

PRESS RELEASE

INTESA SANPAOLO PRESENTS ITS FIFTH ANNUAL REPORT ON THE ECONOMY AND FINANCE OF INDUSTRIAL DISTRICTS FOR 2012, BASED ON A STUDY OF 49,000 COMPANIES

- **DISTRICT FIRMS ARE PERFORMING BETTER THAN NON-DISTRICT AREAS: IN THE TWO YEARS 2011-12 THEIR TURNOVER GREW BY +3%, AGAINST +1% OF NON-DISTRICT COMPANIES.**
- **STRONGER EXPORT FOCUS, MORE FOREIGN DIRECT INVESTMENTS, PATENTS AND TRADEMARKS ARE SET TO DRIVE THE DISTRICTS' PERFORMANCE IN 2013-14 TOO: TURNOVER EXPECTED TO GROW BY 5.1%.**
- **PERSISTING WEAKNESSES IN PRODUCTION CHAINS NEED TO BE ADDRESSED. TO OFFSET THE COST EDGE OF THEIR EMERGING MARKET COMPETITORS, SUBCONTRACTORS MUST LEVERAGE ON QUALITY, INNOVATION AND TIME-TO-MARKET.**

Milan, 15 February 2013. **Enrico Cucchiani**, Chief Executive Officer of Intesa Sanpaolo, **Gregorio De Felice**, Chief Economist, and **Fabrizio Guelpa**, Head of Industry & Banking Research, presented today Intesa Sanpaolo Research Department's fifth Yearly report on the **economic and financial trend of district enterprises**. The Report analyses the past four years' balance sheets of more than **13,000 firms belonging to 144 industrial districts** and of almost **36,000 non-district firms** covering the same industrial sectors. Estimates of 2012 balance sheets results are also offered, together with forecasts for the 2013-14 two-year period. Lastly, the Report focuses on the **factors likely to drive structural improvement in performance for district firms** and on the main **weaknesses to be addressed**.

2011-2012 Results

- **DISTRICT COMPANIES SHOW RENEWED DYNAMISM**

In the two-year period 2011-2012 districts' turnover grew by 3% compared to 1% in non-district areas. This better performance was driven by the stronger export focus of district businesses, which made the difference, at a time when global demand is on the rise, as opposed to a contracting domestic market. Indeed, in the past two years, while world GDP grew by 5.2%, in Italy household consumption and investments declined respectively by -4% and -10.2%.

Marked differences continue to be noted among the districts. The 11 top performing districts in terms of growth and profits have been selected: an intermediate goods district (rubber in Sebino Bergamasco), five districts specialised in fashion goods (eyewear in Belluno, leather goods and footwear in Florence, tanning and footwear in Santa Croce sull'Arno, textiles in Biella, clothing in the Naples area), three agri-food districts (wine in the Langhe, Roero and Monferrato, prosecco wine in Conegliano-Valdobbiadene, ham in Parma), a household goods system district (Carrara marble) and an industrial engineering district (packaging machinery in Bologna).

Forecasts for the two-year period 2013-14

- **STAGNATION IN 2013 (+1.1%); RECOVERY POSTPONED TO 2014 (+4.0%)**

The year 2013 should usher in modest turnover growth (+1.1% at current prices), due to the expected continuing weakness of the domestic market, affecting especially consumer good districts specialised in furniture, fashion and food industries.

Hence, a recovery of production has been postponed to 2014, when district firms' turnover should increase by 4.0%. The outlook is brighter for the metal products and industrial engineering companies, which will benefit from a slow recovery in the cycle of investments and, especially, from their high competitiveness on global markets.

Strengths

- **STRONGER EXPORT FOCUS**
- **HIGHER FOREIGN DIRECT INVESTMENTS**
- **HIGHER CAPACITY TO INNOVATE**
- **HIGHER NUMBER OF INTERNATIONALLY REGISTERED TRADEMARKS**

The Report looks at the structural factors which might explain the consistently better results achieved by districts compared to non-district companies.

