Growing Beyond

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Ernst & Young's 2012 European attractiveness survey

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Ernst & Young's attractiveness survey

Ernst & Young's 2012 European attractiveness survey is based on an original two step methodology that reflects first, Europe's real attractiveness for foreign direct investors, based on Ernst & Young's European Investment Monitor (EIM) and second, the "perceived" attractiveness of Europe and its competitors for a representative panel of 840 international decision-makers.

As we present our tenth European attractiveness survey, we would like to thank the hundreds of decision makers and Ernst & Young professionals who have taken the time to share their thoughts with us.

We would like to extend our gratitude to :
Máire Geoghegan-Quinn, European Commissioner for Research, Innovation and Science, Cindy Miller, President, UPS UK, Ireland & Nordics, Ferdinando Beccalli-Falco, President and CEO GE Europe and North Asia, Lionel Zinsou, Chairman and Chief Executive Officer, PAI Partners, Leo Sun, President, Europe Affairs Department Huawei, Pierre Cohen, Mayor of Toulouse, President of "Toulouse Metropole", Hanna Gronkiewicz-Waltz, Mayor of Warsaw, Joachim Bitterlich, Executive Vice President International Affairs, Veolia Environnement Paris; Chairman Veolia Environment Germany, Jean-Pierre Clamadieu, Chief Executive Officer, Solvay, John Van Reenen, Professor of Economics and Director, Centre for Economic Performance, London School of Economics .

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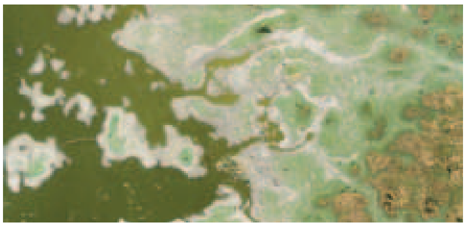
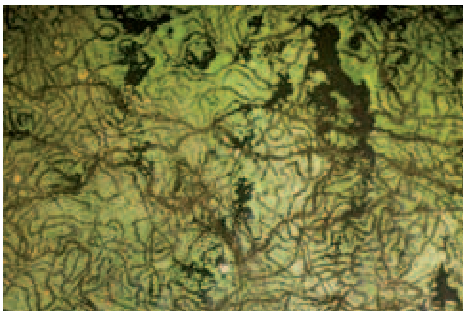
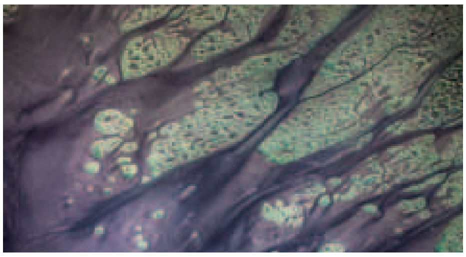
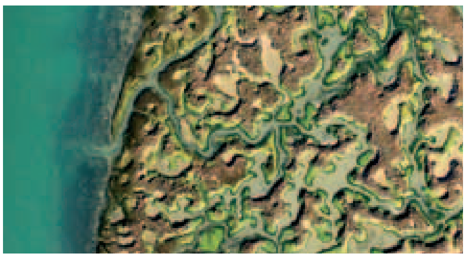








Viewpoint

Upgrading Europe's innovation appeal

Máire Geoghegan-Quinn,
European Commissioner for Research, Innovation and Science

The European Commission's 2012 Innovation Union Scoreboard showed that Europe's innovation performance is slowing down. We are still not closing the gap on global innovation leaders the United States, Japan and South Korea. Although we retain a clear lead over emerging economies, China above all is improving and catching up quickly.

Investing in innovation is about future-proofing our economy. It safeguards our competitiveness and makes us more attractive for business, and that in turn means jobs. We know that those countries that have consistently invested the most in research and innovation have weathered the current economic crisis the best. Innovation gives our companies an edge, and employment growth in R&D-intensive sectors is generally higher.

The Commission is focused on making Europe more competitive.

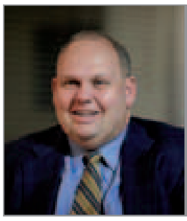
The European Commission is putting its money where its mouth is, and has proposed that it significantly increases its support for researchers and innovative companies. Horizon 2020, our future research and innovation program, has a proposed budget of €80 billion over seven years, up from €55 billion in the current program.

Horizon 2020 will offer a seamless, coherent package of support from idea to market, from excellent research to innovative products and services that people want to buy. It will help sustain growth and tackle the big challenges that really matter to people, such as climate change, health, energy and food security. We will make it easier for business, especially small and medium-sized enterprises (SMEs), to participate in the program by slashing red tape and increasing access to financing.

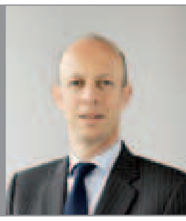
However, public investment alone will not suffice if we are to convince businesses to innovate more in Europe. We also have to improve the innovation environment drastically if we are to create what we in the Commission call "Innovation Union." The Commission is delivering what it has promised on this front. Our proposals for a unified European patent will significantly lower costs for business, as will modernizing and speeding up standard-setting. We have also put forward an EU-wide venture capital scheme that will help our innovators and entrepreneurs, and we have presented a communication on modernizing the EU public procurement framework.

The Commission is focused on making Europe more competitive, supporting the best research and turning it into growth and jobs. We need the support and effort of policy-makers, stakeholders and business across Europe. Then the best ideas can be used in a way that makes a real difference across our continent and beyond.

Europe, the re-emerging economy



Jay Nibbe,
EMEIA Deputy Area Managing Partner, Markets,
Ernst & Young



Marc Lhermitte,
Partner,
Ernst & Young Advisory

Europe is at a crossroads. Recession has once again returned to haunt many economies, the Eurozone crisis continues and the dynamics of the global economy grind relentlessly onwards from west to east, and north to south. With policy-makers beset by limited funds and facing an ever-increasing chorus of protest from voters, the prospect of achieving sustainable economic growth seems, on the surface at least, out of reach.

But despite this tide of negativity, Europe's fundamental strengths endure. While the spotlight has focused on the world's rapid-growth economies, Europe, too, remains a hot-spot for investors. Ernst & Young's *European attractiveness survey*, which measures the reality of Foreign Direct Investment (FDI) and the perceptions of more than 800 decision-makers, found that in 2011 inward investment projects increased by 4% on the previous year and total significantly more than pre-crisis levels. And not only was the average project larger, but FDI job creation surged 15% and the share of Europe's global FDI inflows increased from 26.9% to 28.2%.

We are not suggesting that FDI can solve the problem of growth in Europe, nor create the millions of new jobs Europe needs. We measure the number of projects. Many of these start with a relatively small number of jobs. But they tend to add more over the years. In the United Kingdom, for example, enlargement of existing subsidiaries typically accounts for more than half of all projects. So FDI — project by project, year by year — plays a critical role in renewing Europe's stock of businesses, technologies, and ideas. And an uptick is a vote of confidence at a time when confidence in the future is scarce.

The perception of Europe, too, appears positive. Our survey found that investors see Western Europe as second only to China as the most attractive destination for global FDI, with Central and Eastern Europe ranked third. Investors also remain confident about Europe: 81% say Europe will overcome its current economic problems.

Such results demonstrate that in these times of global economic difficulty, stalling growth, high sovereign debt and a fragmented political system are not insurmountable obstacles to investment projects. For many investors, especially those from eastern markets, such uncertainty is actually business as usual.

