidiary is as follows:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Sorin Biomedica Cardio S.r.l. | 6,124 | -- |
| • Sorin CRM S.A.S. | 1,612 | -- |
| • Sorin Biomedica CRM S.r.l. | 1,039 | -- |
| Total | 8,775 | -- |

(in thousands of euros)

## 21 – Commitments, Guarantees Provided and Contingent Liabilities

### *Commitments Under Finance Leases*

This item refers to finance leases executed by Sorin S.p.A. in 2007 concerning furniture and fixtures for its Via B. Crespi headquarters in Milan.

A breakdown of future lease payments by maturity is as follows:

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Due within one year | 115 | 195 |
| • Due between one and five years | -- | 114 |
| • Due after five years | -- | -- |
| Total lease payments | 115 | 309 |
| (Financial expense) | (2) | (10) |
| Total present value of lease payments | 113 | 299 |

(in thousands of euros)

### *Commitments Under Operating Leases and Building Leases*

| | OPERATING LEASES | | BUILDING LEASES | |
|---|---|---|---|---|
| | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 |
| • Due within one year | 315 | 385 | 1,696 | 1,583 |
| • Due between one and five years | 636 | 772 | 1,131 | 2,638 |
| • Due after five years | -- | -- | -- | -- |
| Total lease payments | 951 | 1,157 | 2,827 | 4,221 |

(in thousands of euros)

Future payments under building leases refer exclusively to the Via B. Crespi building in Milan.
The Company is a party to six additional leases, renting for 339,000 euros premises that it uses as a guesthouse for traveling employees.

### *Guarantees Provided*

At December 31, 2010, Sorin S.p.A. had provided the following guarantees and sureties to outsiders on behalf of the subsidiaries listed below:

- Sorin Biomedica Cardio S.r.l. (1,828,000 euros) and Sorin Site Management S.r.l. (1,017,000 euros), provided to Banca Regionale Europea to secure financing facilities.
- Sorin España S.A. (451,000 euros), provided to BNP Paribas to secure bank overdraft facilities.
- Sorin Biomedica Cardio S.r.l. (3,957,000 euros), provided to Unicredit to secure bank overdraft facilities.
- Sorin Biomedica Cardio S.r.l. (6,000 euros), provided to Locat to guarantee purchases of leased assets.
- Sorin Biomedica Cardio S.r.l. (146,000 euros) and Sorin Group Italia S.r.l. (28,000 euros), provided to Centro Leasing to guarantee purchases of leased assets.

- Sorin Group Japan K.K. (181,000 euros), provided to Intesa San Paolo to secure bank overdraft facilities.
- Sorin Group Deutschland GmbH (314,000 euros), provided to Unicredit to secure bank overdraft facilities.
- Sorin España S.A. (893,000 euros), provided to Intesa San Paolo to secure bank overdraft facilities.
- Sorin Group UK Limited (328,000 euros), provided to Intesa San Paolo to secure payment of rent on S.G. UK's offices.
- Sorin Group Italia S.r.l. (1,510,000 euros), provided to Banca Popolare dell'Emilia to secure bank overdraft facilities.
- Sorin Biomedica Cardio S.r.l. (130,000 euros), provided to E.on Energia S.p.A. to guarantee commercial supply contracts.

In addition, a guarantee of 378,000 euros was provided by Banca Popolare dell'Emilia to Maciachini Properties on behalf of Sorin S.p.A. to secure the payment of rent for the Via B. Crespi headquarters in Milan. Sorin S.p.A. is jointly liable for this surety.

In addition, to cover the risk of dilution related to the securitization program, Sorin S.p.A. provided cash collateral benefiting Crédit Agricole (formerly Calyon) totaling 4,361,000 euros on behalf of Sorin Group France S.A.S. (229,000 euros) and Sorin Group Italia S.r.l. (4,132,000 euros).

The surety provided to the Italian Tax Administration – Milan VAT Office on behalf of Sorin Biomedica Cardio S.r.l. in connection with the filing of a consolidated VAT return and countersigned for the full amount by the interested company (2,416,000 euros at December 31, 2009) expired in 2010.

### *Litigation and Contingent Liabilities*

At December 31, 2010, there were no judicial, administrative or arbitration proceedings outstanding that could have a material impact on the operating performance or financial position of Sorin S.p.A.

The indirect risk of legal disputes to which the Company is exposed through its subsidiaries is reviewed below.

Even though the Group is exposed to the risk of litigation related to product liability, which is inherent in the development, production and distribution of medical devices, there were no judicial, administrative or arbitration proceedings outstanding at December 31, 2010 that could have a material impact on the Group's operating performance or financial position. Moreover, the Group has secured international insurance coverage that it deems adequate to cover its civil liability and product liability exposure.

As for proceedings involving issues other than product liability, on November 9, 2010, the French antitrust authorities (L'Autorité de la Concurrence) launched an investigation of the cardiac rhythm management device industry in France. The antitrust authorities requested and received information from all of the companies active in this industry in the French market, including the direct and indirect subsidiaries of Sorin S.p.A. (Sorin CRM S.A.S. and Sorin Group France S.A.S.), and by the French industry association (Syndicat National de l'Industrie des Technologies Médicales - SNITEM). Sorin is fully cooperating with this investigation, which is still ongoing and in connection with which no evidence has been produced or formal charges filed against any Group affiliate. At this preliminary stage, it is impossible to identify or quantify the financial or economic impact, if any, of this investigation.

In a tax audit report notified on October 30, 2009, the Regional Internal Revenue Office of Lombardy informed Sorin Group Italia S.r.l. that, among several issues, it was disallowing in part (for a total of 102.6 million euros) a tax deductible writedown 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 three notices of assessment for 2002, 2003 and 2004. The assessments for 2002 and 2003 were automatically voided by virtue of their lack of merit. In December 210, the Internal Revenue Office issued a notice of assessment for 2005.
The Company, being confident that it can fully justify and defend its position, appealed the assessments for 2004 and 2005 before the Provincial Tax Commissions of venue. No notice of assessment has been received thus far for 2006.

The total amount of the contested losses is 62.6 million euros. The Company did not recognize a provision for this contingent risk because it believes that it correctly interpreted and applied the relevant laws.

## 22 – FINANCIAL INSTRUMENTS AND MANAGING FINANCIAL RISK

*Financial Instruments*

The main purpose of the financial activities carried out by Sorin S.p.A. is to provide support, coordination and control to its subsidiaries by managing centrally the Group's financial flows and entering into agreements with the credit system in its capacity as agent for its subsidiaries.
The main tools used to finance the Group's operations include: medium- and long-term financing from banks and other lenders, sight and short-term bank deposits and a securitization program, under which trade receivables of subsidiaries that meet certain requirements are assigned to a factor.
Other financing tools used by Sorin S.p.A include trade accounts payable (generated mainly by operating activities carried out directly and on behalf of subsidiaries), accounts receivable (mostly intra-Group), equity investments in other companies, assets and liabilities from financial derivatives (mainly interest rate swaps and forward currency contracts executed primarily to hedge the risk related to the impact of currency fluctuations on Group subsidiaries) and other receivables and payables, except for those involving transactions with employees, the tax administration and social security institutions.

Consistent with the recommendations of IFRS 7 "Financial Instruments: Disclosures," the schedules provided on subsequent pages of this Report contain the following information: classification of financial instruments, disclosure of fair value, the hierarchical ranking used to determine fair value, and interest income and expense on financial instruments not valued at fair value.

*Classification of Financial Instruments*

The following process was applied in developing a classification of financial instruments in accordance with guidelines provided by IAS 39:

- Assets and liabilities from financial derivatives executed with outsiders and Group companies to hedge the impact of foreign exchange risk on the import/export flows were classified under Financial assets/liabilities held for trading (at fair value through profit and loss) because they did not meet the requirements for hedge accounting treatment.
- Assets and liabilities from financial derivative contracts executed to mitigate interest rate risk were classified under Hedging derivatives, when they met the requirements for hedge accounting, and under Financial assets/liabilities held for trading (at fair value through profit and loss), when they did not meet those requirements.

The schedule that provides a classification of financial instruments also shows the fair value of each line item in the financial statements. The following method was applied to determine fair value:

- Assets and liabilities from financial derivatives that hedge interest rate risk (interest rate swaps): Present value of the interest flows generated on the notional amount, computed separately for the fixed rate portion and the variable rate portion. The computation for the latter was based on the forward rate curve at December 31.
- Assets and liabilities from financial derivatives that hedge foreign exchange risk (forward contracts): Present value of the differentials between the contractual forward exchange rate and the forward rate for similar transactions executed on December 31.
- Financial liabilities at amortized cost: Present value of borrowing flows (counting both principal and interest). Future interest flows were computed using the forward rate curve at December 31 and were discounted to present value using rates adjusted to the market credit spread at December 31, using the curve of the zero-coupon interest rate swaps as of the same date.

The carrying value of other financial instruments was roughly the same as their fair value. Specifically, the carrying value of investments in other companies, which are instruments that are not traded on active markets, is realistically representative of their fair value.

The fair value of the remaining financial assets and liabilities (trade receivables and payables, miscellaneous receivables and payables and short-term financial receivables and payables) is also consistent with their carrying value, of which it represents a reasonable approximation.

*Classification of Financial Instruments at December 31, 2010*

| | CLASSIFICATION | | | | | | | CARRYING VALUE | | | FAIR VALUE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE WITH CHANGES THROUGH PROFIT OR LOSS | FINANCIAL ASSETS/LIABILITIES HELD FOR TRADING | LOANS AND OTHER RECEIVABLES | HELD-TO-MATURITY FINANCIAL ASSETS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | FINANCIAL LIABILITIES AT AMORTIZED COST | HEDGING DERIVATIVES | TOTAL | CURRENT AMOUNT | NON-CURRENT AMOUNT | |
| <u>Assets</u> | | | | | | | | | | | |
| Financial assets | -- | -- | -- | -- | 1,218 | -- | -- | 1,218 | -- | 1,218 | 1,218 |
| Trade receivables | -- | -- | 1,860 | -- | -- | -- | -- | 1,860 | 1,860 | -- | 1,860 |
| Other receivables | -- | -- | 15,282 | -- | -- | -- | | 15,282 | 13,331 | 1,951 | 15,282 |
| Assets from financial derivatives | -- | 4,963 | -- | -- | -- | -- | -- | 4,963 | 4,963 | -- | 4,963 |
| Other financial assets | -- | -- | 109,422 | -- | -- | -- | -- | 109,422 | 109,422 | -- | 109,422 |
| Cash and cash equivalents | -- | -- | 21,332 | -- | -- | -- | -- | 21,332 | 21,332 | -- | 21,332 |
| **Total financial assets** | -- | 4,963 | 147,896 | -- | 1,218 | -- | -- | 154,077 | 150,908 | 3,169 | 154,077 |
| <u>Liabilities</u> | | | | | | | | | | | |
| Financial liabilities | -- | -- | -- | -- | -- | 126,734 | -- | 126,734 | 32,145 | 94,589 | 123,884 |
| Trade payables | -- | -- | -- | -- | -- | 4,246 | -- | 4,246 | 4,246 | -- | 4,246 |
| Other payables | -- | -- | -- | -- | -- | 8,877 | -- | 8,877 | 8,877 | -- | 8,877 |
| Liabilities from financial derivatives | -- | 4,481 | -- | -- | -- | -- | 7,028 | 11,509 | 5,059 | 6,450 | 11,509 |
| Other financial liabilities | -- | -- | -- | -- | -- | 110,227 | -- | 110,227 | 110,227 | -- | 110,227 |
| **Total financial liabilities** | -- | 4,481 | -- | -- | -- | 250,084 | 7,028 | 261,593 | 160,554 | 101,039 | 258,743 |

(in thousands of euros)