District businesses are more likely to export their products and to invest abroad. Some 41% of district businesses export part of their production. In non-district areas, the share is markedly lower, at around 30%. Moreover, the number of international subsidiaries out of 100 businesses is 34 in the districts, whereas in non-district areas the figure drops to 25. More specifically, among district businesses there are more investors (8.9% of businesses against 7.1% in non-district areas) and each investor has a more widespread presence.

As to patenting propensity too, district firms outperform their non-district counterparts significantly. Indeed, the number of patent applications filed out of 100 businesses is 45 in the districts and 32 in non-district areas (applications filed to the European Patent Office in the last four years). This gap is not due to the higher number of patenting firms in the districts but to a higher rate of patents per business,

reflecting the prominent role played by leading companies with a strong focus on technological innovation (7.1 patents per business in the districts compared to 4.8 outside the districts).

Lastly, district firms have a higher rate of international trademark registration, also because of their stronger presence on foreign markets compared to non-district businesses. Indeed, the number of trademarks out of 100 firms is about 40 in the districts, while in the other areas it drops to 21. This gap is due both to the higher rate of trademark owners (11.5% of district businesses have at least one internationally registered trademark, against 7.4% of non-district firms), and to the higher average number of trademarks owned per firm (3.4 compared to 2.8). Moreover, trademarks offer protection in a higher number of countries.

This evidence suggests that in the districts geographical proximity triggered imitative processes which have encouraged the spread of successful business strategies.

Weaknesses

- **SUBCONTRACTOR CHAIN UNDER THREAT**
- **ONLY INNOVATIVE AND QUALIFIED SUBCONTRACTORS ARE SUCCESSFUL**
- **FINANCIAL WEAKNESS MUST BE ADDRESSED**

The links in the production chain between district firms have some major weaknesses. This is because the Italian value chain model has long been negatively affected by globalisation, as customer businesses are often tempted to source their supplies from subcontractors based in countries with lower labour costs. Moreover, when customer companies decide to move their manufacturing operations abroad, subcontractors find it hard to follow them. Some businesses have been hit harder than others: so the gap between the best and worst performing small firms has widened significantly (to about 21 percentage points as to the EBITDA margin: +18.2% vs. -2.7%).

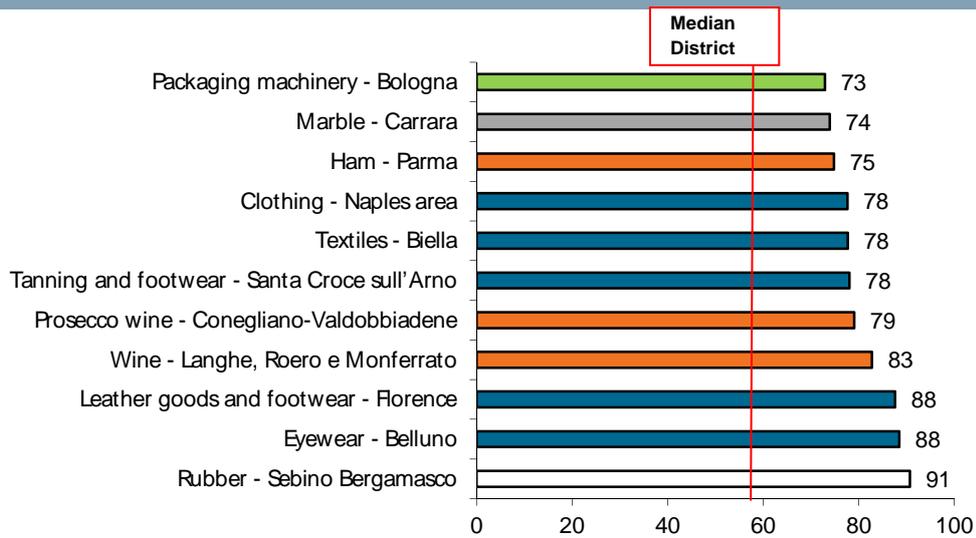
The Report presents the data from a survey carried out in six districts in Emilia Romagna to explore whether and to what extent subcontractors' know-how is a strategic factor in the customer companies' choice to continue to source a given supply locally. The analysis distinguished between simpler know-how (mere provision of production capacity, low costs, ...), which is accompanied by a higher risk of losing the customer company, and more advanced know-how, which gives the subcontractor effective "market power" (independent capacity to innovate, proactive integration in a quality-oriented production system, time-to-market...) and thus a higher likelihood of maintaining long-term supply relationships.