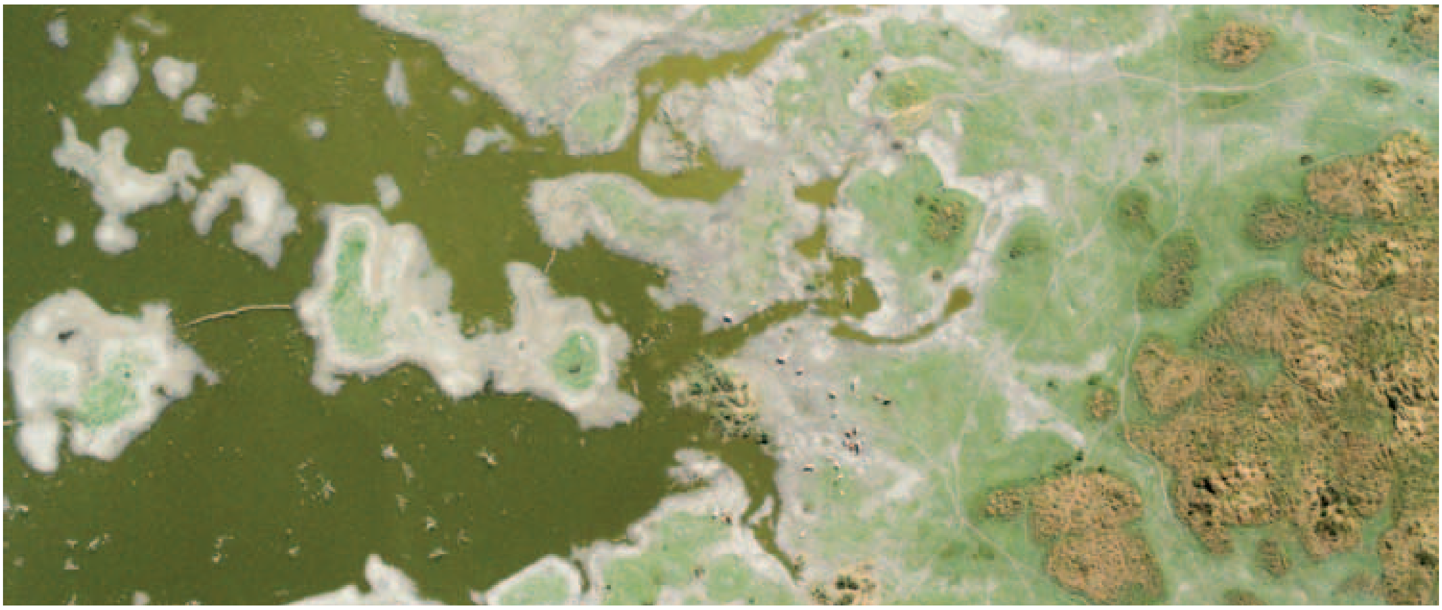
Our survey also found that two thirds see several Europes. Although many countries remain in economic difficulty, Poland, by contrast, is enjoying dynamic growth and Germany continues to go from strength to strength. Clusters of world-class technology are flourishing in France, London is gearing up for this summer's sporting extravaganza and there are even bright spots in otherwise distressed economies — Italy's midmarket champions and Spain's renewable energy industry are two important examples.

Does this mean that Europe's policy makers merely need to sit tight in the expectation that good times are certain to return? On the contrary, securing Europe's competitive advantage in our global economy is far from assured. Against the backdrop of the single currency in crisis, investors have also stressed the urgent need for solutions to Europe's pressing educational, entrepreneurial and innovation challenges. Policy makers and business leaders need to come together in order to address these issues and create the conditions for balanced and sustainable growth. Continued strong FDI will be pivotal in achieving this goal.

And while there are many bumps in the road ahead, the potential exists for Europe to "emerge", or perhaps re-ermerge, ready to leverage many of its inherent adavantages if it can also urgently address its challenges.

As we present our tenth *European Attractiveness Survey*, we would like to thank the hundreds of decision makers and Ernst & Young professionals who have taken the time to share their thoughts with us over the past decade.

Executive summary



The reality of FDI in 2012

Growth, actually

▸ New world, new order

After a sharp dip in 2009, Foreign Direct Investment (FDI) into Europe has returned to growth. **In 2011 there were 3,906 inward investment projects — an increase of 4%.** Even more striking, the average project was markedly larger and FDI job creation surged 15% to 157,824. There was also a 13% surge in sales and marketing projects, which totaled 1,977. Manufacturing ranked second, creating 97,229 jobs, with R&D in third place.

To stay competitive, international investors have opted to push ahead with business development. Despite the recent and ongoing economic volatility, Europe remains the world's largest single market, and the magnetic attraction of its 500 million high-spending consumers, together with a stable and transparent legal and regulatory environment, remain powerful draws for investors.

▸ Where from, where to

Companies from the US remained Europe's biggest FDI investors, providing 1,028 projects, 26% of the total. German companies took second place, investing heavily in neighboring countries to take an 11% share, ahead of UK investors with 8%. Investors from BRIC countries are becoming more important, together creating 9,385 European jobs in 2011. Chinese companies are the most active, launching 22% more projects in 2011 to rank as Europe's seventh-biggest inward investor — a little ahead of the Netherlands. The UK secured 40% of BRIC jobs, though Germany won more projects. Gaining access to technology is often a goal of these investors.

The UK remains Europe's top FDI destination, winning 679 projects, 17% of the total, bringing 29,888 jobs to a sluggish economy wrestling with the grim reality of austerity. But Europe's economic powerhouse, **Germany, again strengthened its appeal, overtaking France to secure second place** with 597 projects, while the French total fell to 540. And although global investors are increasingly turning east, Poland was the only country from Central and Eastern Europe (CEE) that made to the list of top 10 European countries for FDI.

▸ What next

Lackluster economic activity across the continent, resistance to tightening austerity and the ongoing challenges faced by Eurozone countries, left investors more than usually hesitant about future investments. **Only 26% had plans to establish operations in Europe during 2013, down from 33%** (in our 2011 survey). Of those with investment plans, 34% are looking to grow an existing facility, down from 44% in 2011. But more than a quarter are eyeing possible acquisitions: a sign that many European assets are expected to become available as vendors adjust to be more realistic about recovery prospects and valuations. With many companies sitting on cash, M&A could be an important complement to greenfield investment in 2013.

The perception of Europe in 2012

Cautious confidence

Perceptions of Europe

Europe still demonstrates a strong, perhaps surprising level of attraction. In terms of investor perception, **Western Europe ranks the second most attractive region (33%) and CEE (21%) the third most attractive destination worldwide for FDI**.

And yet Europe's resilience has not prevented its attractiveness score from more than halving since 2006. A new phase of globalization is under way, bringing new rules, leaders and challengers. **China (44%) extends its undisputed leadership in the eyes of foreign investors**, while India (21%) and Brazil (18%) are strong contenders for their future manufacturing, back-office and, increasingly, their innovation-intensive projects.

In this year's survey, 35% of investors rank Germany the most attractive country in Europe, and 13% see it as the most attractive country in the world for investment projects. However, perception is running ahead of reality. Though project inflows into Germany are rising, it received 597 projects in 2011, only 15% of the total in Europe. The UK, which in reality leads the FDI league table (17% of the 3,906 investment decisions in 2011), is ranked the third most attractive destination by respondents. Though austerity and weak growth have hurt its image, London's global reach and a pro-business environment help the UK remain a gateway to Europe for US, Indian and Chinese investors.

The number of respondents ranking CEE the most attractive destination has slumped from 58% in 2006 to 21% in 2012. This decline in appeal stems not only from the rise in attractiveness of BRIC rivals, but also from economic instability in the region. Poland, which has been boosted by sound management and growth during the crisis, is the one bright spot of growth in CEE: 10% of investors see it as the most attractive country in Europe, a score placing it second only to Germany.

Overall, investors show a cautious confidence

More than 80% of respondents to our survey are confident that Europe will overcome the ongoing economic crisis. In terms of Europe's investment attractiveness in the medium term, respondents are broadly optimistic. Companies not yet operating in Europe are more optimistic than the ones already present. It seems that companies not operating in Europe see the opportunity of its 500 million consumer market more clearly, and are less influenced by enduring negative economic sentiment on the continent.[1]

1. "Well done Warsaw: Poland's debt trumps Germany's and America's," *The Economist*, 8 February 2012.

How to get there?

Europe's future attractiveness

Creating innovation mindset

Forty-six percent of investors say they come to Europe for its research and innovation capacity and 33% believe technology will be the engine of European growth. This enthusiasm is matched by the reality of investment: R&D projects were the third most common group in Europe during 2011 (6% of the total) and 436 software projects provided 11% of the total. Yet, when ranking cities as future centers of innovation, London and Berlin were the only European champions in investors' shortlist. Increasingly, companies are developing innovation centers around the world and focusing on growing markets, where frugal innovation drives product development.[2] The UK is challenging this trend with revised education and fiscal policies and infrastructure in an attempt to ensure that London becomes the high-tech center of Europe,[3] but most other European countries have yet to follow suit.