*Classification of Financial Instruments at December 31, 2009*

| | CLASSIFICATION | | | | | | | CARRYING VALUE | | | FAIR VALUE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE WITH CHANGES THROUGH PROFIT OR LOSS | FINANCIAL ASSETS/LIABILITIES HELD FOR TRADING | LOANS AND OTHER RECEIVABLES | HELD-TO-MATURITY FINANCIAL ASSETS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | FINANCIAL LIABILITIES AT AMORTIZED COST | HEDGING DERIVATIVES | TOTAL | CURRENT AMOUNT | NON-CURRENT AMOUNT | |
| Assets | | | | | | | | | | | |
| Financial assets | -- | -- | -- | -- | 1,218 | -- | -- | 1,218 | -- | 1,218 | 1,218 |
| Trade receivables | -- | -- | 1,581 | -- | -- | -- | -- | 1,581 | 1,581 | -- | 1,581 |
| Other receivables | -- | -- | 4,965 | -- | -- | -- | | 4,965 | 4,965 | -- | 4,965 |
| Assets from financial derivatives | -- | 1,665 | -- | -- | -- | -- | -- | 1,665 | 1,665 | -- | 1,665 |
| Other financial assets | -- | -- | 105,166 | -- | -- | -- | -- | 105,166 | 105,166 | -- | 105,166 |
| Cash and cash equivalents | -- | -- | 303 | -- | -- | -- | -- | 303 | 303 | -- | 303 |
| **Total financial assets** | -- | 1,665 | 112,015 | -- | 1,218 | -- | -- | 114,898 | 113,680 | 1,218 | 114,898 |
| Liabilities | | | | | | | | | | | |
| Financial liabilities | -- | -- | -- | -- | -- | 157,287 | -- | 157,287 | 33,423 | 123,864 | 148,209 |
| Trade payables | -- | -- | -- | -- | -- | 3,707 | -- | 3,707 | 3,707 | -- | 3,707 |
| Other payables | -- | -- | -- | -- | -- | 116 | -- | 116 | 116 | -- | 116 |
| Liabilities from financial derivatives | -- | 1,831 | -- | -- | -- | -- | 6,110 | 7,941 | 1,873 | 6,068 | 7,941 |
| Other financial liabilities | -- | -- | -- | -- | -- | 63,065 | -- | 63,065 | 63,065 | -- | 63,065 |
| **Total financial liabilities** | -- | 1,831 | -- | -- | -- | 224,175 | 6,110 | 232,116 | 102,184 | 129,932 | 223,038 |

(in thousands of euros)

## Fair Value – Hierarchical Ranking

Sorin S.p.A. uses the following hierarchical ranking to determine and document the fair value of financial instruments, based on valuation techniques:

Level 1: unadjusted prices quoted in an active market for identical assets or liabilities;
Level 2: other techniques in which all inputs that have a material impact on recognized fair value can be observed, either directly or indirectly;
Level 3: techniques in which all inputs that have a material impact on recognized fair value are not based on observable market data.

At December 31, the Company held the following financial instruments measured at fair value:

| | Amount at | | Level 1 | | Level 2 | | Level 3 | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 |
| Assets measured at fair value | | | | | | | | |
| - Assets from financial derivatives - non-hedging | 4,963 | 1,665 | -- | -- | 4,963 | 1,665 | -- | -- |
| Liabilities measured at fair value | | | | | | | | |
| - Liabilities from financial derivatives - hedging | 7,028 | 6,110 | -- | -- | 7,028 | 6,110 | -- | -- |
| - Liabilities from financial derivatives - non-hedging | 4,481 | 1,831 | -- | -- | 4,481 | 1,831 | -- | -- |

(in thousands of euros)

During the year ended December 31, 2010, there were no item transfers between Level 1 and Level 2 and no items were transferred to or from Level 3.

## Interest Income and Expense

| | 2010 | 2009 |
|---|---|---|
| **Interest earned on financial assets not valued at fair value** | | |
| • Financial assets | 6 | 19 |
| • Other financial assets | 2,210 | 2,415 |
| • Cash and cash equivalents | 22 | 11 |
| **Interest paid on financial liabilities not valued at fair value** | | |
| • Financial liabilities and other financial liabilities | 375 | 982 |
| • Borrowings | 2,679 | 6,029 |

(in thousands of euros)

## Managing Financial Risks

Due mainly to the nature of the business operations of its subsidiaries, Sorin S.p.A. is exposed to the following financial risks:

- Credit risk, which rather than to the potential insolvency of customers is related to a high level of trade receivables, reflective of DSO (Days Sales Outstanding) averages that in some geographic regions are quite high.
- Liquidity risk, which reflects the need to meet financial obligations arising from operating and investing activities in accordance with stipulated terms and deadlines.
- Market risk, which includes both the foreign exchange risk and the interest rate risk.

To address these risks Sorin S.p.A., the Group's Parent Company, has taken the following actions:

- It published policies and procedures that are binding on all Group companies.
- Through corporate-level departments, it constantly monitors risk exposure levels.
- It uses derivatives exclusively for non-speculative purposes.
- It acts as the only counterparty of Group companies in derivatives that hedge market risk related to fluctuations in foreign exchange rates.
- It manages directly the Group's financial resources by centrally managing liquidity and bank borrowings, negotiating adequate credit lines and monitoring future liquidity needs, consistent with the corporate planning process.
- It appropriately balances the average maturity, flexibility and diversification of funding sources.

Additional information about the Group's exposure to financial risks is provided in Note 24 to the Consolidated Financial Statements.

The risks to which Sorin S.p.A. is exposed are reviewed below.

## Credit Risk

The table below shows the maximum theoretical credit risk exposure of Sorin S.p.A. The amounts are those recognized in the financial statements at December 31, 2010 and 2009.

| | 12/31/10 | 12/31/09 |
|---|---|---|
| • Financial assets | 1,218 | 1,218 |
| • Trade receivables | 1,860 | 1,581 |
| • Other receivables | 14,395 | 4,677 |
| • Assets from financial derivatives | 4,963 | 1,665 |
| • Other financial assets | 109,422 | 105,166 |
| • Bank and postal accounts | 21,320 | 293 |
| • Guarantees | 15,528 | 18,901 |
| Total | 168,706 | 133,501 |

(in thousands of euros)

The total credit risk amount includes 141,306,000 euros from transactions with subsidiaries (126,031,000 euros at December 31, 2009).

The risk related to bank accounts, financial assets involving outsiders and receivables under financial derivatives owed by credit institutions is quite small because all bank and financial counterparties have very high credit ratings.

Most of the guarantees provided by the Company, mainly on behalf of other Group companies and counter-guaranteed by them, derive from statutory obligations (endorsements given to credit institutions for sureties they provided in connection with bids submitted in response to calls for tenders or research projects). As historical data show, the resulting risk is remote.

To complete the information provided with regard to credit risk, Sorin S.p.A. discloses that the balances in the various accounts do not include material amounts that are past due.

## Liquidity Risk

The liquidity risk is the risk that the financial resources available to the Group may not be sufficient to meet financial obligations arising from operating and investment activities in accordance with stipulated terms and deadlines.

It is the policy of Sorin S.p.A. to achieve at the Group level a balance between average maturity and flexibility and diversification of funding sources by securing access to overdraft facilities, medium- and long-term financing, finance leases and, lastly, by maintaining a minimum required level of liquidity.

At December 31, 2010, the Company had unused short-term credit lines of about 78 million euros (48 million euros at December 31, 2009).

As part of the process of disclosing information about the exposure of Sorin S.p.A. to the liquidity risk, the tables on the pages that follow provide a breakdown by maturity of its financial liabilities. Because the amounts shown in the abovementioned tables represent cash flows that have not been discounted, liabilities that are presented in the financial statements at their amortized cost are being shown here at their face value.

Guarantees provided on behalf of subsidiaries include the following items:

- 7,313,000 euros for guarantees provided in connection with bank credit lines.
- 4,361,000 euros for the cash collateral provided to Crédit Agricole (formerly Calyon) for the dilution risk related to the securitization program.
- 2,845,000 euros to secure bank loans.
- 1,009,000 euros to secure miscellaneous supply contracts.

Considering the resources that will be generated by the Company's operations, the existing cash and cash equivalents, which are readily convertible into cash, and its available credit lines, Sorin S.p.A. believes that it will be able to meet its obligations as they arise from its investing activities, working capital requirements and debt repayment obligations, based on their scheduled due dates.

Breakdown by Maturity at December 31, 2010

| | WITHIN 6 MONTHS | 6 MONTHS TO 1 YEAR | 1 TO 2 YEARS | 2 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Financial instruments other than derivatives | | | | | | |
| Trade payables | 4,246 | -- | -- | -- | -- | 4,246 |
| Borrowings | | | | | | |
| • committed lines | 20,006 | 12,108 | -- | 94,589 | -- | 126,703 |
| • uncommitted lines | 13 | -- | -- | -- | -- | 13 |
| Financial liabilities (1) | 111,282 | 898 | 740 | 1,110 | -- | 114,030 |
| Other liabilities | 8,793 | -- | 84 | -- | -- | 8,877 |
| Total | 144,340 | 13,006 | 824 | 95,699 | -- | 253,869 |
| Liabilities from financial derivatives | | | | | | |
| - for foreign exchange risk | -- | 4,481 | -- | -- | -- | 4,481 |
| - for interest rate risk | 1,756 | 1,562 | 2,708 | 4,062 | -- | 10,088 |
| Total | 146,096 | 19,049 | 3,532 | 99,761 | -- | 268,438 |
| (1) Interest on borrowings and financial liabilities. | 971 | 882 | 740 | 1,110 | -- | 3,703 |

(in thousands of euros)

Breakdown by Maturity at December 31, 2009

| | WITHIN 6 MONTHS | 6 MONTHS TO 1 YEAR | 1 TO 2 YEARS | 2 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Financial instruments other than derivatives | | | | | | |
| Trade payables | 3,707 | -- | -- | -- | -- | 3,707 |
| Borrowings | | | | | | |
| • committed lines | 17,820 | 15,569 | 30,471 | 93,376 | -- | 157,236 |
| • uncommitted lines | 6,507 | 4,510 | -- | -- | -- | 11,017 |
| Financial liabilities (1) | 53,516 | 1,319 | 2,005 | 4,557 | -- | 61,397 |
| Other liabilities | 127 | -- | 84 | -- | -- | 211 |
| Total | 81,677 | 21,398 | 32,560 | 97,933 | -- | 233,568 |
| Liabilities from financial derivatives | | | | | | |
| - for foreign exchange risk | -- | 1,831 | -- | -- | -- | 1,831 |
| - for interest rate risk | 2,270 | 2,065 | 4,824 | 8,791 | -- | 17,950 |
| Total | 83,947 | 25,294 | 37,384 | 106,724 | -- | 253,349 |
| (1) Interest on borrowings and financial liabilities. | 1,376 | 1,225 | 1,892 | 4,557 | -- | 9,050 |

(in thousands of euros)

