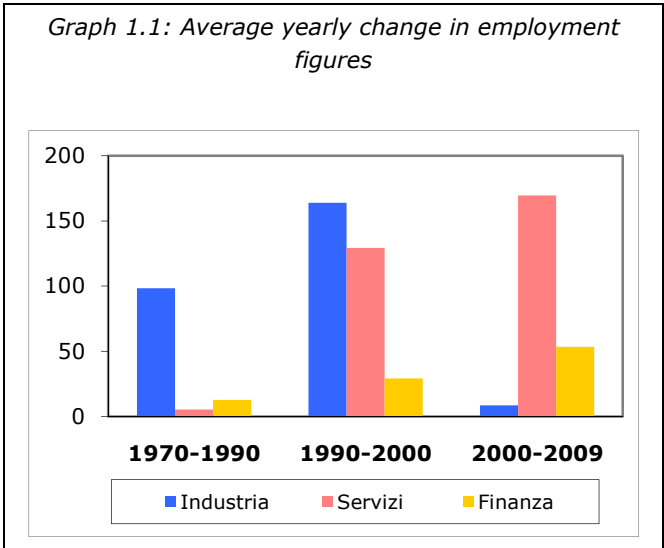


SAN MARINO COMPANY
REPORT - 2009

1. Executive Summary

- The economic growth of the Republic of San Marino from the end of the Second World War to the present day has been sustained by the development of the non-financial private enterprises which have managed to turn the fact that they are located in the Republic to their advantage. The central nature of this role also appeared during the 2009 crisis, when the drop in GDP by over 12 percentage points produced, as its main result, the slump in production suffered by non-financial private enterprises.

- The financing of the economy is a recent phenomenon. In 2000, the employees in the financial sector totalled just over 500 and only touched 1000 in 2009, thus accounting, in employment terms, for only 6% of the country's economy. In terms of GDP share, however, in recent years, the finance sector has reached almost 20% of the total. The sectors which have sustained the Republic's



economy most have been, from the post-war years to 2000, manufacturing, from 1990 to the present, the sector of services to companies and private individuals and over the past 10 years, the financial sector.

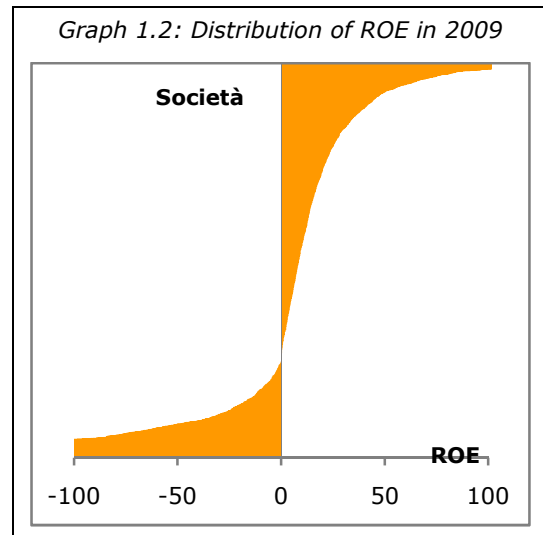
- Before 2009, the economic-financial solidity of non-financial private enterprises was such as to allow them to absorb the first part of this crisis with a significant reduction in operating margins, while at the same time safeguarding employment levels. In other words, the companies that form the supporting framework of San Marino's economy came to the appointment with the 2009 crisis in good competitive shape. This enabled them to reduce the effects of the slump in international demand and the consequent increase in competition, and to maintain, as regards the average of the companies analysed, a still positive economic-financial situation.

- The sector that has most suffered the slump in international demand is the manufacturing industry (excepting the food sector). The reduction in production levels has however only in part translated into a drop in capacity to produce income on the part of the companies operating in the sector, which, despite the crisis, continue to lead the field in our Republic in terms of earning

power. The economic downturn has however worsened the already critical situation in the Hotel and Restaurant sector, which has shown a loss in the last four business years.

- The only sector to record a growth in the value of production has been the food industry, though it failed to combine this with a positive performance in terms of profitability. This figure, along with the heterogeneity of the results of the individual companies in the sector, would seem to point to the application of very aggressive price policies during the course of this last year.

- Looking at the distribution of profitability of San Marino companies in 2009 (measured in terms of Return on Equity) it appears how one quarter of the sample of companies analyzed recorded a loss during the course of the business year. Of these, one half suffered losses of over 50% of total capital, a clear indication of just how critical the situation is. In 2010, this figure translated into a drop in the number of companies operating in the Republic. Over 200 economic operators have been forced out of the market during the course of this year, which goes to confirm the difficulties in tackling the crisis and the new challenges launched by the economy.



- In terms of employment figures, the effects of the downturn did not bring about any significant increase in the employment levels recorded in 2009, but did result in an increase in cases of Special Economic Indemnity, use of Temporary Unemployment Benefits and in a drop in the number of cross-border workers. It is very likely that, unless there is a fairly strong recovery in the near future, unemployment will tend to grow substantially, in relation to the weakening supporting effects of social safety valves.

- In 2010, the international demand crisis was joined by an institutional political crisis concerning relations with Italy. This second crisis, by superimposing itself on the other and, above all, because of its external nature which restricts the possibility of independent reaction on the part of companies, is at the centre of their concern inasmuch as they see it as a big threat to their very survival. From the results of the survey on confidence levels carried out by the Chamber of Commerce in October of this year, 38.8% of the companies interviewed did in fact state having had problems with Italian customers or suppliers. This critical situation had already

been underscored by the answers to the survey carried out on a sample of companies when the Italian incentive decree came into effect.