Making manufacturing hopes a reality

The reality of investment in Europe confirms Europe's attractiveness for manufacturing, which created the second most projects and largest number of jobs (97,229) in 2011. **Eighty-seven percent of investors interviewed expect to manufacture in Europe in the future**, an increase of 17 percentage points from 2010. With perception a leading indicator, rising costs in emerging economies and changing technologies may allow these hopes to be confirmed. **Excellence, clustering and market dominance can combat industrial outflow**. Europe's manufacturing strength can be seen in Germany, Hungary and Poland where large automotive companies are expanding operations. Europe's leadership in machine tools, often sold to rapid-growth economies, exemplifies a pathway to make the continent's manufacturing wish become reality.

Delivering value for money

Investor perceptions have evolved. Many investors hope to slot their project into an entrepreneurial and innovative ecosystem of peers or suppliers. **For Europe to remain an attractive investment destination, 38% of investors want more support to high-tech industries and innovation**, 31% want better backing for small and medium-sized enterprises and 30% want Europe to improve education and skills-development systems. By contrast, measures to cut costs of operating in Europe are considered less imperative – only 28% of investors call for lower tax and 23% for lower labor costs. Investors can stomach Europe's costs if they get high-quality output. Europe's challenge is to sustain or improve its value for money, raising quality without slashing costs.

2. "Asian Innovation: Frugal ideas are spreading from east to west," *The Economist*, 24 March 2012.
3. George Osborne and Eric Schmidt, "California dreaming in such a British way," *Financial Times*, 28 March 2012.

Growth, actually

The reality of FDI in 2011

Global FDI inflows surge 17% in 2011 to US$1.5 trillion. Europe's share rises from 26.9% in 2010 to 28.2% in 2011.

Location criteria change: the market opportunity (39%) and the stability and transparency of the political, legal and regulatory environment (36%) are now the most critical factors for investors choosing locations.

Europe attracted 4% more investment decisions in 2011, which will provide 15% more jobs, a record rise.

The UK and Germany win the most FDI projects in Europe; the US remains the largest investor.

Top three sectors for FDI: business services, software and machinery and equipments.

What happened in 2011: Europe and the world

New world, new order

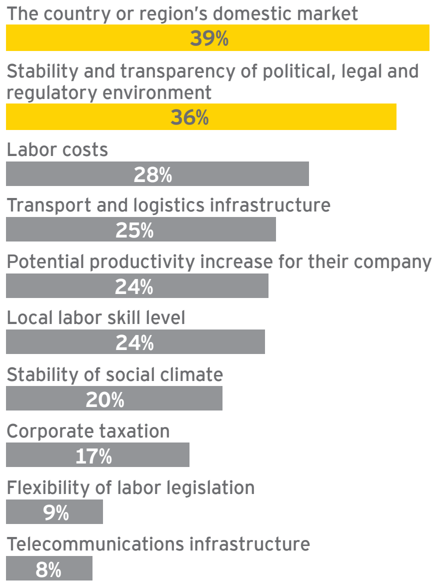
Amid the enduring economic volatility and lower growth prospects around the world, business leaders are re-evaluating their selection criteria. In our 2011 survey, investors cited transportation and telecommunications infrastructure as the top two factors in their location decisions. But this year, executives clearly have market appeal and the stability of their investment destination at the top of their agenda.

Almost 40% of investors questioned for Ernst & Young's European Attractiveness Survey 2012 say that a country or region's domestic market is now their top concern when deciding where to invest. In our past surveys, this requirement was far less important. Rapidly changing circumstances around the world have caused a radical change in sentiment. Companies want to set up operations in regions with large and strong domestic demand. That leads them to Europe, the largest market in the world, with 11 of the world's 20 largest consumer markets.[4] Despite worries over the economic outlook, many European consumers are slowly recovering their confidence.[5]

In these turbulent times, minimizing risk is the next main aim. Stability and transparency of the political, legal and regulatory environment is investors' second criterion (36%) when deciding where to invest. Labor costs, which used to be a compelling concern, still matter for 28% of respondents, but rank third overall. Western European labor may be relatively expensive, but the labor content of many products is falling and some countries in CEE look quite competitive.

4. Data for household final consumption expenditure, World Bank.
5. Flash Consumer Confidence Indicator, EC, March 2012.

Most important factors in deciding the location in which to establish operations



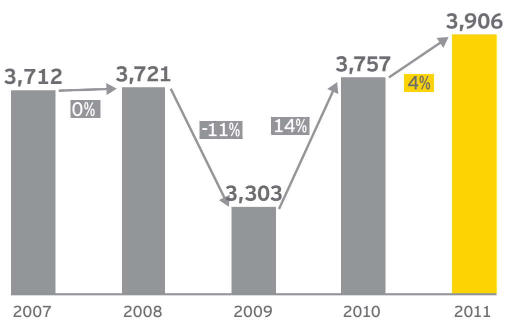
Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

FDI in Europe in 2011: projects and jobs are back on track

Foreign investment decisions in Europe increased by 4%, easily surpassing the pre-crisis level. Jobs created by FDI increased by 15%, a record rise, albeit from a low level.

1. Stable project numbers.
Despite continuing uncertainty about the future of the Eurozone, investors showed their confidence in Europe in 2011. The continent received 3,906 projects, up 4% on 2010 and comfortably above pre-crisis levels. After recovering, European FDI looks to be set for continued growth.

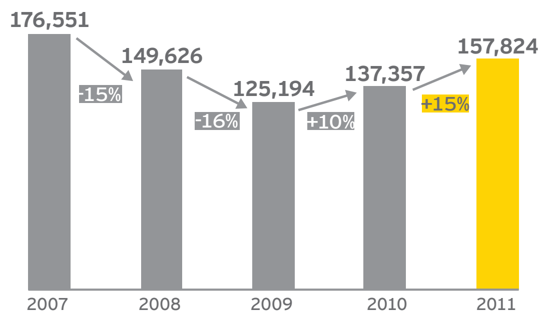
Number of FDI projects in Europe



Source: *Ernst & Young's European Investment Monitor 2012*.

2. More, and bigger.
Although the increase in project numbers was modest, on average they were significantly larger. In 2011, the average project created 40 jobs, up from a low of 37 per project in 2010, and the highest number since 2008.

Number of FDI jobs created in Europe



Source: *Ernst & Young's European Investment Monitor 2012*.