## Market Risk Related to Fluctuations in Foreign Exchange Rates

A breakdown by currency of financial instruments of Sorin S.p.A. denominated in currencies other than the euro is provided below:

| | 12/31/10 | | | | | |
|---|---|---|---|---|---|---|
| | USD | GBP | CAD | JPY | OTHER | TOTAL |
| **Assets** | | | | | | |
| Cash and cash equivalents in foreign currencies | 2,445 | 116 | -- | 10 | -- | 2,571 |
| Foreign currency trade receivables | -- | -- | -- | -- | -- | -- |
| Foreign currency financial assets | 4,392 | -- | -- | 10,057 | 4,328 | 18,777 |
| Other foreign currency assets | -- | -- | -- | -- | -- | -- |
| Total assets | 6,837 | 116 | -- | 10,067 | 4,328 | 21,348 |
| **Liabilities** | | | | | | |
| Foreign currency trade payables | (102) | -- | -- | -- | (52) | (154) |
| Foreign currency financial liabilities | (45,435) | (3,891) | (27,571) | -- | (102) | (76,999) |
| Other foreign currency liabilities | -- | -- | -- | -- | -- | -- |
| Total liabilities | (45,537) | (3,891) | (27,571) | -- | (154) | (77,153) |
| Net exposure | (38,700) | (3,775) | (27,571) | 10,067 | 4,174 | (55,805) |
| **Assets from financial derivatives** | | | | | | |
| - non-hedging (1) | 13 | (95) | 73 | 4,829 | 143 | 4,963 |
| - hedging | -- | -- | -- | -- | -- | -- |
| **Liabilities from financial derivatives** | | | | | | |
| - non-hedging (1) | (277) | 51 | 76 | (4,168) | (163) | (4,481) |
| - hedging | (1,915) | -- | -- | -- | -- | (1,915) |
| Total | (2,179) | (44) | 149 | 661 | (20) | (1,433) |
| Net overall exposure | (40,879) | (3,819) | (27,422) | 10,728 | 4,154 | (57,238) |

(in thousands of euros)

(1) For hedging transactions that do not qualify for hedge accounting.

| | 12/31/09 | | | | | |
|---|---|---|---|---|---|---|
| | USD | GBP | CAD | JPY | OTHER | TOTAL |
| **Assets** | | | | | | |
| Cash and cash equivalents in foreign currencies | -- | 42 | -- | -- | -- | 42 |
| Foreign currency trade receivables | -- | -- | -- | -- | -- | -- |
| Foreign currency financial assets | 9,529 | -- | -- | 6,501 | 2,621 | 18,651 |
| Other foreign currency assets | -- | -- | -- | -- | -- | -- |
| Total assets | 9,529 | 42 | -- | 6,501 | 2,621 | 18,693 |
| **Liabilities** | | | | | | |
| Foreign currency trade payables | (10) | -- | -- | (4) | (43) | (57) |
| Foreign currency financial liabilities | (53,331) | (2,278) | (8,053) | -- | (13) | (63,675) |
| Other foreign currency liabilities | -- | -- | -- | -- | -- | -- |
| Total liabilities | (53,341) | (2,278) | (8,053) | (4) | (56) | (63,732) |
| Net exposure | (43,812) | (2,236) | (8,053) | 6,497 | 2,565 | (45,039) |
| Assets from financial derivatives | | | | | | |
| - non-hedging (1) | -- | -- | -- | -- | -- | -- |
| - hedging | -- | -- | -- | -- | -- | -- |
| Liabilities from financial derivatives | | | | | | |
| - non-hedging (1) | (26) | 7 | (312) | 195 | (30) | (166) |
| - hedging | (396) | -- | -- | -- | -- | (396) |
| Total | (422) | 7 | (312) | 195 | (30) | (562) |
| Net overall exposure | (44,234) | (2,229) | (8,365) | 6,692 | 2,535 | (45,601) |

(in thousands of euros)

(1) For hedging transactions that do not qualify for hedge accounting.

In order to minimize the Group's foreign exchange risk exposure, Sorin S.p.A., in its capacity as the intermediary between the companies of the Group and the banking system, uses both indebtedness in currencies other than the euro and financial derivatives to hedge in the forward market import/export flows into and from the euro zone and a portion of the shareholders' equities and results of foreign subsidiaries that are required to prepare their financial statements in currencies other than the euro.

To support the implementation of the abovementioned guidelines, Sorin S.p.A. published a Foreign Exchange Management Policy that defines the following:

- The distinction between "transactional" risk, which is quantified at the outset in the budget, and "translation" risk, which arises from the translation of the shareholders' equities of foreign subsidiaries that prepare their financial statements in currencies other than the euro.
- The criteria for determining and quantifying risk.
- The approach that must be followed with regard to hedging foreign exchange risk: mandatory for "transactional" risk, with 100% coverage of the net positions determined in the annual budget, and optional for "translation" risk.
- The management level that can authorize hedging the abovementioned risks.
- The operational procedures, pursuant to which subsidiaries are not allowed to execute hedging transactions with outsiders. Only Sorin S.p.A. can hedge the foreign exchange risk of its subsidiaries, using approved instruments,

and having as its counterparts Group companies on one side and, on the other, one of the credit and financial institutions included in a list provided in the Policy.

- The functions and responsibilities of Sorin S.p.A., which is responsible for defining guidelines for the management of foreign exchange risk, identifying their occurrence within the Group and determining and monitoring their magnitude.
- The financial instruments that may be used as hedges: forward foreign exchange contracts, currency swaps, borrowings in foreign currencies and foreign exchange options.

In 2010, the nature and structure of the Company's exposure to transactional risk and its hedging policies did not materially differ from the previous year.

Additional details about the financial instruments used to hedge foreign exchange risk is provided in Note 12.

In order to illustrate the risk to which the Company is exposed as a result of changes in foreign exchange rates, a sensitivity analysis that shows the impact on the income statement of upward and downward changes in the parities between the euro and other currencies is provided below.

The variation used for sensitivity analysis purposes was +/-10% from the exchange rate at December 31, applied to the euro/U.S. dollar, euro/Japanese yen and euro/other currencies exchange rates for all financial instruments included in the financial statements.

### Sensitivity Analysis – Impact on the Income Statement

| | USD | | GBP | | CAD | | JPY | | OTHER | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 12/31/10 | | 12/31/10 | | 12/31/10 | | 12/31/10 | | 12/31/10 | |
| | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN |
| Assets | | | | | | | | | | |
| Cash and cash equivalents in foreign currencies | -222 | +272 | -11 | +13 | -- | -- | -1 | +1 | -- | -- |
| Foreign currency trade receivables | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Other foreign currency assets | -399 | +488 | -- | -- | -- | -- | -914 | +1,117 | -393 | +481 |
| Total assets | -621 | +760 | -11 | +13 | -- | -- | -915 | +1,118 | -393 | +481 |
| Liabilities | | | | | | | | | | |
| Foreign currency trade payables | +9 | -11 | -- | -- | -- | -- | -- | -- | +5 | -6 |
| Foreign currency financial liabilities | +4,130 | -5,048 | +354 | -432 | +2,506 | -3,063 | -- | -- | +9 | -11 |
| Total liabilities | +4,139 | -5,059 | +354 | -432 | +2,506 | -3,063 | -- | -- | +14 | -17 |
| Assets from financial derivatives | | | | | | | | | | |
| - non-hedging (1) | -2,867 | +3,278 | -386 | +472 | -2,495 | +3,049 | +307 | -862 | +366 | -446 |
| - hedging | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Liabilities from financial derivatives | | | | | | | | | | |
| - non-hedging (1) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| - hedging | +36 | -44 | -- | -- | -- | -- | -- | -- | -- | -- |
| Total financial derivatives | -2,831 | +3,234 | -386 | +472 | -2,495 | +3,049 | +307 | -862 | +366 | -446 |
| Total | +687 | -1,065 | -43 | +53 | +11 | -14 | -608 | +256 | -13 | +18 |

(in thousands of euros)

(1) For hedging transactions that do not qualify for hedge accounting.

| | USD | | GBP | | CAD | | JPY | | OTHER | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 12/31/09 | | 12/31/09 | | 12/31/09 | | 12/31/09 | | 12/31/09 | |
| | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN | SHOCK UP | SHOCK DOWN |
| Assets | | | | | | | | | | |
| Cash and cash equivalents in foreign currencies | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Foreign currency trade receivables | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Other foreign currency assets | -3,076 | +3,760 | -- | -- | -- | -- | -487 | +596 | -531 | +649 |
| Total assets | -3,076 | +3,760 | -- | -- | -- | -- | -487 | +596 | -531 | +649 |
| Liabilities | | | | | | | | | | |
| Foreign currency trade payables | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Foreign currency financial liabilities | +5,884 | -7,191 | +105 | -128 | +526 | -642 | -- | -- | -- | -- |
| Total liabilities | +5,884 | -7,191 | +105 | -128 | +526 | -642 | -- | -- | -- | -- |
| Assets from financial derivatives | | | | | | | | | | |
| - non-hedging (1) | +1,306 | -1,598 | -63 | +77 | -533 | +638 | +3,538 | -4,333 | +616 | -753 |
| - hedging | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Liabilities from financial derivatives | | | | | | | | | | |
| - non-hedging (1) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| - hedging | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Total financial derivatives | +1,306 | -1,598 | -63 | +77 | -533 | +638 | +3,538 | -4,333 | +616 | -753 |
| Total | +4,114 | -5,029 | +42 | -51 | -7 | -4 | +3,051 | -3,737 | +85 | -104 |

(in thousands of euros)

(1) For hedging transactions that do not qualify for hedge accounting.

## Market Risk Related to Fluctuations in Interest Rates

Sorin S.p.A. is exposed to the risk that arises from fluctuations in interest rates because the cost of all of its financial liabilities is incurred at variable rates.
To minimize the risk posed by increases in short-term interest rates, Sorin S.p.A. issued an “Interest rate Risk Management Policy” that provides guidelines with regard to:

- The need to assess on a regular basis the interest rate risk and its impact on the Company’s income statement;
- The roles and responsibilities with regard to risk management decision, with the requirement that all planned hedging transactions must be approved by the Board of Directors in advance;
- Interest rate risk hedging transactions executed for specific financing facilities or transactions and the terms of the hedging instruments used, so as to ensure that they are entirely consistent with the hedged financing facilities or financial liabilities;
- The types of financial derivatives that may be used (interest rate swaps and options) and the approved bank counterparties for transactions hedging variable-rate financing facilities (up to 100% of the risk exposure may be hedged).

With regard to medium- and long-term indebtedness, Sorin S.p.A. executed derivatives that hedge the risk of foreign exchange fluctuations for a notional amount of 127.4 million euros. Beginning on January 1, 2009, as required by the “Interest Rate Risk Management” policy published by Sorin S.p.A. at the end of 2008, the Company adopted appropriate procedures to determine whether financial derivatives that hedge the risk of fluctuations in interest rates (cash flow hedges) meet the requirements for hedge accounting treatment.
The effective hedging portion of gains or losses from the valuation of financial derivatives that qualify for hedge accounting treatment under IAS 39 is recognized in a shareholders’ equity reserve, while the non-effective portion is recognized in profit or loss, provided the financial derivative has been designated as a cash flow hedge (hedging the

cash flows of an asset or liability). Gains or losses recognized in equity are transferred to the income statement when the economic effects of the hedged assets and liabilities is reflected in the result for the period. When a hedging instrument expires or is closed out, the amounts previously recognized in equity are transferred to the income statement.
Gains or losses from the valuation of financial derivatives that do not qualify for hedge accounting are recognized in profit or loss.
The status of the abovementioned contracts at December 31, 2010 is shown in Note 12.

In order to illustrate the risks to which the Company is exposed as a result of fluctuations in interest rates, a sensitivity analysis that shows the impact on the income statement of changes in interest rates is provided below.

The following assumptions were used to perform the sensitivity analysis in 2010:

- Interest bearing assets: change of +0.25% -0.25% in the short-term interest rates at December 31, 2010;
- Intra-Group financial assets: change of +1% -0.50% in the interest rate curve at December 31, 2010;
- Intra-Group financial liabilities: change of +1% -0.50% in the interest rate curve at December 31, 2010;
- Financial liabilities, including derivatives: change of +1% -0.50% in the interest rate curve at December 31, 2010.

The following assumptions were used to perform the sensitivity analysis in 2009:

- Interest bearing assets: change of +0.25% -0.10% for short-term interest rates at December 31, 2009;
- Intra-Group financial assets: change of +1% -0.30% in the interest curve at December 31, 2009;
- Intra-Group financial liabilities: change of +1% -0.10% in the interest curve at December 31, 2009;
- Financial liabilities, including derivatives: change of +1% -0.30% in the interest rate curve at December 31, 2009.