The data show that those suppliers who are more innovative and have a higher quality profile perform significantly better, and their customer companies tend to maintain the supply relationship into the future: these pluses more than offset the lower costs offered by foreign suppliers. Therefore "producing in Italy is possible", but it requires investment in knowledge and high-quality supplies, which should be as widespread as possible.

To achieve these goals, subcontractors too must overcome the financial weakness which characterises the average Italian SME. This must be done both by rebalancing equity and debt and by shortening time to payment in order to reduce outstanding receivables.

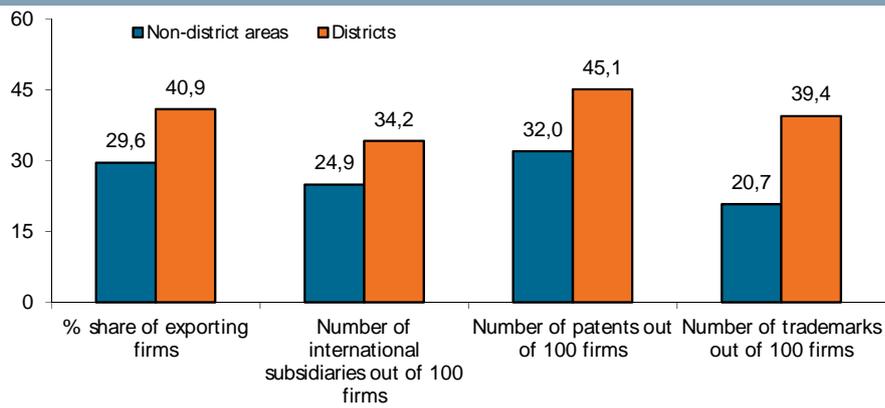
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The 11 top performing districts in terms of growth and profits (min=0; max=100)



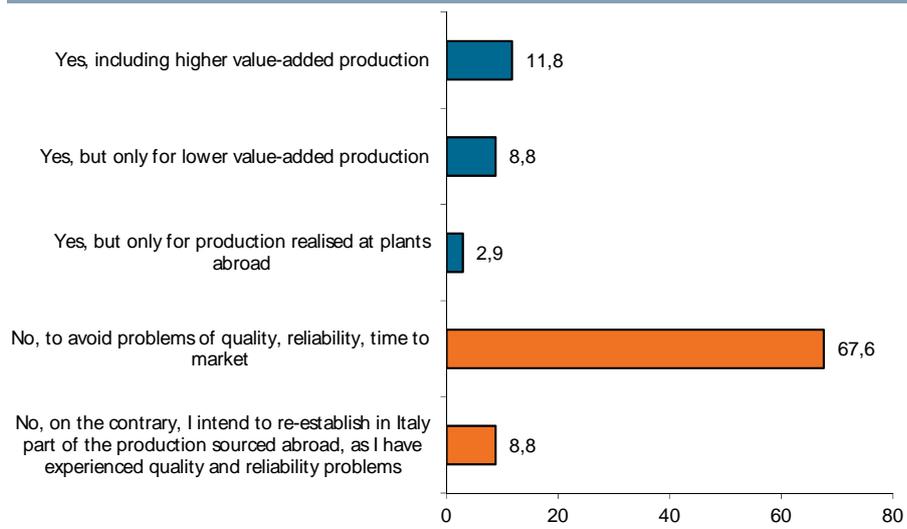
Source: Intesa Sanpaolo on ISID data

The four strengths of industrial districts: export, international subsidiaries, patents and trademarks



Source: Intesa Sanpaolo on ISID data

In the coming years, are you planning to reduce sourcing from local supplies?
(% of leading firms)



Source: ISID and survey carried out in 6 districts of the Emilia Romagna Region (November 2012)