Moving in: the UK, France, Germany and Spain are top investment destinations

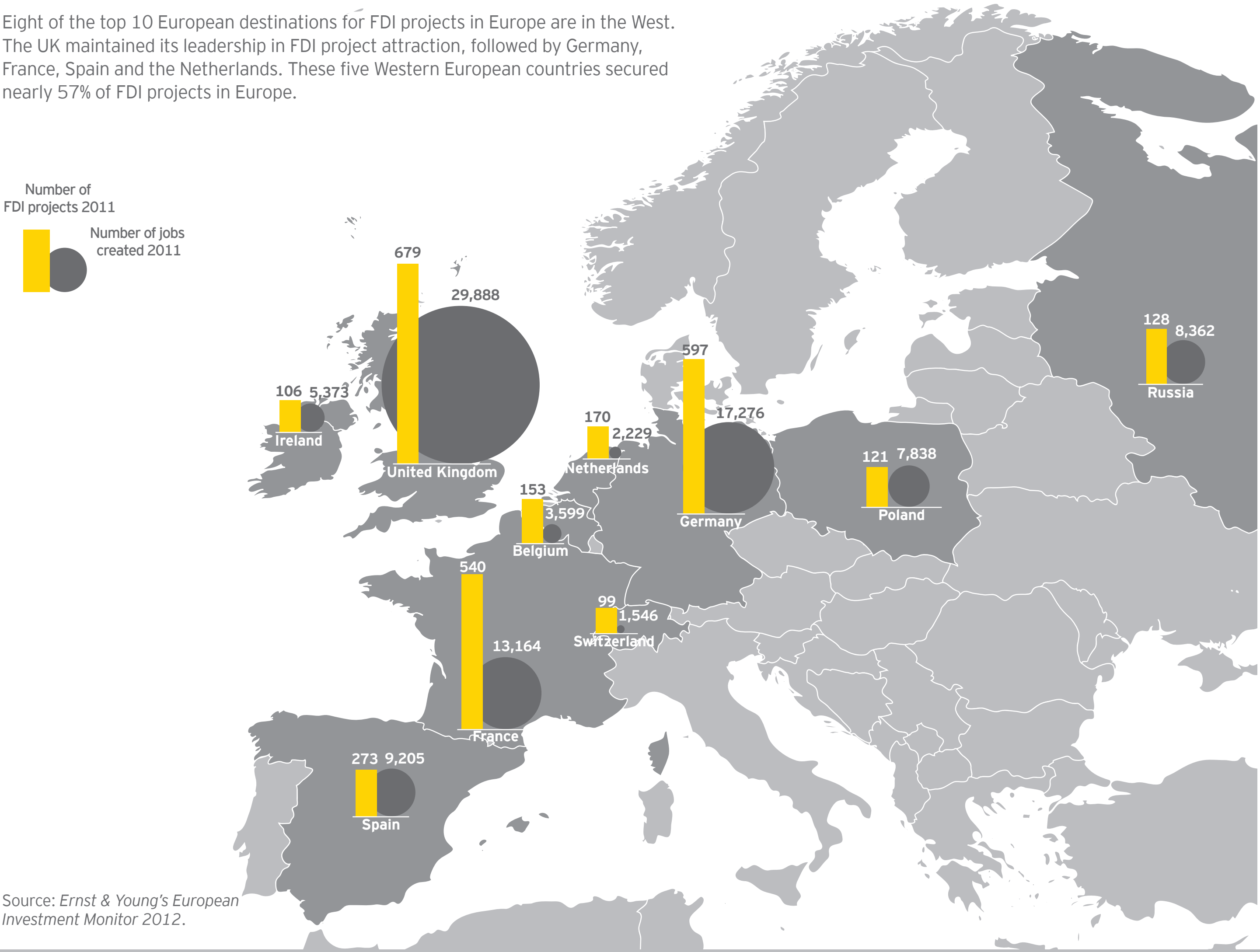
The top 10 European countries for FDI

Rank	Country	Number of projects				Number of jobs 2011
		2010	2011	Change 2010 vs. 2011	Share of FDI 2011	
1	United Kingdom	728	679	-7%	17%	29,888
2	Germany	560	597	7%	15%	17,276
3	France	562	540	-4%	14%	13,164
4	Spain	169	273	62%	7%	9,205
5	Netherlands	115	170	48%	4%	2,229
6	Belgium	159	153	-4%	4%	3,599
7	Russia	201	128	-36%	3%	8,362
8	Poland	143	121	-15%	3%	7,838
9	Ireland	114	106	-7%	3%	5,373
10	Switzerland	90	99	10%	3%	1,546
	Others	916	1,040	14%	27%	59,344
	Total	**3,757**	**3,906**	**4%**	**100%**	**157,824**

Source: *Ernst & Young's European Investment Monitor 2012*.

Foreign investment in top 10 countries in Europe

Eight of the top 10 European destinations for FDI projects in Europe are in the West. The UK maintained its leadership in FDI project attraction, followed by Germany, France, Spain and the Netherlands. These five Western European countries secured nearly 57% of FDI projects in Europe.



Source: *Ernst & Young's European Investment Monitor 2012*.

The FDI outlook for European countries

United Kingdom

In 2011, the UK attracted 679 FDI projects, reinforcing its position as the leading FDI destination in Europe. But the number of projects fell by 7% year on year against a background of stalled growth, rising unemployment and austerity measures. Even so, the UK still headed the inward FDI job creation (29,888) table in 2011. UK attractiveness lies in its solid infrastructure, skilled workforce and pro-business environment. The country also benefits from the remarkable strength of London, a global financial hub. In 2011, London alone attracted nearly half of UK FDI projects, whilst the number of software and technology projects rose 20% nationwide. The UK Government remains committed to improving the business environment and driving innovation. In an attempt to make the tax regime more attractive to inward investors, in this 2012 Budget, the UK Chancellor of the Exchequer (Finance Minister) cut the top rate of income tax and the main rate of corporation tax. He also announced the introduction of a "Patent Box" with a 10% tax rate for profits attributable to patents. FDI cannot solve unemployment in the UK, but it is part of the solution.

Germany

During 2011, Germany received 597 FDI projects, up 7% on 2010. It outpaced France as the second-largest destination for FDI projects and jobs in Europe. Germany benefits from being the largest European economy, a manufacturing and exporting powerhouse and from having a better economic outlook for 2012. Investor confidence in Germany also stems from its increasing trade and economic ties with emerging countries. Chinese investors now provide 8% of FDI projects in Germany, up from 2% in 2007. In 2011, Chinese companies heavily invested in Germany's solar power industry, benefiting from German renewable energy technology and expertise during an industry hiatus. Switzerland has also emerged as an important investor: its share of projects surged from 6% in 2007 to 11% in 2011. Renewable energy, automotive and transport equipment and technology witnessed the largest surge in FDI projects in Germany during 2011.

France

In 2011, France attracted 540 FDI projects, down 4% from the previous year. The country's share of FDI into Europe fell from 15% in 2010 to 14% in 2011. High public debt, sustained unemployment and low growth prospects have undermined investor confidence. France nonetheless achieves the third-largest score of FDI projects in Europe and the number of inward investments from the US, UK, Switzerland and Belgium continued to rise. While US and UK companies launched more business services and software projects, investors from Switzerland, Belgium and Denmark focused on manufacturing activities, particularly in pharmaceuticals, biotechnology, medical equipment, chemicals and plastic. France benefits from high-quality infrastructure and a skilled workforce. The country also has a very favorable tax credit for R&D that acts as a powerful draw for foreign companies in this field.[6] In 2011, many companies, including Novian Health and Bioscan Inc, developed their R&D operations in France.

Spain

Spain attracted 273 FDI projects in 2011, up from 169 projects in the year before. The US remains the largest investor in Spain with 53 new projects compared to 41 the previous year, but FDI projects from Germany also climbed from 18 in 2010 to 39 projects in 2011 making it the second largest investor ahead of France (35 projects compared to 20 a year earlier). Manufacturing FDI projects almost doubled in 2011. Despite Spain's profound economic difficulties and acute unemployment, investors see a sizeable economy and able workforce. Some are quietly helping lay foundations for economic recovery there. Investors see opportunities in Spain's crisis. In January 2011, Industrial and Commercial Bank of China (ICBC) opened its first Spanish office in Madrid with an initial investment of €16.6 million. By the end of the year, ICBC had invested €295 million in Spain. Investors value Spain's modern infrastructure, including high-speed trains, airports and highways. At the same time, business leaders call for improved access to public and private funding, and for investment incentives and subsidies to spur R&D in the country.[7]

Netherlands

The Netherlands attracted 170 FDI projects in 2011, up from 115 projects in 2010. The US remained the largest investor by far, but the number of FDI from the UK increased from 10 projects in 2010 to 21 projects in 2011 confirming its position as the second largest investor. Japanese investment grew from 4 projects in 2010 to 13 in 2011, taking away the third position in the top investors ranking from Germany. More and more companies are setting up their international headquarters and logistics facilities in the Netherlands, including US-based guitar-maker Taylor Guitars, which established its European headquarters in Amsterdam. Investors believe the Netherlands is a well-placed stepping stone into Europe.[8] More companies also set up R&D centers in the Netherlands in 2011. The Netherlands Government offers an "Innovation Box" for foreign companies investing in innovation and R&D. H.J. Heinz Company of the US was among those announcing plans for a Netherlands R&D center in 2011. Access to a multilingual, well-educated workforce and a favorable tax regime are among other attractions for investors.

Belgium

Belgium drew 153 FDI projects in 2011, down 4% on 2010, but still the sixth-largest European score. Investment projects from the US fell by 24% and from Germany by 26%. But FDI projects from France rose 89% and from the UK by 44%. Belgium benefits from an excellent location: some 60% of European Union buying power is concentrated within a 500 kilometer radius of the country. Belgium's waterways link Antwerp, Europe's second largest seaport, to industrial clusters across the rest of the country and beyond.[9] This helps attract many FDI projects in logistics.