In the table that follows, a plus sign in the “income statement” columns means an increase in financial expense, while a plus sign in the “reserves” columns means an increase in reserves.

## Sensitivity Analysis

| | REFERENCE RATE | CARRYING VALUE | | INCOME STATEMENT | | | | RESERVES | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Shock up | | Shock down | | Shock up | | Shock down | |
| | | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 | 12/31/10 | 12/31/09 |
| Interest bearing assets (1) | Eonia | 16,504 | 4,772 | -41 | -12 | +41 | +5 | | -- | | -- |
| Non-hedged variable rate financial assets | One-month Euribor and Libor | 105,050 | 104,685 | -1,051 | -1,047 | +525 | +314 | | -- | | -- |
| Non-hedged variable rate financial liabilities (1) | Six-month Euribor Six-month USD Libor | (110,305) | (82,054) | +1,103 | +821 | -552 | -139 | | -- | | -- |
| Hedged variable rate financial liabilities | Six-month Euribor Six-month USD Libor | (126,621) | (156,237) | +1,266 | +1,562 | -633 | -469 | | -- | | -- |
| Derivatives that do not qualify for hedge accounting - cash flow (2) | Six-month Euribor Six-month USD Libor | | -- | | | | | | -- | | -- |
| Derivatives that do not qualify for hedge accounting | Six-month Euribor Six-month USD Libor | | -- | | | | | | -- | | -- |
| Derivatives that qualify for hedge accounting - cash flow (2) | Six-month Euribor Six-month USD Libor | | -- | -1,274 | -1,562 | +637 | +469 | | -- | | -- |
| Derivatives that qualify for hedge accounting (3) | Six-month Euribor Six-month USD Libor | (7,008) | (6,068) | -42 | -334 | +49 | +77 | | -- | | -- |
| Derivatives that qualify for hedge accounting (4) | Six-month Euribor Six-month USD Libor | | -- | | -- | | -- | +2,858 | +3,903 | -1,455 | -1,224 |
| **Total** | | (122,380) | (134,902) | -39 | -572 | +67 | +257 | +2,858 | +3,903 | -1,455 | -1,224 |

(in thousands of euros)

(1) Average of the quarterly values.
(2) Shock values in the year.
(3) Interest rate swaps: non-effective component.
(4) Interest rate swaps: effective component.

## 23 – Net Revenues and Other Revenues and Income

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | SUBSIDIARIES | OUTSIDERS | TOTAL | SUBSIDIARIES | OUTSIDERS | TOTAL |
| Service revenues | 6,367 | -- | 6,367 | 5,972 | -- | 5,972 |
| Recoveries of costs | 7,478 | 81 | 7,559 | 6,188 | 463 | 6,651 |
| Net revenues | 13,845 | 81 | 13,926 | 12,160 | 463 | 12,623 |
| Gains on the sale of property, plant and equipment | -- | -- | -- | -- | 11 | 11 |
| Other income | 494 | 448 | 942 | 244 | 271 | 515 |
| Other revenues and income | 494 | 448 | 942 | 244 | 282 | 526 |

(in thousands of euros)

Service revenues from subsidiaries refer primarily to support provided in the areas of finance, law, taxation, corporate affairs, the development of human resources and information technology services. The main companies with which these transactions were executed are listed below:

| | 2010 | 2009 |
|---|---|---|
| • Sorin Group Italia S.r.l. | 1,456 | 1,357 |
| • Sorin Biomedica Cardio S.r.l. | 975 | 895 |
| • Sorin CRM S.A.S. | 804 | 821 |
| • Sorin Group USA Inc. | 633 | 480 |
| • Sorin Group Deutschland Gmbh | 426 | 435 |
| • Sorin Group Canada Inc. | 411 | 370 |
| • Sorin Biomedica CRM S.r.l. | 384 | 361 |
| • Sorin Group France S.A.S. | 371 | 340 |
| • Ela Medical Inc | 164 | 127 |
| • Sorin Site Management S.r.l. | 133 | 128 |
| • Sorin Group UK Ltd. | 124 | 128 |
| • Sorin Group Japan K.K. | 117 | 106 |
| • Sorin Group Espana SL | 105 | 100 |
| • Sorin Group Nederland N.V. | 79 | 69 |
| • Sorin Group Belgium S.A. | 62 | 66 |
| • Sorin Group Austria GmbH | 23 | -- |
| • Sorin Group Scandinavia AB | 22 | 22 |
| • Sorin Group International S.A. | 22 | 14 |
| • Sorin Group Australia PTY Limited | 20 | 12 |
| • SorinCardio Comerc. e Distrib. Lda | 17 | 15 |
| • Sorin Group Asia Pte Ltd | 7 | 6 |
| • Sorin Group Finland OY | 6 | 7 |
| • Sorin Group Norway AS | 6 | 8 |
| • Carbomedics Inc. | -- | 105 |
| Total | 6,367 | 5,972 |

(in thousands of euros)

Recoveries of costs, billed almost entirely to subsidiaries, refer for the most part to outsourced information technology services.

These items were billed to the following companies:

| | 2010 | 2009 |
|---|---|---|
| • Sorin Group Italia S.r.l. | 2,058 | 1,597 |
| • Sorin CRM S.A.S. | 1,639 | 1,336 |
| • Sorin Biomedica Cardio S.r.l. | 1,256 | 1,145 |
| • Sorin Group Deutschland Gmbh | 700 | 609 |
| • Sorin Biomedica CRM S.r.l. | 441 | 388 |
| • Sorin Group France S.A.S. | 321 | 291 |
| • Sorin Group USA Inc. | 214 | 239 |
| • Sorin Group UK Ltd. | 196 | 187 |
| • Sorin Group Espana SL | 140 | 131 |
| • Sorin Group Japan K.K. | 124 | 12 |
| • Sorin Group Canada Inc. | 87 | 26 |
| • Sorin Group Belgium S.A. | 83 | 84 |
| • Sorin Group Nederland N.V. | 54 | 37 |
| • Sorin Group Austria GmbH | 50 | -- |
| • Sorin Group Scandinavia AB | 36 | 41 |
| • Sorin Group International S.A. | 19 | 18 |
| • SorinCardio Comerc. e Distrib. Lda | 18 | 31 |
| • Sorin Group Finland OY | 14 | 6 |
| • Sorin Site Management S.r.l. | 11 | 5 |
| • Sorin Group Asia Pte Ltd | 8 | -- |
| • Sorin Group Norway AS | 6 | 5 |
| • Ela Medical Inc | 3 | -- |
| Total | 7,478 | 6,188 |

(in thousands of euros)

## 24 – Cost of Raw Materials, Other Materials and Services Used, and Miscellaneous Operating Costs

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | SUBSIDIARIES | OUTSIDERS | TOTAL | SUBSIDIARIES | OUTSIDERS | TOTAL |
| Purchases of other materials | -- | 120 | 120 | -- | 85 | 85 |
| Cost of raw materials and other materials | -- | 120 | 120 | -- | 85 | 85 |
| Rent and payments under operating leases | -- | 1,365 | 1,365 | -- | 1,305 | 1,305 |
| Other rental payments | -- | -- | -- | -- | 70 | 70 |
| EDP services | -- | 5,438 | 5,438 | -- | 4,799 | 4,799 |
| Administrative and general services | -- | 236 | 236 | -- | 298 | 298 |
| Consulting and other professional services | -- | 2,647 | 2,647 | -- | 1,843 | 1,843 |
| Fees to Statutory Auditors (1) | -- | 160 | 160 | | 151 | 151 |
| Rebilling of costs | 2,291 | -- | 2,291 | 1,515 | -- | 1,515 |
| Fees to Independent Auditors | -- | 306 | 306 | -- | 373 | 373 |
| Other costs | -- | 3,257 | 3,257 | -- | 3,714 | 3,714 |
| Service costs | 2,291 | 13,409 | 15,700 | 1,515 | 12,553 | 14,068 |
| Losses on the sale of property, plant and equipment | -- | -- | -- | -- | 11 | 11 |
| Cost of Shareholders' Meetings and financial statements | -- | 20 | 20 | -- | 147 | 147 |
| Other costs | -- | 402 | 402 | -- | 403 | 403 |
| Miscellaneous operating costs | -- | 422 | 422 | -- | 561 | 561 |

(in thousands of euros)

(1) Includes reimbursement of out-of-pocket costs and retirement benefits.

Service costs include the costs incurred on behalf of subsidiaries, mainly for information technology services, which are offset by revenues totaling 5,263,000 euros (4,667,000 euros in 2009).

Service costs and Miscellaneous operating costs include 2,291,000 euros (1,515,000 euros in 2009) for services received from the following subsidiaries:

| | 2010 | 2009 |
|---|---|---|
| • Sorin CRM S.A.S. | 1,234 | 1,112 |
| • Sorin Group International S.A. | 567 | 175 |
| • Sorin Group USA Inc. | 238 | -- |
| • Sorin Site Management S.r.l. | 151 | 151 |
| • Sorin Group Asia Pte Ltd | 72 | 31 |
| • Sorin Group Italia S.r.l. | 14 | 18 |
| • Sorin Group Belgium | 11 | -- |
| • Sorin Biomedica Cardio S.r.l. | 4 | 8 |
| • Carbomedics Inc. | -- | 16 |
| • Sorin Group Japan K.K. | -- | 4 |
| Total | 2,291 | 1,515 |

(in thousands of euros)

In 2010, service costs included 65,000 euros from transactions with related parties (40,000 euros in 2009) (Note 32).

## 25 – Personnel Expense

| | 2010 | 2009 |
|---|---|---|
| Wages and salaries (1) | 7,428 | 7,040 |
| Additions to provision for employee severance indemnities and other provisions for employee benefits(1) | | |
| - Amount for defined-benefit plans | 13 | 13 |
| - Amount for defined-contribution plans (2) | 112 | 115 |
| - Amount for Long Term Incentive Plan | (8) | 265 |
| Cost of stock options | 66 | 129 |
| Cost of stock grants | 774 | -- |
| Personnel expense | 8,385 | 7,562 |
| Number of employees: | | |
| - At December 31 | 35 | 31 |
| - Average for the year | 32 | 32 |

(in thousands of euros)

(1) Includes contributions to social security institutions.

(2) The undisbursed portion is recognized as a current liability on the statement of financial position.

A Long-term Incentive Plan (LTIP) for the achievement of multi-year objectives and benefiting a select number of key managers was introduced in 2009. This Plan is based on a three-year incentivizing cycle tied to Group performance targets.
Specifically, the Plan calls for the award of a bonus at the end of the three-year period. The vesting conditions include the beneficiary's continuing employment at a Group company on the date the bonus is paid and the achievement by the Group of the applicable performance targets.
The provision, negative by 8,000 euros, reflects a revision of the previous year's estimate (265,000 euros in 2009).

In addition, as required by IFRS 2, the Company recognized costs of 774,000 euros attributable to 2010 for the long-term incentive plan with grants of Sorin S.p.A. stock, approved by the Shareholders' Meeting of September 14, 2010. The Plan, which runs for three cycles of three years each, is tied to and conditional on the achievement by the Group of specific EBITDA margin and consolidated net profit targets and the beneficiary's continuing employment at a Group company on the date the bonus is paid.

Personnel expense includes fees paid to Directors, amounting to 2,489,000 euros (2,535,000 euros in 2009).

The average number of employees for each category is as follows:

| | 2010 | 2009 |
|---|---|---|
| • Executives | 11 | 14 |
| • Middle managers | 10 | 9 |
| • Office staff | 11 | 9 |
| Total | 32 | 32 |

## 26 – Share-based Payments

*Stock Options*

Sorin S.p.A. established five stock option plans, four of which expired in 2009.