Russia

In 2011, Russia attracted 128 FDI projects, down 36% year on year. Rising costs and salaries are causing companies to think carefully about growth in Russia.[10] But the country remained the most successful in CEE at attracting FDI, and its inward projects are getting bigger. In 2011, FDI created 8,362 jobs in Russia, a rise of 4%. Strong prices for its fossil energy exports have bolstered Russia's economic growth and spurred a large and growing consumer market. The energy sector draws investors, but they are also attracted to a growing industrial base. The Governments of Russia and Moscow aim to build the capital into a sizeable international financial center, and the number of financial services projects is rising. In response to growing demand in 2011, Netherlands bank ABN Amro and Renault Credit International of France announced plans to establish banking operations in Russia. Many investors also consider Russia very attractive for real estate investments. Russia's accession to the World Trade Organization (WTO), expected in the first half of 2012, and a new round of privatizations just beginning, are also expected to offer sizeable opportunities to foreign investors in the years to come.

Poland

Poland reaped 121 FDI projects in 2011, ranking it second in CEE, though down 15% year on year. Although Poland is a big exporter to Western Europe, its economy has proved resilient. The country is strong in the production of automotive components and vehicle assembly. During 2011, companies including Volkswagen AG and Bridgestone Corporation invested in Poland's automotive sector. The country attracted international outsourcing and shared services centers. Under an EU grant scheme, Poland supports

6. *What Europe has to offer biotechnology companies, Ernst & Young*, 27 March 2012
7. "Foreign Companies Keep their Positive Rating of Spain's Business Climate," *Invest in Spain*, 15 September 2011.
8. "The Netherlands Reports Robust 2011 Foreign Direct Investment Results," *NFIA*, 13 February 2012.
9. *What Europe has to offer biotechnology companies*, Ernst & Young, 27 March 2012.
10. *Getting real about Russia*, Ernst & Young, January 2012.

investments leading to the creation or expansion of shared services centers or centers for information technology, which create at least 100 new jobs.[11] The country's favorable labor-productivity ratio, which is far higher than those in Western Europe, also creates a significant comparative advantage for Poland.[12]

Ireland

Securing 106 new FDI projects in 2011, Ireland retained its ninth place in the ranking of European FDI destinations.
US investors provided nearly two-third of the projects. During the past three years Ireland's competitiveness has improved significantly, with a striking reduction in business costs, including those for payroll, energy, office rents and services.[13]
A corporation tax rate of 12.5%, one of the lowest in the world, adds to Ireland's attractions. In addition, Ireland enjoys good access to the rest of Europe and the Middle East and Africa. The country is also emerging as a preferred onshore destination for software firms seeking to establish regional or global headquarters. During the year, companies including Oracle Corp, EasyLink Services and McAfee Inc established or expanded their European headquarters in Ireland. The country also drew more FDI projects from pharmaceutical companies including Eli Lilly, Sanofi-Aventis SA, Pfizer Inc. and Merck & Co Inc.

Switzerland

Switzerland finally joined the top 10 FDI destinations in Europe during 2011, having climbed to 11th in 2010 after a couple of poor years. The country secured 99 FDI projects in 2011, up 10% from last year. Switzerland has a big finance industry centered on Zurich and Geneva. More than one-half of the FDI projects (51) were in finance and business services. Foreign investors are attracted by liberal trade and investment policies and a competitive tax regime. Switzerland topped the World Economic Forum's Global Competitiveness Index in 2011, thanks to its strength in innovation, technological readiness and labor market efficiency. [14]

11. *What Europe has to offer biotechnology companies*, Ernst & Young.
12. "Business Winter in Poland 2012," Polish Information and Foreign Investment Agency website, http://www.paiz.gov.pl/files/?id_plik=17357&bcsi_scan_debb0e326e6a7dd8=p2TeHN+KyVVfMIYlx+deQsBgjMAVAAAAaSwzDw
13. *What Europe has to offer biotechnology companies*, Ernst & Young, 27 March 2012.
14. *Global Competitiveness Index 2011-2012*, World Economic Forum, 2012, 7 September 2011.

Top five investing countries by FDI projects (2011)		Top five sectors by FDI projects (2011)	
United Kingdom			
US	42%	Business services	24%
Germany	9%	Software	22%
India	4%	Machinery and equipment	6%
France	4%	Financial intermediation	5%
China	3%	Food	4%
Germany			
US	21%	Business services	15%
Switzerland	11%	Software	11%
UK	9%	Machinery and equipment	10%
China	8%	Electrical	8%
France	6%	Electronics/automotive components	5%
France			
US	23%	Business services	16%
Germany	16%	Software	11%
UK	10%	Machinery and equipmen	9%
Switzerland	7%	Food	6%
Belgium	5%	Other transport services	5%
Spain			
US	19%	Business services	19%
Germany	14%	Software	10%
France	13%	Food	6%
UK	11%	Other transport services	6%
Netherlands	7%	Machinery and equipment	6%
Netherlands			
US	36%	Business services	20%
UK	12%	Other transport services	11%
Japan	8%	Chemicals	6%
Germany	7%	Software	6%
France	5%	Financial intermediation/food	6%

Top five investing countries by FDI projects (2011)		Top five sectors by FDI projects (2011)	
Belgium			
US	25%	Business services	21%
France	11%	Other transport	9%
UK	9%	Software	8%
Germany	7%	Chemicals	7%
Netherlands	7%	Food	7%
Russia			
US	18%	Food	11%
Germany	11%	Machinery	11%
France	7%	Automotive	9%
Netherlands	5%	Business services	9%
Finland/Japan/Italy	5%	Chemicals	7%
Poland			
US	20%	Automotive	11%
Germany	15%	Business services	9%
UK	14%	Electronics	9%
France	6%	Machinery and equipment	9%
South Korea	6%	Food	6%
Ireland			
US	64%	Software	22%
UK	10.3%	Business services	14%
France	7%	Pharmaceuticals	10%
Bermuda	3%	Financial intermediation	8%
Germany	3%	Scientific instruments	7%
Switzerland			
US	41%	Business services	26%
Germany	13%	Software	11%
UK	10%	Financial intermediation	9%
Japan	5%	Chemicals	6%
China/France/India	3%	Machinery and equipment	5%

Source: *Ernst & Young's European Investment Monitor 2012*.

Europe's attractiveness formula: maintaining the balance

Where investment goes in the value chain

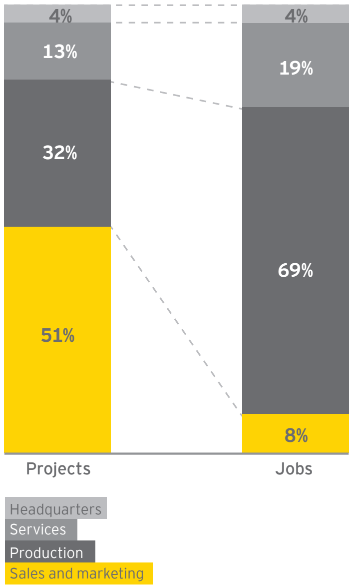
More than half of the FDI projects were in the sales and marketing function. Manufacturing accounted for nearly two-third of total job creation by FDI.

1. **Sales and marketing** provided 51% of all projects, a reminder that Europe's 500 million consumers with high purchasing power still attract vendors from around the world. The growing appeal of this market for investors is reflected in a fivefold increase in sales and marketing projects since 2003.

2. **Production** was the goal of a third of FDI projects in 2011, far below the 55% recorded in 2003. Despite high labor costs, 87% of investors say they will still manufacture in Europe 10 years from now, up from 70% in 2010. They value a well-educated and productive workforce and have rediscovered the attractions of producing close to the customers.

3. **Services** (both B2B and B2C) made up 13% of FDI projects in 2011. More than 40% of these projects involved opening or expanding facilities in the UK, France and Germany, reinforcing their dominant role in the European market.

4. **Headquarters** needed for setting up and developing the other business functions accounted for 4% of all new FDI projects and jobs created in 2011. In 2004, headquarters represented more than 8% of projects.



Source: *Ernst & Young's European Investment Monitor 2012*. Production includes manufacturing and R&D. Services includes contact centre, education & training, IDC, logistics, shared services centre and testing & services.

FDI by activity

Rank	Activities	Number of projects				Number of jobs 2011
		2010	2011	Change 2010-11	Share of FDI 2011	
1	Sales and marketing	1753	1977	13%	51%	12,911
2	Manufacturing	1023	1039	2%	26%	97,229
3	Logistics	253	234	-8%	6%	13,681
4	R&D	253	234	-8%	6%	10,395
5	Headquarters	166	150	-10%	4%	6,744
6	Testing and servicing	131	103	-21%	3%	2,550
7	Contact centre	67	55	-18%	1%	8,087
8	Shared services centre	46	42	-9%	1%	5,409
9	Education and training	29	36	24%	1%	422
10	IDC	36	36	0%	1%	396
	Total	3,757	3,906	4%	100%	157,824

Source: *Ernst & Young's European Investment Monitor 2012*.

FDI by sector

Rank	Sectors	Number of projects				Number of jobs 2011
		2010	2011	Change 2010–11	Share in FDI 2011	
1	Business services	561	666	19%	17%	8,835
2	Software	379	436	15%	11%	7,258
3	Machinery and equipment	267	283	6%	7%	13,247
4	Automotive components and assembly	258	270	5%	7%	37,790
5	Other transport services	175	180	3%	5%	2,323
6	Food	144	172	19%	4%	7,999
7	Electronics	182	168	-8%	4%	7,615
8	Electrical	139	158	14%	4%	5,163
9	Financial Intermediation	178	149	-16%	4%	4,005
10	Chemicals	154	144	-6%	4%	1,606
	Other	1,320	1,280	-3%	33%	61,983
	Total	**3,757**	**3,906**	**4%**	**100%**	**157,824**

Source: *Ernst & Young's European Investment Monitor 2012*.

Sectors: business services bring the projects, manufacturing makes the jobs

Business services and software: 28% of projects

▶ The facts

Business services and software significantly increased their lead in the sector table. Altogether, the two sectors accounted for 28% of total projects in 2011, providing 16,093 jobs. These services require an educated workforce. Investors perceive Europe as offering skilled labor: 39% of them mention the quality of the labor force as one of Europe's world-class features. A third of investors believe the IT sector will be a major source of Europe's future growth but — in contrast to the reality of FDI — investors do not rate the business services sector as vital to Europe's economic expansion.

▶ The leaders

With a strong and clear position as a business services hub in Europe, the UK manages to attract the bulk of FDI in the two sectors: 24% of business services projects and 34% of those in software go to the UK. Germany and France rank second and third, respectively. Germany captures 14% of projects in business services and 14% of software projects. France is close behind, with 13% of business services projects and 14% of those in software.

▶ The projects

The number of foreign projects in the business services sector has been steadily increasing since 2009. BlackRock, Aegis and Ceridian were among the large companies that invested in business services in Europe.

Process industries: Europe remains an industrial hot spot

▶ The facts

The automotive components and assembly sector generated 270 projects, up 5% on 2010, creating 37,790 jobs. Machinery and equipment delivered 283 projects in Europe, creating 13,247 jobs in 2011. This gives credence to what investors say in our European attractiveness survey: 87% of them believe they will still manufacture in Europe in 10 years' time. Investors create industrial jobs because they need to be near their customers (the most important criteria for 39% of them).

▶ The leaders

CEE economies lead in process industries. Romania, Serbia, Slovakia and the Czech Republic attracted 53% of new automotive jobs. These countries have attracted big projects because they are cost-competitive and close to Germany, home to many key industrial customers.

▶ The projects

German investors were especially active in industrial sectors during 2011 (Draexlmaier, Continental AG in Romania and Serbia), together with South Korean investors who confirmed their increasing presence with large projects in CEE (Yura Tech and Yura Corp in Serbia).

Invest in Europe, sell beyond its borders

Europe's FDI sourcing: US and intra-European investment

The US remains by far the largest single investor in Europe. In 2011, US companies launched 1,028 projects on the continent, 26% of all investment decisions in Europe and an increase of 6% on 2010. Business services and software provided 39% of inward investment projects from the US. Key investors included Microsoft, Cisco, Intel and Groupon Inc. Automotive components also reaped more transatlantic FDI projects. Companies including Johnson Controls Inc and Delphi Corporation were big investors in this sector. Some US companies see Europe as a market for goods and services that have done well in the US, and like Europe's wealthy consumers, common regulations and ease of doing business, aided by a common currency, whatever the difficulties of the Euro. Many also see Europe as an attractive gateway to rapidly growing economies in Eastern Europe and Africa. The UK and Germany are still the favorite homes for FDI projects from the US. According to the AmCham Business Barometer of April 2012, in 2011 American companies in Germany hired more new employees than in 2010.[15]

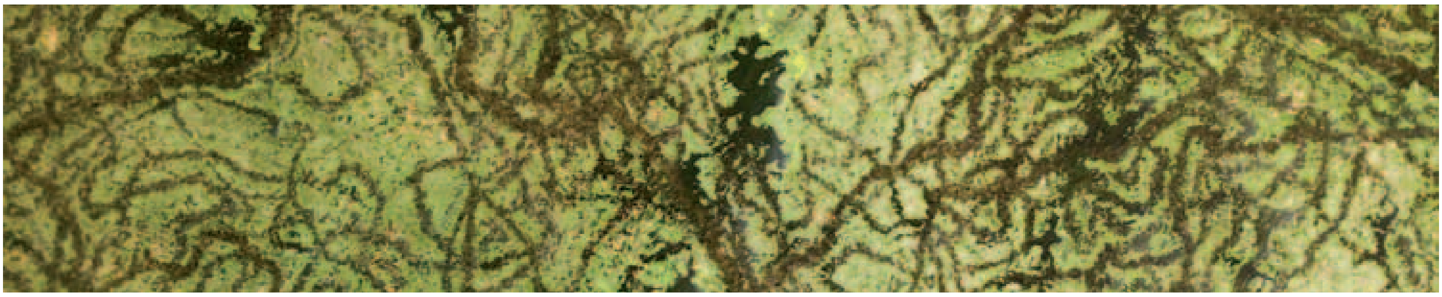
Europeans also like what they see in their neighbors. In 2011, seven European countries were among the region's top 10 inward investors. Germany, the UK and France remain the top three intra-European investors. Germany is Europe's second-largest inward investor, accounting for 11% of all FDI projects and 14% of jobs created. Most of Germany's investment in Europe was in manufacturing, especially in the automotive and machinery and equipment sectors. Big German cross-border investors included Draexlmaier, Continental AG, Robert Bosch GmbH and Siemens AG. In 2011, the UK was the region's third largest inward investor with 294 FDI projects, up 30% year on year. Most UK investment was in business services. Companies including Hays plc and WPP Group plc were among the leaders.

15. AmCham Business Barometer, 3 April 2012, American Chamber of Commerce.

FDI by country of origin

Rank	Country	Number of projects				Number of jobs 2011
		2010	2011	Change 2010-11	Share in FDI 2011	
1	US	972	1,028	6%	26%	41,325
2	Germany	390	412	6%	11%	22,811
3	United Kingdom	227	294	30%	8%	5,549
4	France	187	192	3%	5%	7,515
5	Switzerland	152	188	24%	5%	5,265
6	Japan	143	150	5%	4%	7,502
7	China	115	140	22%	4%	4,396
8	Netherlands	149	137	-8%	3%	1,436
9	Sweden	99	95	-4%	2%	2,275
10	Italy	99	95	-4%	2%	7,443
	Others	1,224	1,175	-4%	30%	52,307
	Total	**3,757**	**3,906**	**4%**	**100%**	**157,824**

Source: *Ernst & Young's European Investment Monitor 2012*.



BRICs: rebuilding, but room for improvement

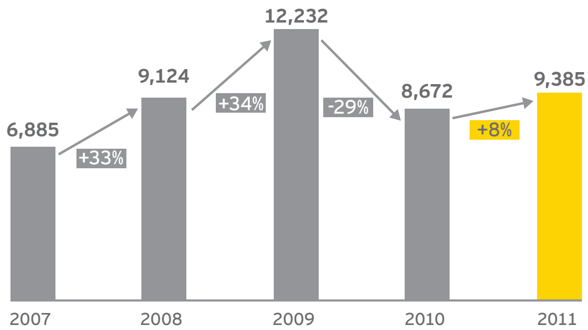
After a sharp fall in 2010, the number of jobs created by BRIC investors in Europe increased by 8% in 2011 to reach 9,385. **Collectively, BRIC economies accounted for 6% of job creation in Europe, behind the US and Germany**. Companies from emerging economies, including China and India, are now more interested in developed economy assets such as brands, technology and distribution channels. BRIC companies are now investing in Europe to benefit from its technological edge in some sectors. In 2011, Europe was the largest destination for Chinese foreign investment, with the number of decisions up 22% on 2010.