Information about these stock option plans is provided in the section of the Report on Operations entitled "Report on Corporate Governance and the Company's Ownership Structure."

The table below shows the number of options awarded and the average option exercise price:

| | 12/31/10 | | | |
|---|---|---|---|---|
| | NUMBER OF OPTIONS AWARDED TO EMPLOYEES AND DIRECTORS | | AVERAGE EXERCISE PRICE FOR EMPLOYEES AND DIRECTORS | |
| | SORIN S.P.A. | OTHER GROUP COMPANIES | SORIN S.P.A. | OTHER GROUP COMPANIES |
| Options outstanding at January 1 | 1,927,000 | 6,988,000 | 1.640 | 1.586 |
| Cancelled options (1) | -- | (424,000) | -- | 1.707 |
| Options exercised | -- | (20,000) | -- | 1.566 |
| Options outstanding at December 31 | 1,927,000 | 6,544,000 | 1.640 | 1.579 |
| - options exercisable at December 31 | 1,927,000 | 6,544,000 | 1.640 | 1.579 |

| | 12/31/09 | | | |
|---|---|---|---|---|
| | NUMBER OF OPTIONS AWARDED TO EMPLOYEES AND DIRECTORS | | AVERAGE EXERCISE PRICE FOR EMPLOYEES AND DIRECTORS | |
| | SORIN S.P.A. | OTHER GROUP COMPANIES | SORIN S.P.A. | OTHER GROUP COMPANIES |
| Options outstanding at January 1 | 4,022,000 | 13,499,000 | 2.006 | 1.910 |
| New options awarded | -- | 550,000 | -- | 1.480 |
| Expired options | (2,045,000) | (4,650,000) | 2.357 | 2.415 |
| Cancelled options (1) | (25,000) | (2,436,000) | 1.502 | 1.778 |
| Options transferred (2) | (25,000) | 25,000 | 1.940 | 1.940 |
| Options outstanding at December 31 | 1,927,000 | 6,988,000 | 1.640 | 1.586 |
| - options exercisable at December 31 | 1,051,000 | 3,724,700 | 1.633 | 1.594 |

(1) These options, which can no longer be exercised, had been awarded to employees who later left the Group.

(2) Options awarded to employees transferred from (–)/ to (+) Sorin S.p.A. to (+)/ from (–) other Group companies.

The new options awarded in 2009 are those of Stock Option Plan No 5.
The expired options are those of Stock Option Plans No. 1, No. 2, No. 3 and No. 4.

*Valuation of Stock Options*

Stock options are valued at fair value on grant date, in accordance with the method provided in IFRS 2. The cost thus determined is allocated over the entire length of the period between grant date and vesting date.

Information about Stock Option Plan No. 5 is provided below.

| | OPTIONS AWARDED TO EMPLOYEES AND DIRECTORS | |
|---|---|---|
| | SORIN S.P.A. | OTHER GROUP COMPANIES |
| - Options outstanding at 12/31/10 | 1,927,000 | 6,544,000 |
| - Options outstanding at 12/31/09 | 1,927,000 | 6,988,000 |
| - Remaining life at 12/31/10 (in years) | 0.50 | 0.50 |
| - Exercise price spread | 1,502 - 1,940 | 1,502 - 1,940 |
| - Weighted average fair value | 0.292 | 0.263 |

Fair value was computed using a binomial model, based on the following assumptions:

| | OPTIONS AWARDED ON | | | | | | |
|---|---|---|---|---|---|---|---|
| | 7/30/09 | 12/13/07 | 11/8/2007 | 6/20/07 | 3/6/07 | 9/8/06 | 7/28/06 |
| Annual interest rate on riskless investments | 1.74% | 4.57% | 4.36% | 4.80% | 4.08% | 3.87% | 3.92% |
| Expected volatility | 47.22% | 23.67% | 23.46% | 22.60% | 22.61% | 23.11% | 22.85% |
| Average intensity of dividend expectations | 0 | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Option's remaining life | 1.92 YEARS | 3.55 YEARS | 3.64 YEARS | 4.03 YEARS | 4.32 YEARS | 4.81 YEARS | 4.93 YEARS |

The expected volatility, which is estimated on the basis of historical data, reflects the assumption that historical volatility is indicative of future trends. This may not always be the case.
The life of the options was computed as the difference between the award date and the expiration date.
In 2010, the amount of 66,000 euros was recognized as the accrued cost for options awarded to employees and Directors of Sorin S.p.A. under Stock Option Plan No. 5. This cost was determined based on the fair value per option and the number of options outstanding at the end of 2010 (110,000 euros in 2009).
Using the same method, the charge incurred in 2010 for stock options awarded to employees of other Group companies and, consequently, added to carrying value of the corresponding equity investments, amounted to 166,000 euros (244,000 euros at December 31, 2009).

The final exercise deadline for Stock Option Plan No. 5 is June 30, 2011.

*Stock Grants*
On September 14, 2010, the Shareholders' Meeting approved a stock grant plan reserved for the Chairman, the Chief Executive Officer and employees of Sorin Group, which will be implemented either through a bonus capital increase, pursuant to Article 2349 of the Italian Civil Code, or by using the treasury shares acquired through the buyback plan, and granted to the Board of Directors all necessary and appropriate powers to establish and implement the plan.
The Plan, which is designed to incentivize and increase the loyalty of management, further align the interests of management with those of the shareholders and achieve the medium/long-term objectives of the Strategic Plan, is tied to and conditional on the Group attaining specific targets in terms of EBITDA margin and consolidated net profit.
Specifically, the Shareholders' Meeting approved the following resolutions:
i) Convened in extraordinary session, pursuant to Article 2443 of the Italian Civil Code, a resolution authorizing the Board of Directors, for a period of five years from the date of the resolution, to carry out a bonus capital increase, in one transaction or multiple transactions, for a maximum amount of 13,000,000 euros, through the issuance of up to 13,000,000 common shares, which would be awarded to employees in accordance with existing and future stock grant plans implemented by the Company, in accordance with Article 2349 of the Italian Civil Code;
ii) Convened in ordinary session, a resolution approving the Plan and granting to the Board of Directors the powers required to implement it, as well as a plan to purchase and dispose of treasury shares, pursuant to Article 2357 and Article 2357-*ter* of the Italian Civil Code and granting to the Board of Directors the power required to implement it. The authorization to purchase the treasury shares was granted for a period of up to 18 months from the date of the approval resolution by the Shareholders' Meeting and is valid for 4,704,121 common shares, par value 1 euro each, equal to1% of the subscribed capital.

The plan runs for three cycles of three years each (2009-2011, 2010-2012 and 2011-2013). The first cycle is limited to the beneficiaries of the 2009 Long-term Cash Incentive Plan who joined the Plan and exercised the option of converting into shares the cash bonus originally provided by the abovementioned 2009 Long-term Incentive Plan.

Additional information about the stock grant plan is provided in the section of the Report on Operations entitled "Report on Corporate Governance and the Company's Ownership Structure."

The table below shows the number of share awarded and outstanding at December 31, 2010:

| Plan | Number of shares | | Cycle |
|---|---|---|---|
| | SORIN S.P.A. | OTHER GROUP COMPANIES | |
| 2010 stock grants | 417,861 | 661,511 | 2009-2011 |
| | 879,517 | 2,060,999 | 2010-2012 |

*Valuation of Stock Grants*

Stock grants are value at fair value on the grant date, in accordance with the method of IFRS 2, and the cost thus determined is allocated over the period between grant date and vesting date.

The fair value used to compute the cost attributable to 2010 for the abovementioned plan was 1.729 euros, which corresponds to the price of Sorin S.p.A. shares on the grant date.
The total cost recognized in profit or loss in 2010 for the abovementioned plan applicable to employees and Directors of Sorin S.p.A., which amounted to 774,000 euros, was determined based on the number of shares awarded, taking into account the probability of exercise by the plan's beneficiaries between the grant date and the vesting date. Using the same method, the charge incurred in 2010 for stock grants awarded to employees of other Group companies and, consequently, added to carrying value of the corresponding equity investments, amounted to 1,951,000 euros.

## 27 – Depreciation, Amortization and Writedowns

| | 2010 | 2009 |
|---|---|---|
| Depreciation of property, plant and equipment | 378 | 384 |
| Amortization of intangibles | 980 | 917 |
| Writedowns of receivables and promissory notes | 30 | 200 |
| Depreciation, amortization and writedowns | 1,388 | 1,501 |

(in thousands of euros)

## 28 – Financial Expense, Financial Income and Currency Translation Differences

| | 2010 | 2009 |
|---|---|---|
| Interest paid and other bank charges | 2,863 | 6,747 |
| Interest and other charges paid to subsidiaries | 136 | 193 |
| Losses on financial derivatives | 3,546 | 2,117 |
| Losses from discounting assets and liabilities to present value | 166 | 274 |
| Other expenses | 102 | 711 |
| Financial expense | 6,813 | 10,042 |
| Bank interest earned | 22 | 11 |
| Interest and other income from subsidiaries | 2,210 | 2,415 |
| Gains on financial derivatives | -- | 10 |
| Income from junior notes | -- | 1,900 |
| Other income | 6 | 19 |
| Financial income | 2,238 | 4,355 |
| Foreign exchange gains (losses) | (2,022) | (1,600) |
| Net financial expense (income) | 6,597 | 7,287 |

(in thousands of euros)

Sorin S.p.A., working through its centralized cash management system, interacts with the banking system as an intermediary for its subsidiaries. In this capacity, it executes derivative contracts and obtains loans in currencies different from the euro in order to minimize the risk of fluctuations in foreign exchange rates.

Financial income and expense received from/paid to subsidiaries refers mainly to the following companies:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | INTEREST EXPENSE | INTEREST INCOME | INTEREST EXPENSE | INTEREST INCOME |
| • Sorin CRM S.A.S (F) | 20 | -- | 139 | -- |
| • Sorin Biomedica Cardio S.r.l. | -- | 934 | -- | 955 |
| • Sorin Group Canada Inc. | 63 | -- | 14 | -- |
| • Sorin Group France S.A.S. | 8 | 8 | 9 | 87 |
| • Sorin Group Italia S.r.l. | 29 | 2 | 21 | 56 |
| • Sorin Group Nederland N.V. | -- | 231 | -- | 204 |
| • Sorin Group USA Inc. | -- | 112 | -- | 530 |
| • Sorin Group Espana S.L. | -- | 166 | -- | 212 |
| • Sorin Group Deutschland Gmbh | -- | 313 | -- | 38 |
| • Sorin Group UK Ltd | 3 | -- | 3 | -- |
| • Sorin Group Belgium S.A. | 2 | -- | -- | 4 |
| • Sorin Site Management S.r.l. | 1 | 10 | -- | 45 |
| • Sorin Group Finland OY | 1 | -- | 3 | -- |
| • SorinCardio LDA | -- | 35 | 2 | 9 |
| • Sorin Group Japan K.K. | -- | 156 | -- | 96 |
| • Sorin Group Scandinavia | -- | 3 | -- | 7 |
| • Sorin Group International S.A. | -- | 16 | -- | 6 |
| • Sorin Group Norway AS | -- | 35 | -- | 46 |
| • Sorin Group Australia Pty Limited | -- | 128 | -- | 106 |
| • Sorin Biomedica CRM S.r.l. | 8 | -- | 2 | 14 |
| • Sorin Group Austria GmbH | -- | 61 | -- | -- |
| • Sorin Group Asia Pte Ltd | 1 | -- | -- | -- |
| Total | 136 | 2,210 | 193 | 2,415 |

(in thousands of euros)

The balance of foreign exchange differences includes foreign exchange gains of 15,800,000 euros generated by transactions with subsidiaries (losses of 6,006,000 euros in 2009).