The UK is the most favored destination, securing 40% of jobs created by BRIC investors in Europe in 2011. Germany, with 13%, was a distant second. But when measured by project numbers, Germany outpaced the UK, securing 69 projects from BRIC companies, up 35% from 2010. The UK, with 54 FDI projects, was second, followed by France and Belgium. China and India are the largest BRIC players, together accounting for 95% of BRIC job creation and 82% of BRIC projects in Europe.

A third of the jobs created in Europe by BRIC investors were in the automotive industry. India's Tata Group and Samvardhana Motherson Group and China's Geely Holding Group Co Ltd and YAPP Automotive Parts Co Ltd were leading investors. Indian company projects targeted business services and software, while their Chinese peers focused on the clean tech sector, especially solar power.

Although BRIC investment rebounded in 2011, it created fewer jobs than in 2009. This suggests that Europe has yet to fully regain the confidence of investors from these emerging economies.

FDI job creation by BRIC investors



Source: *Ernst & Young's European Investment Monitor 2012*.

Growth on the frontier: Spanish and Turkish cities among top 10 European destinations

London continues to lead the pack of European cities attracting FDI in 2011. Interesting to note that two Spanish cities were among the top five, achieving remarkable levels of job creation and Istanbul, in Turkey, ranked number eight.

▶ London

London remains the most attractive city in Europe by far, harvesting 8% of all FDI projects into Europe in 2011. Despite tough times in its massive financial industry, London was bolstered by preparations for the Olympic Games that it will host in July and August 2012. London's cosmopolitan dynamism attracts businesses and talent, especially in services, finance and business support, from around the globe. In 2011, the city clinched 240 projects in business services, software and finance — a remarkable 73% of the total. London's economic culture appeals to foreign investors: the city is robustly pro-business, global and accessible. London tops the ranking in the Global Financial Centres Index that tracks the shift in competitiveness of more than 70 global financial hubs.[16] The city was also ranked number one worldwide for its global appeal in the Economist Intelligence Unit (EIU) 2012 Benchmarking global city competitiveness report.[17]

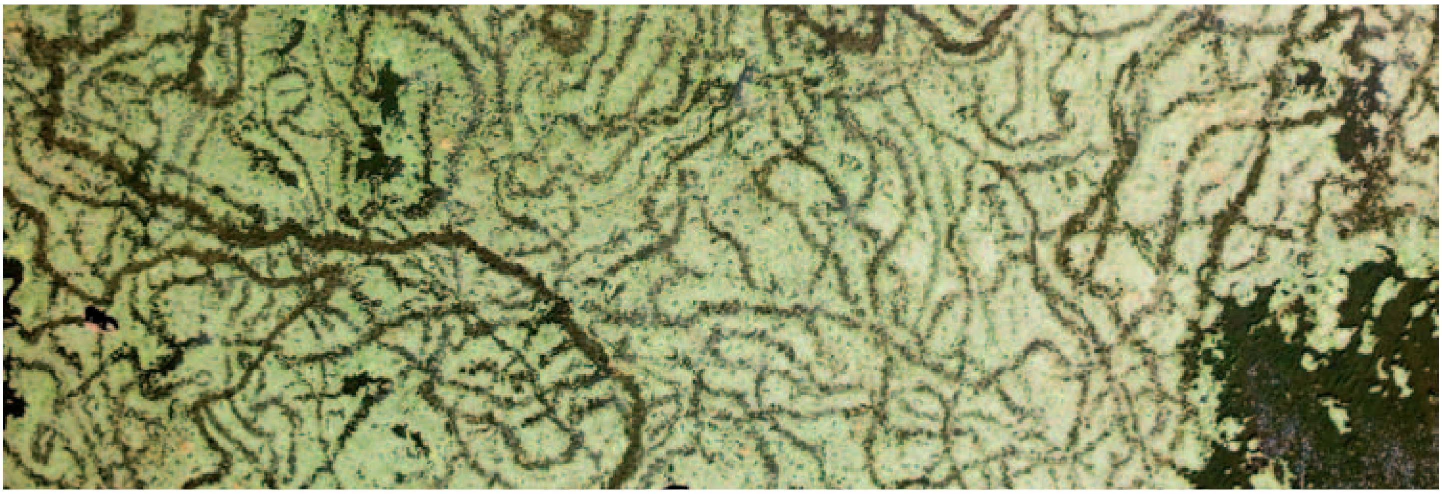
▶ Barcelona and Madrid

Spanish city Barcelona received the third-largest number of FDI projects (100) in 2011, an increase of 89% over the previous year. Madrid ranked fourth with 94 projects, up 32%. The Cushman & Wakefield European Cities Monitor also ranked them among the 10 European cities most preferred by investors for doing business. While Barcelona benefits from its quality of life, qualified staff, urban transport and availability of office space, Madrid is recognized for ease of access to markets, high-quality workforce and value-for-money office space.

▶ Istanbul

The number of FDI projects drawn to Istanbul surged 70% in 2011. Strong recent and potential growth, accessibility and emergence as an important air travel hub have sweetened its appeal for foreign investors. In 2012, GlaxoSmithKline, a British pharmaceuticals group, announced plans for a regional management center in Istanbul to leverage the easy connectivity to target markets, including the Middle East and African nations. Other international companies, including The Coca-Cola Company, PepsiCo, Microsoft and Unilever have established regional headquarters in Istanbul to run their operations in Eastern Europe, Central Asia, the Middle East and Africa.

16. *The Global Financial Centers* Index, March 2012.
17. "Benchmarking global city competitiveness," *Economist Intelligence Unit*, January 2012.



Viewpoint

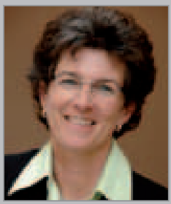
Upgrading Europe's logistics appeal

Cindy Miller, President, UPS UK, Ireland & Nordics

As the world economy becomes more deeply integrated, companies' global supply chains are growing increasingly complex. To manage this complexity, businesses in Europe are outsourcing all or part of their supply chains to third parties. They are looking to skilled logistics providers to help them streamline processes, find efficiencies, strengthen balance sheets, reach new markets and improve customer service.

An excellent example of this is the health care sector where companies are under unprecedented pressure to reduce costs. These companies are finding value by turning to external logistic experts with multi-client facilities that allow them to use only the distribution space they need at any given time versus having to invest in building out their own capacity. More and more, they are relying on partnerships with companies like UPS that have extensive health care experience, regulatory expertise and cold-chain capabilities — in addition to a flexible, reliable global shipping network.

Fast, reliable shipping is more important than ever for accessing international markets, and this makes logistics an excellent industry space. Amid the uncertainty of the recent global economic crisis, one fact was clear: robust exports and international trade are sources of growth. The world economy has since turned a corner and exporting companies are leading the way. Europe is a strong exporter, and European products are sought after across the globe for their high quality, technical innovation and cutting-edge design. But for exports to flourish, create jobs and sustain economic growth, the free flow of goods, information and funds across borders is vital, and we welcome all efforts to this end.



Outstanding logistics have become essential to the success of businesses and companies.

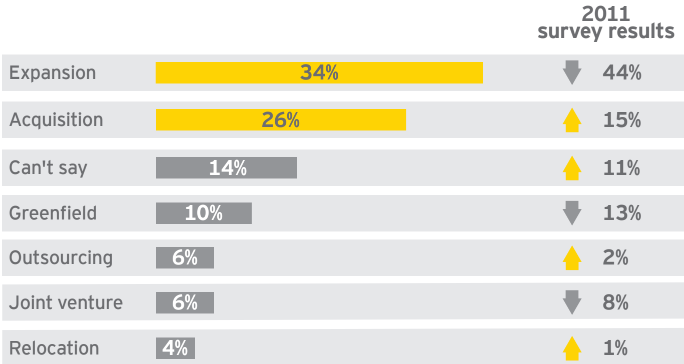
As the Official Logistics and Express Delivery Supporter for the London 2012 Olympic and Paralympic Games, UPS' capacity as a logistical partner will be demonstrated in the UK this year.