As shown in Note 32, financial expense totaling 60,000 euros was incurred in connection with transactions with related parties.

## 29 – Income from (Expenses on) Investments in Subsidiaries

| | 2010 | 2009 |
|---|---|---|
| *Dividends from:* | | |
| • Sorin CRM S.A.S. | -- | 15,000 |
| • Sorin Site Management S.r.l. | 323 | 430 |
| • Sorin Group Italia S.r.l. | 21,247 | -- |
| | 21,570 | 15,430 |
| *(Writedowns) Reversals of writedowns of equity investments in:* | | |
| • Sorin Group International S.A. | -- | (409) |
| | -- | (409) |
| | 21,570 | 15,021 |

(in thousands of euros)

## 30 – Income Taxes

| | 2010 | 2009 |
|---|---|---|
| Taxes in the income statement: | | |
| *Current taxes* | | |
| - for the year | (8,840) | (4,492) |
| - for previous years | (65) | (540) |
| | (8,905) | (5,032) |
| *Deferred taxes* | | |
| - recognition (derecognition) of assets (liabilities) | (56) | (203) |
| - other items | (425) | 346 |
| | (481) | 143 |
| *Prepaid taxes* | | |
| - depreciation/amortization tangible and intangible assets | 72 | 16 |
| - other items | 2 | (3) |
| - recognition (derecognition) of assets (liabilities) | (14) | -- |
| - taxed provisions for risks and charges | (7) | -- |
| - tax loss carryforward | 3,169 | (156) |
| | 3,222 | (143) |
| | (6,164) | (5,032) |

(in thousands of euros)

The positive balance shown for current taxes reflects the benefit generated by filing a national consolidated tax return.
Information about deferred-tax liabilities and assets is provided in Note 8.

A reconciliation of the theoretical tax liability to the tax liability recognized in the income statements is as follows:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Income taxes (IRES) | Regional taxes (IRAP) | Total | Income taxes (IRES) | Regional taxes (IRAP) | Total |
| Profit (Loss) before taxes | 3,826 | -- | 3,826 | (2,894) | -- | (2,894) |
| Theoretical tax liability (1) | 1,052 | -- | 1,052 | (796) | -- | (796) |
| - Tax impact of permanent differences | (6,865) | -- | (6,865) | (4,202) | -- | (4,202) |
| - Unrecognized (deferred)/prepaid taxes for the year | 728 | -- | 728 | 362 | -- | 362 |
| - Income taxes paid outside Italy | 47 | -- | 47 | 144 | -- | 144 |
| - Unrecognized (deferred)/prepaid taxes for the previous year | (1,101) | -- | (1,101) | -- | -- | -- |
| - Other items | (25) | -- | (25) | (540) | -- | (540) |
| Income tax liability for the year | (6,164) | -- | (6,164) | (5,032) | -- | (5,032) |

(in thousands of euros)

(1) The theoretical income tax liability was computed by applying the corporate income tax (IRES) rate in force in Italy (27.5%).

## 31 – NET FINANCIAL POSITION

A breakdown of the net financial position of Sorin S.p.A. is provided below:

| | | 12/31/10 | | | 12/31/09 | | |
|---|---|---|---|---|---|---|---|
| | | Total | Amount with related parties | % of total | Total | Amount with related parties | % of total |
| - Cash on hand | | 12 | -- | -- | 10 | -- | -- |
| - Bank and postal accounts | | 21,320 | 15,937 | 74.8 | 293 | -- | -- |
| Cash and cash equivalents | 1) | 21,332 | 15,937 | 74.7 | 303 | -- | -- |
| - Current financial assets | 1) | 109,422 | 105,050 | 96.0 | 105,174 | 101,034 | 96.1 |
| - Assets from financial derivatives | 1) | 4,963 | 4,963 | 100.0 | 1,665 | 322 | 19.3 |
| Current financial receivables | | 114,385 | 110,013 | 96.2 | 106,839 | 101,356 | 94.9 |
| - Checking account overdrafts and other current financial liabilities | | (13) | -- | -- | (11,017) | (752) | 6.8 |
| - Current installments of non-current indebtedness | | (32,032) | (1,841) | 5.7 | (33,237) | (1,949) | 5.9 |
| - Miscellaneous financial liabilities | | (110,327) | (110,192) | 99.9 | (52,234) | (52,002) | 99.6 |
| - Other current financial liabilities | 1) | (142,372) | (112,033) | 78.7 | (96,488) | (54,703) | 56.7 |
| - Liabilities from financial derivatives | 1) | (5,059) | (374) | 7.4 | (1,873) | (1,680) | 89.7 |
| Current financial liabilities | | (147,431) | (112,407) | 76.2 | (98,361) | (56,383) | 57.3 |
| Net current indebtedness | | (11,714) | 13,543 | n.m. | 8,781 | 44,973 | n.m. |
| Non-current financial receivables | 2) | -- | -- | -- | -- | -- | -- |
| - Liabilities from financial derivatives | 1) | (6,450) | -- | -- | (6,068) | -- | -- |
| - Non-current bank debt | | (94,589) | -- | -- | (123,751) | (1,823) | 1.5 |
| - Non-current liabilities under finance leases | | -- | -- | -- | (113) | -- | -- |
| Non-current financial liabilities | | (101,039) | -- | -- | (129,932) | (1,823) | 1.4 |
| Net non-current indebtedness | | (101,039) | -- | -- | (129,932) | (1,823) | 1.4 |
| Net indebtedness | | (112,753) | 13,543 | n.m. | (121,151) | 43,150 | n.m. |

(in thousands of euros)

(1) Statement of financial position item.

(2) Non-current financial assets, as listed on the statement of financial position, excluding Investments in other companies.

## 32 – Transactions with Related Parties

No transactions executed with related parties, including those between Group companies, could be qualified as atypical or unusual. All such transactions were executed by Sorin S.p.A. in the normal course of its business operations.

*Transactions Between Sorin S.p.A. and Other Group Companies*

Sorin S.p.A. provides support and guidance to other Group companies in the areas of human resources development and cash management, including centralized cash management services and the execution of Group-wide agreements with credit institutions, and on legal, tax and corporate issues.
Payment for these services is due at the end of each month. Interest is charged at market rates.

| | SUBSIDIARIES | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | | % OF TOTAL | | % OF TOTAL |
| • Net revenues | 13,845 | 99.4% | 12,160 | 96.3% |
| • Other revenues and income | 494 | 52.4% | 244 | 46.4% |
| • Cost of services | 2,291 | 14.6% | 1,515 | 10.8% |
| • Financial expense | 136 | 2.0% | 193 | 1.9% |
| • Financial income | 2,210 | 98.7% | 2,415 | 55.5% |
| • Foreign exchange gains (losses) | 15,800 | n.m. | (6,006) | n.m. |

(in thousands of euros)

| | SUBSIDIARIES | | | |
|---|---|---|---|---|
| | 12/31/10 | | 12/31/09 | |
| | | % OF TOTAL | | % OF TOTAL |
| **Assets** | | | | |
| • Other non-current assets | 1951 | 100.0% | -- | -- |
| • Trade receivables | 1,805 | 97.0% | 1,517 | 96.0% |
| • Other receivables | 12,387 | 92.3% | 4,635 | 93.2% |
| • Assets from financial derivatives | 4,963 | 100.0% | 322 | 19.3% |
| • Other current financial assets | 105,050 | 96.0% | 101,034 | 96.1% |
| **Liabilities** | | | | |
| • Trade payables | 245 | 5.8% | 479 | 12.9% |
| • Other payables | 8,775 | 76.5% | -- | -- |
| • Liabilities from financial derivatives | 374 | 7.4% | 1,680 | 89.7% |
| • Other current financial liabilities | 110,192 | 77.4% | 52,002 | 53.9% |

(in thousands of euros)

Sorin S.p.A., in its capacity as the Group's Parent Company, and its Italian subsidiaries have agreed to file a national consolidated tax return pursuant to Article 117 and following of Presidential Decree No. 917/86. The transactions carried out between Sorin S.p.A. and its Italian subsidiaries in connection with the abovementioned tax filing are governed by individual contracts with the same terms and conditions for all consolidated companies.
In addition, Italian Group companies settle their VAT positions on a Group basis, pursuant to and for the purposes of Article 73 of Presidential Decree No. 633/72.

*Principal Intra-Group Transactions Carried Out in 2010*

- Capital increase contribution of 5.0 million Norwegian krone provided to Sorin Group Norway AS by Sorin Group Scandinavia AB;
- Merger of Carbomedics Inc. into Sorin Group USA Inc., effective January 1, 2010.

*Transactions with Other Related Parties*

Income statement and statement of financial position transactions with other related parties are summarized below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | | % OF TOTAL | | % OF TOTAL |
| - Service costs: | | | | |
| • Mittel Corporate Finance S.p.A. | 65 | 0.4% | 40 | 0.3% |
| - Financial expense: | | | | |
| • Banca Monte Paschi di Siena s.p.A. (1) | 60 | 0.9% | 20 | 0.2% |

(in thousands of euros)

(1) The amounts for 2009 refer to the period between 11/18/09 and 12/31/09.

| | 12/31/10 | | 12/31/09 | |
|---|---|---|---|---|
| | | % OF TOTAL | | % OF TOTAL |
| - Cash and cash equivalents | | | | |
| • Banca Monte Paschi Siena S.p.A. | 15,833 | 74.2% | -- | - |
| • UGF Banca S.p.A. | 104 | 0.5% | -- | - |
| - Trade payables | | | | |
| • Mittel Corporate Finance S.p.A. | 18 | 0.4% | 18 | 0.5% |
| - Non-current financial liabilities and other current financial liabilities | | | | |
| • Banca Monte Paschi Siena S.p.A. | 1,841 | 0.8% | 4,524 | 2.1% |

(in thousands of euros)

In 2010, the Company renewed the contracts with Mittel Corporate Finance S.p.A., a company whose Chief Executive Officer is Francesco Silva, a Director of Sorin S.p.A., calling for the provision of consulting and other services in the area of subsidized financing and consulting services in the area of taxation, for a total annual amount of 70,000 euros.

Both contracts were submitted for approval to the Board of Directors, which took into account the recommendations of the Internal Control Committee, in accordance with the guidelines of the Corporate Governance Code.

Banca Monte dei Paschi di Siena S.p.A. is a related party through MPS Investments S.p.A., a shareholder of Sorin S.p.A. that, jointly with other parties who signed a shareholders' agreement concerning the Sorin S.p.A. shares that became effective on November 18, 2009, owns an equity interest greater than 10%.
Financial transactions with this credit institution, which are executed on market terms and for which no guarantee was provided, refer to its participation, for the amount of 1,841,000 euros, in the medium/long-term facility syndicated by Mediobanca, Intesa San Paolo, MCC and BNP Paribas, and to a checking account opened at the abovementioned bank, with a balance of 15,833,000 euros.

UGF Banca S.p.A., a member of Unipol Gruppo Finanziario S.p.A. of which Claudio Albertini, a Director of Sorin S.p.A., is an officer, provided the Company with short-term overdraft facilities for a total amount of 4.5 million euros. At December 31, 2010, the checking account opened at this bank had a credit balance of 104,000 euros.

*Benefits Provided to Directors and Group Executives with Strategic Responsibilities*

The table below shows the compensation paid to Directors and to executives of Sorin S.p.A. with strategic responsibilities:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | DIRECTORS | EXECUTIVES | DIRECTORS | EXECUTIVES |
| - Fees/Salaries (1) | 1,011 | 572 | 1,000 | 558 |
| - Other compensation (2) (3) | 982 | 441 | 1,037 | 402 |
| Total compensation attributable to the reporting year | 1,993 | 1,013 | 2,037 | 960 |
| - Provision for severance indemnities at December 31 (4) | -- | 4 | -- | 4 |
| Number of stock options awarded (5) (6) | 1,600,000 | 600,000 | 1,600,000 | 600,000 |
| - Number of stock options exercised | -- | -- | -- | -- |
| Number of stock grants awarded (5) | 760,160 | 374,384 | -- | -- |

(in thousands of euros)

1) Excluding fees paid to the companies to which the Directors belonged and not to the Directors themselves.
2) Including non-cash benefits.
3) Other compensation paid to Directors includes the salary paid to the Chief Executive Officer as a Company employee.
4) As stated in Note 18, the amount of severance benefits vested at December 31, 2006 was updated based on actuarial computations.
5) Total number of options awarded and outstanding at the end of the year.
6) Options awarded to Directors include those awarded to the current Chief Executive Officer when he was an employee of another Group company.

Additional information about the stock option and stock grant plans is provided in Note 26 and in the section of the Report on Operations entitled "Report on Corporate Governance and the Company's Ownership Structure."

*Compensation Paid to Directors, Statutory Auditors and General Managers*

| PARTY | DESCRIPTION OF POST HELD | | COMPENSATION (IN THOUSANDS OF EUROS) | | | |
|---|---|---|---|---|---|---|
| FIRST AND LAST NAME | POST HELD | TERM OF OFFICE | COMPEN-SATION FOR POST HELD | NON-CASH BENEFITS | BONUS AND OTHER IN-CENTIVES [1] | OTHER COMPEN-SATION |
| Rosario Bifulco | Chairman of the Board of Directors | Until approval of the financial statements at 12/31/11 | 500 | 4 | 250 | |
| Giovanni Gorno Tempini | Deputy Chairman | Resigned on 5/13/10 | 40 | | | |
| Giovanni Pavese | Deputy Chairman | Until approval of the financial statements at 12/31/11 | 70 | | | |
| André-Michel Ballester | Chief Executive Officer | Until approval of the financial statements at 12/31/11 | 511 | 54 | 653 | 127 |
| Claudio Albertini | Director | Until approval of the financial statements at 12/31/11 | 20 | | | |
| Giuliano Asperti | Director | Until approval of the financial statements at 12/31/11 | 38 | | | |
| Paolo Baessato | Director | Until approval of the financial statements at 12/31/11 | 50 | | | |
| Andrea Bovone | Director | Until approval of the financial statements at 12/31/11 | 60 | | | |
| Giorgio Fossa | Director | Until approval of the financial statements at 12/31/11 | 20 | | | |
| Pietro Guindani | Director | Until approval of the financial statements at 12/31/11 | 31 | | | |
| Ettore Morezzi | Director | Until approval of the financial statements at 12/31/11 | 20 | | | |
| Enzo Nicoli | Director | Until approval of the financial statements at 12/31/11 | 21 | | | |
| Luigi Ragno | Director | Until approval of the financial statements at 12/31/11 | 24 | | | |
| Francesco Silva | Director | Until approval of the financial statements at 12/31/11 | 20 | | | |
| Massimo Tononi | Director | Until approval of the financial statements at 12/31/11 | 27 | | | |
| Claudio Agostino Zulli | Director | Until approval of the financial statements at 12/31/11 | 55 | | | |

(1) Includes compensation for work performed as an employee.

| PARTY | DESCRIPTION OF POST HELD | | COMPENSATION (IN THOUSANDS OF EUROS) | | | |
|---|---|---|---|---|---|---|
| FIRST AND LAST NAME | POST HELD | TERM OF OFFICE | COMPEN-SATION FOR POST HELD | NON-CASH BENEFITS | BONUS AND OTHER IN-CENTIVES (1) | OTHER COMPEN-SATION |
| Cesare Piovene Porto Godi | Chairman of the Board of Statutory Auditors | Until approval of the financial statements at 12/31/11 | 41 | | | |
| Marco Spadacini | Chairman of the Board of Statutory Auditors | Resigned on 4/28/10 | 21 | | | |
| Paolo Gualtieri | Statutory Auditor | Until approval of the financial statements at 12/31/11 | 28 | | | |
| Diego Rivetti | Statutory Auditor | Resigned on 4/28/10 | 14 | | | |
| Andrea Zaglio | Statutory Auditor | Until approval of the financial statements at 12/31/11 | 42 | | | 10 (2) |

(2) Refers to the fee received for serving as Chairman of the Oversight Board.

## *Stock Options Awarded to Directors and General Managers*

| FIRST AND LAST NAME | POST HELD | OPTIONS HELD AT THE BEGINNING OF THE YEAR | | | OPTIONS AWARDED DURING THE YEAR | | | OPTIONS EXERCISED DURING THE YEAR | | | OPTIONS EXPIRED IN 2010 | OPTIONS HELD AT THE END OF THE YEAR | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | No. OF OPTIONS | EXERCISE PRICE | EXPIRATION DATE | No. OF OPTIONS | EXERCISE PRICE | EXPIRATION DATE | No. OF OPTIONS | EXERCISE PRICE | EXPIRATION DATE | No. OF OPTIONS | No. OF OPTIONS | EXERCISE PRICE | EXPIRATION DATE |
| André-Michel Ballester | Chief Executive Officer | 800,000<br>800,000 | 1.566<br>1.762 | 6/30/11<br>6/30/11 | | | | | | | | 800,000<br>800,000 | 1.566<br>1.762 | 6/30/11<br>6/30/11 |

## *Stock Grants Awarded to Directors and General Managers*

| FIRST AND LAST NAME | POST HELD | STOCK GRANTS AWARDED AND OUTSTANDING AT BEGINNING OF YEAR | AWARDED DURING THE YEAR | STOCK GRANTS AWARDED AND OUTSTANDING AT END OF YEAR |
|---|---|---|---|---|
| | | Number of shares | Number of shares | Number of shares |
| Rosario Bifulco | Chairman | - | 193,548 | 193,548 |
| André-Michel Ballester | CEO | - | 566,612 | 566,612 |

## 34 – EVENTS OCCURRING AFTER DECEMBER 31, 2010

The following events worthy of mention occurred after the end of 2010:

- In January 2011, authorization to market in Europe the Perceval™ S self-anchoring aortic heart valve, which represents the latest generation of cardiac prostheses in terms of technological innovation. It is particularly suitable for replacement of the aortic valve in patients suffering from aortic valve stenosis with a minimally invasive surgical procedure with a very short implementation time. Perceval S is a surgical aortic valve equipped with an exclusive self-expanding, anchoring system that enables surgeons to replace a damaged valve without having to suture the prosthesis to the patient's tissue and, consequently, represents an evolution compared with conventional bioprostheses.
- In February 2011, acquisition of a minority interest in MD Start, Europe's first venture capital incubator supported by operators in the medical technology sector. Based on Lausanne, Switzerland, MD Start offers to promoters of innovative ideas an important opportunity to turn into reality their medical device development projects. MD Start's mission is to stimulate innovation by providing scientists and physicians with the financial and technical competencies and the strategic resources needed to identify and validate new ideas. With this investment, Sorin Group joined Sofinnova Partners, Versant Ventures, Medtronic and Contract Medical International as a partner in MD Start;
- In March 2011, sale of the building in Montrouge (Paris) that housed the manufacturing activities of the CRM business unit in France until 2009, prior to their relocation to Clamart (Paris). The proceeds from the sale amounted to a 5.5 million euros, for a net gain of 3.8 million euros.

No other significant events requiring disclosure occurred after December 31, 2010.

Milan, March 17, 2011

| Rosario Bifulco | André-Michel Ballester |
|---|---|
| Chairman | Chief Executive Officer |

ANNEX

## DISCLOSURE REQUIRED PURSUANT TO ARTICLE 149-*DUODECIES* OF THE CONSOB'S ISSUERS' REGULATIONS

The table below, which was prepared pursuant to Article 149-*duodecies* of the Consob's Issuers' Regulations, shows the amount attributable to 2010 of the fees paid to Reconta Ernst & Young S.p.A. and other companies within its network for independent auditing services and for services other than those related to the performance of independent audits.

| | PARTY PROVIDING THE SERVICE | FEE AMOUNT ATTRIBUTABLE TO 2010 |
|---|---|---|
| Independent auditing | Reconta Ernst & Young S.p.A. | 261 |
| Attestation services | Reconta Ernst & Young S.p.A. (1) | 11 |
| Other services | Ernst & Young Network (2) | 99 |
| Total | | 371 |

(in thousands of euros)

1) Services provided in connection with the filing of tax returns and similar assignments.
2) Other professional services.

ATTESTATION

OF THE STATUTORY FINANCIAL STATEMENTS AT DECEMBER 31, 2010
PURSUANT TO ARTICLE 154-*BIS* OF LEGISLATIVE DECREE NO. 58/98

1. We, the undersigned André-Michel Ballester, in my capacity as Chief Executive Officer, and Demetrio Mauro, in my capacity as Corporate Accounting Documents Officer of Sorin S.p.A., taking into account the provisions of Article 154-*bis*, Sections 3 and 4, of Legislative Decree No. 58 of February 24, 1998, attest that:
   - the administrative and accounting procedures followed during the 2010 reporting year in connection with the preparation of the statutory financial statements are adequate in relation to the characteristics of the Company's business operations; and
   - were effectively applied.

2. The methodology and operational approach used to assess the effectiveness of the administrative and accounting procedures followed to prepare the statutory financial statements at December 31, 2010 are consistent with the operational guidelines of the CoSO framework "ICFR-Guidance for Smaller Public Companies," which constitute a reference model generally accepted internationally.

3. We further attest that:

   3.1 the statutory financial statements:
   - were prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union pursuant to Regulations (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002, and comply with the regulations enacted to implement Legislative Decree No. 38/2005;
   - are consistent with the data in the books of accounts and other accounting records;
   - adequately provide a truthful and fair presentation of the issuer's statement of financial position, operating performance and cash flow;

   3.2 the Report on Operations provides a reliable presentation of the issuer's performance, result from operations and financial position, and describes the main risks and uncertainties to which the issuer is exposed.

Milan, March 17, 2011

| | |
|---|---|
| André-Michel Ballester<br>Chief Executive Officer | Demetrio Mauro<br>Corporate Accounting<br>Documents Officer |

REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING OF SORIN S.p.A.
(pursuant to Article 153 of Legislative Decree No. 58/98 and Article 2429, Section 3, of the Italian Civil Code)

Dear Shareholders:

**REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF SORIN S.p.A.**
**(pursuant to Article 153 of Legislative Decree No. 58/98 and Article 2429, Section 3, of the Italian Civil Code)**

Dear Shareholders:

The Board of Statutory Auditors carried out its oversight activity in accordance with the provisions of Legislative Decree No. 58 of February 24, 1998 and with the guidelines of the Code of Conduct for Boards of Statutory Auditors published by the Italian Board of Certified Public Accountants and Bookkeepers.
The financial statements of Sorin S.p.A. for the year ended December 31, 2010 that are being submitted for your approval, which were prepared in accordance with the International Financial Reporting Standards (IFRSs), show a profit of 9,989,671 euros.
You are also being provided with the consolidated financial statements for the year ended December 31, 2010, which show Group net profit of 39,082,000 euros.
The Report of the Board of Directors reviews the Group's performance during the year and provides information about major transactions executed in 2010 and regarding investments in research and development and in programs to strengthen the sales organization. The Report also provides information, which the Board of Statutory Auditors deems exhaustive, about the Group's financial position and cash flow, which show a steady improvement.
The Report of Board of Directors also provides information about significant events occurring after December 31, 2010. The Company's financial statements and the Group's consolidated financial statements were prepared by the Board of Directors pursuant to law and supplied to the Board of Statutory Auditors together with the reports on operations of the Company and the Group, respectively. To the best of our knowledge, the Directors complied with the provisions that govern the preparation of financial statements and included in their financial report the disclosures required by Document No. 2 published jointly by the Bank of Italy, Consob and Isvap on February 6, 2009 and the subsequent document published on March 4, 2010.
In 2010, the Board of Statutory Auditors performed its statutory oversight activities taking into account the resolutions issued by the Consob with regard to corporate control and the tasks of the Board of Statutory Auditors. Consequently, as required by Article 2429 of the Italian Civil Code and Article 153 of Legislative Decree No. 58/98 and consistent with the guidelines provided by the Consob with Resolution No. 1025564 of April 6, 2001 and Resolution No. 3021582 of April 4, 2003, the Board of Statutory Auditors reports that:

1. The Board of Statutory Auditors monitored the Company's compliance with the law and the Bylaws.
2. Material transactions affecting the Company's income statement, balance sheet and financial position in 2010 are described exhaustively by the Board of Directors in the Report on Operations. The Board of Statutory Auditors became familiar with these transactions by attending meetings of the Board of Directors and the Executive Committee and through contacts with the Company's senior executives and managers.
   The Board of Statutory Auditors was able to determine that the abovementioned transactions were not dangerous or reckless, did not give rise to conflicts of interest, were not in contrast with resolutions adopted by the Shareholders' Meeting and did not undermine the value of the corporate assets.
3. In 2010, the Company did not execute atypical or unusual transactions with outsiders, Group companies or related parties. Financial transactions between Sorin and other Group companies or related parties, which are discussed in the Section of the Report of the Board of Directors entitled "Intra-Group Transactions and Transactions with Related Parties," were executed on standard market terms or in accordance with specific statutory requirements. The Board of Statutory Auditors believes that these transactions were fair and in the Company's interest. The Notes to the Consolidated and Statutory Financial Statements include special schedules that list material transactions with related parties and with subsidiaries and affiliated companies. These transactions involve primarily the cash management process and the centralized handling of cash

flows, carried out through the provision of financial consulting services that include the execution of Group-wide agreements with the banking system, and consulting services in the areas of taxation, general counsel, contract law and human resource management. The Board of Statutory Auditors believes that the abovementioned transactions were fair and in the Group's interest. No transactions were executed with unconsolidated Group companies. As required by Consob Resolution No. 17221 of March 12, 2010, as amended by Resolution No. 17389 of June 23, 2010, the Company adopted a Procedure for Transactions with Related Parties, disclosure of which is hereby provided.
In the opinion of the Board of Statutory Auditors, the disclosures about transactions with related parties and intra-Group transactions provided by the Board of Directors in the Report on Operations are adequate.
We monitored the adequacy and timeliness of the instructions provided by the Company to its subsidiaries with regard to the disclosure requirements arising from the relevant statutes and Articles 2497 and following of the Italian Civil Code.
Specifically, in view of the fact that the Company exercises management and coordination authority over its domestic subsidiaries, as defined in Articles 2497 and following of the Italian Civil Code, we verified compliance with the rules of conduct applicable to the abovementioned subsidiaries, with the aim of ascertaining that the coordination and control obligations and the transparency and public disclosure requirement of current laws were being met .

4. On April 4, 2011, the independent auditors Reconta Ernst & Young, having audited the financial statements, rendered an unqualified opinion and required no supplemental disclosures. The independent auditors also provided the report required by Article 19, Section 3, of Legislative Decree No. 39/2010, which contained no qualifications requiring disclosure in this Report.
The independent auditors also verified that the Company was in compliance with the going concern principle and with the other requirements of the Document No. 2 published jointly by the Bank of Italy, Consob and Isvap on February 6, 2009 and the subsequent document published on March 4, 2010.
5. In 2010, no memoranda were filed with the Board of Statutory Auditors.
6. The Board of Statutory Auditors received no complaint pursuant to Article 2408 of the Italian Civil Code. However, at the Shareholders' Meeting of September 14, 2010, a shareholder filed a complaint pursuant to Article 2408 of the Italian Civil Code, for an alleged delay in filing the minutes of the Ordinary Shareholders' Meeting of April 28, 2010, which the shareholder alleged were filed on September 2, 2010. At the abovementioned Shareholders' Meeting, the Chairman of the Board of Directors explained that, actually, the minutes of the Shareholders' Meeting were filed on May 14, 2010 and that the only purpose of the later filing was to correct a minor typographical error. The Board of Statutory Auditors confirms that the dates cited by the Chairman of the Board of Directors are correct.
7. In 2010, Sorin Group asked the independent auditors Reconta Ernst & Young and other companies included in the same independent auditor network to provide auditing and other services for a total amount of 1,403,000 euros. Schedules showing the fees attributable to 2010, broken down in the manner required by Article 149 *duodecies* of the Issuers' Regulations, are annexed to the statutory and consolidated financial statements. The Board of Statutory Auditors believes that the services that the independent auditors were asked to provide and the corresponding fees did not impair their independence.
8. In 2010, the Board of Statutory Auditors provided, when required, the opinions and advice required pursuant to law. The substance of the advice given was not in conflict with subsequent resolutions adopted by the Board of Directors.
9. The Board of Directors met 8 times in 2010. The Board of Statutory Auditors attended these meetings. The Compensation Committee met 9 times, the Internal Control Committee met 7 times and the Executive Committee met 13 times. A member of the Board of Statutory Auditors attended these meetings. The Board of Statutory Auditors met 8 times and its members met collectively or individually with the independent auditors Reconta Ernst & Young. No material data or information that would require disclosure in this Report were discussed at those meetings.
10. In the opinion of the Board of Statutory Auditors, the Company complied with the principles of sound management and the resolutions adopted and implemented by the Board of Directors were in the Company's interest. At its meetings, the Board of Directors carefully analyzed and discussed in detail interim reports on the Company's performance, comparing actual results with plans, budgets and updated forecasts, as well as all relevant issues of material transactions.
11. Insofar as the areas under its jurisdiction are concerned, the Board of Statutory Auditors assessed and monitored the effectiveness of the Company's accounting and organizational system and the system's reliability in presenting fairly the results from operations. It accomplished this task by obtaining information

from the manager of the Accounting Department, reviewing corporate documents and analyzing the results of the work performed by the independent auditors. The Chief Executive Officer and the Corporate Accounting Documents Officer provided a special report attesting that the accounting procedures are adequate and are being effectively implemented, the content of the accounting documents complies with the IFRS/IAS international accounting principles, and the accounting documents are consistent with the data in the accounting records and other corporate documents and present fairly the Company's balance sheet, operating performance and financial position. The Board of Statutory Auditors reviewed organization charts, responsibility and authority levels and the flow of instructions, assessing the organization's ability to establish adequate strategic and management guidelines and carry out the necessary control of the technical, commercial and accounting operations of the entire Group.

12. The Board of Statutory Auditors assessed and monitored the system of internal controls, meeting for this purpose on a regular basis with the Internal Control Officer, who is also in charge of the Internal Auditing Department, and gathering information from Directors and the independent auditors. The Board of Statutory Auditors determined that the Company responded appropriately to the suggestions it generated in the course of its control activities, particularly with regard to organizational and control requirements.
    The Company prepared an audit plan for 2011, which was approved by the Board of Statutory Auditors. In the Corporate Governance Report, included in the Annual Report, the Board of Directors provides detailed information about the system of corporate governance, as updated in December 2010, showing that it is substantially in compliance with the guidelines contained in the latest edition of the Corporate Governance Code, as amended. On March 17, 2011, the Board of Directors verified that the independent Directors currently in office met the independence requirements of Article 3 of the Corporate Governance Code and Article 148, Section 3, Letters b) and c), of Legislative Decree No. 58/98. On the same date, the Board of Statutory Auditors provided its report with regard to the correct verification criteria and procedures adopted by the Board of Directors. The Board of Statutory Auditors used the same criteria to verify the independence qualifications of its members. The Company has adopted for some time a Code of Ethics, an Organization, Management and Control Model (updated to comply with subsequent amendments to Legislative Decree No. 231/2001) and an Oversight Board. The Oversight Board is comprised of a member of the Board of Statutory Auditors, who serves as Chairman, the manager of the Internal Auditing Department and an outside lawyer.
13. In the course of its oversight activity, the Board of Statutory Auditors uncovered no omissions, objectionable facts or irregularities that would warrant reporting them to the Shareholders' Meeting, as required by Article 153, Section 1, of Legislative Decree No. 58/98.
14. The Board of Statutory Auditors has no motion to submit to the Shareholders' Meeting, as would be required by Article 153, Section 2, of Legislative Decree No. 58/98, except for the indications provided below with regard to the approval of the financial statements.

As required by the Article 144 *quinquiesdecies* of the Issuers' Regulations, a list of the governance posts currently held by the members of the Board of Statutory Auditors is annexed to this Report.

Based on the considerations outlined above, the Board of Statutory Auditors, insofar as the areas under its jurisdiction are concerned, has no objection to the approval of the financial statements at December 31, 2010 and concurs with the motion for the appropriation of the year's profit.

Milan, April 4, 2011

THE BOARD OF STATUTORY AUDITORS

Cesare Piovene Porto Godi
Paolo Gualtieri
Andrea Zaglio

REPORT OF THE INDEPENDENT AUDITORS

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**Relazione della società di revisione**
**ai sensi degli artt. 14 e 16 del D. Lgs. 27.1.2010, n. 39**

Agli Azionisti
della Sorin S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio consolidato, costituito dalla situazione patrimoniale-finanziaria, dal conto economico, dal conto economico complessivo, dalle variazioni del patrimonio netto, dal rendiconto finanziario e dalle relative note esplicative, della Sorin S.p.A. e sue controllate ("Gruppo Sorin") chiuso al 31 dicembre 2010. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005, compete agli amministratori della Sorin S.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

2. Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio consolidato sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

   Per il giudizio relativo al bilancio consolidato dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 12 aprile 2010.

3. A nostro giudizio, il bilancio consolidato del Gruppo Sorin al 31 dicembre 2010 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico ed i flussi di cassa del Gruppo Sorin per l'esercizio chiuso a tale data.

4. La responsabilità della redazione della relazione sulla gestione in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli amministratori della Sorin S.p.A..

   E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e della specifica sezione sul governo societario e gli assetti proprietari, limitatamente alle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D. Lgs. n. 58/1998, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D. Lgs. n. 58/1998 presentate nella specifica sezione della medesima relazione sono coerenti con il bilancio consolidato del Gruppo Sorin al 31 dicembre 2010.

Milano, 4 aprile 2011

Reconta Ernst & Young S.p.A.

Felice Persico
(Socio)

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**Relazione della società di revisione**
**ai sensi degli artt. 14 e 16 del D. Lgs. 27.1.2010, n. 39**

Agli Azionisti
della Sorin S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio d'esercizio, costituito dalla situazione patrimoniale-finanziaria, dal conto economico, dal conto economico complessivo, dalle variazioni del patrimonio netto, dal rendiconto finanziario e dalle relative note esplicative, della Sorin S.p.A. chiuso al 31 dicembre 2010. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005, compete agli amministratori della Sorin S.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.

2. Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

   Per il giudizio relativo al bilancio d'esercizio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 12 aprile 2010.

3. A nostro giudizio, il bilancio d'esercizio della Sorin S.p.A. al 31 dicembre 2010 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico ed i flussi di cassa della Sorin S.p.A. per l'esercizio chiuso a tale data.

4. La responsabilità della redazione della relazione sulla gestione in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli amministratori della Sorin S.p.A.. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e della specifica sezione sul governo societario e gli assetti proprietari, limitatamente alle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D. Lgs. n. 58/1998, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b) dell'art. 123-bis del D. Lgs. n. 58/1998 presentate nella specifica sezione della medesima relazione sono coerenti con il bilancio d'esercizio della Sorin S.p.A. al 31 dicembre 2010.

Milano, 4 aprile 2011

Reconta Ernst & Young S.p.A.

Felice Persico
(Socio)