Underpinning the sporting events will be the biggest peacetime logistical undertaking the world has seen, involving the delivery of over 30 million items. That's a demonstration of the hugely increased importance of logistics in our globalized, interconnected world. Outstanding logistics have become essential to the success of businesses and companies, as well as sporting events. Across Europe and beyond, we're committed to making logistics work to support trade, drive growth and create jobs.

Immediate investor plans: "caution" mode

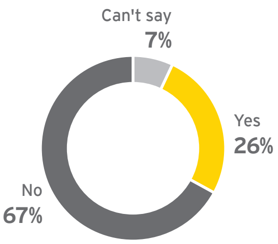
Lackluster economic activity across the continent, concern over the situation in Greece and weakness in Europe's banking system undermined investors' near-term confidence and resulted in a **"wait-and-watch" attitude toward the continent.** Only about a quarter of respondents to Ernst & Young's European attractiveness survey 2012 have plans to establish operations in Europe in 2013, down from 33% in our 2011 survey. With boardrooms remaining wary of risk, investors are currently focused on securing the present and maximizing returns on their existing investments.

What type of investment do you plan to make over the next year in Europe?



Source: *Ernst & Young's European attractiveness survey 2012*.
Total respondents: 220 (planning to establish operations in Europe).

Does your company have plans to establish operations over the next year in Europe?



Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

Ernst & Young's Eurozone Forecast has found that businesses are likely to scale back immediate investment spending due to tighter financing conditions, an increase in spare capacity and weaker demand.

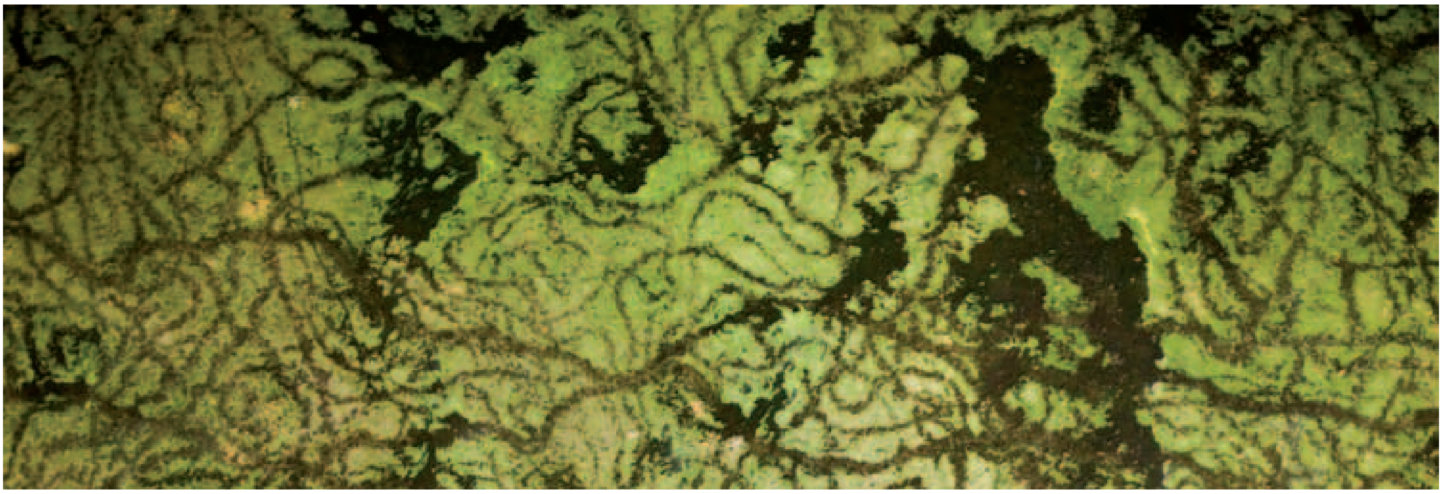
However, companies are often investing for the next quarter century, not the next quarter. Despite the continuing problems affecting the Eurozone, newspapers are regularly heralding new investments in Europe by big multinationals. General Electric Company, for example, is to expand R&D in energy, aviation and medical technology in Germany.[18] As the external outlook improves, and governments adopt policies to address the difficulties countries face, companies sitting on huge piles of cash could start deploying these reserves quite quickly into job-creating investment.

When asked about the type of investments, more than a third of those with investment plans in Europe aim to expand existing facilities. But investors have become more cautious about expanding facilities or launching greenfield investment. Economic uncertainty is encouraging a wait-and-see attitude.

That is reflected in a second emerging trend: more investors are looking at Europe as an opportunity. The rumbling debt and austerity crisis have caused vendors to become more realistic. Valuations of assets now look more appealing to business leaders. Chinese companies have already made a few big acquisitions in Europe during 2012. Shandong Heavy Industry Group acquired a 75% stake in the Italian yacht maker Ferretti and the State Grid Corporation bought 25% of Portugal's national electric utility REN.[19]

18. "GE invests over EUR 85 million in Germany," *General Electric Company website*, http://www.genewscenter.com/Press-Releases/GE-invests-over-EUR-85-million-in-Germany-3335.aspx, 13 September 2011.

19. "Foreign Investment in Europe Starts Anew," *The New York Times*, 4 March 2012.



Viewpoint

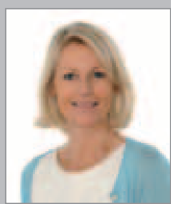
Europe's upgrading M&A appeal

Pip McCrostie, Global Vice Chair, Transaction Advisory Services, Ernst & Young

Transactions have a key role to play in foreign direct investment (FDI) into Europe and our biannual Capital Confidence Barometer — which surveys more than 1,500 executives from large companies around the world — gives us a valuable insight into how corporates will strategically manage their capital. It also gives us a strong indication of future investment patterns.

The latest survey finds that, despite a more favorable deal-making environment, there is a falling appetite to make acquisitions. This could have implications for European FDI. In contrast, the number of businesses looking to sell assets has risen by a fifth globally. That number increases further still when taking into account responses from those companies headquartered in Europe — so we could see a significant rise in the number of European assets on the market.

This change in sentiment comes at a time when there are strong foundations for M&A activity. Credit constraints are relatively low while corporate cash balances are high. Confidence in the boardroom is modestly increasing following a prolonged period of severe macroeconomic instability. The valuation gap between buyers and sellers is also narrowing. So why do we see M&A appetite falling in a climate that would usually encourage more deal-making?



We may see more buying activity by private equity and sovereign wealth funds — and much of that activity could be in Europe.

While corporate executives are in a more confident frame of mind, they are still fundamentally cautious. The ongoing Eurozone crisis, with its accompanying austerity measures and persistent market volatility, has dampened the appetite for acquisitions. There is also a sense that growth in emerging markets might be softening.

In that context, the capital agenda focus of corporates at present is on optimizing and preserving capital. So conservatism among our respondents is dictating a renewed focus on organic growth, core business optimization and divesting non-core assets. However, the two issues fueling this conservatism — the Eurozone crisis and softening growth in emerging markets — may actually encourage FDI into Europe.

The Eurozone crisis is likely to foster an increased investment into Europe from emerging markets. If we look at China as an example, it now sits on some US$3.5 trillion of overseas assets and much of that is invested in Europe. China is expected to increase its level of investment in the Eurozone as assets come to market.

In addition, if there is a growing sense of softening growth in emerging markets, focus may shift back to mature markets such as the US, UK, Germany and France. Also, with more willing sellers but fewer potential corporate buyers, we may see more buying activity by private equity and sovereign wealth funds — and much of that activity could be in Europe.

Cautious confidence

The perception of Europe in 2012

China

continues to be perceived as the world's most attractive investment region with a score of 44%, up 6 percentage points from last year. Western Europe is seen as the second most attractive destination with 33%, followed by CEE, which scores 21% from investors.

Within Europe

investors rank Germany the most attractive destination, although Europe's icon of strength and stability attracted only 15% of the continent's inward FDI projects.

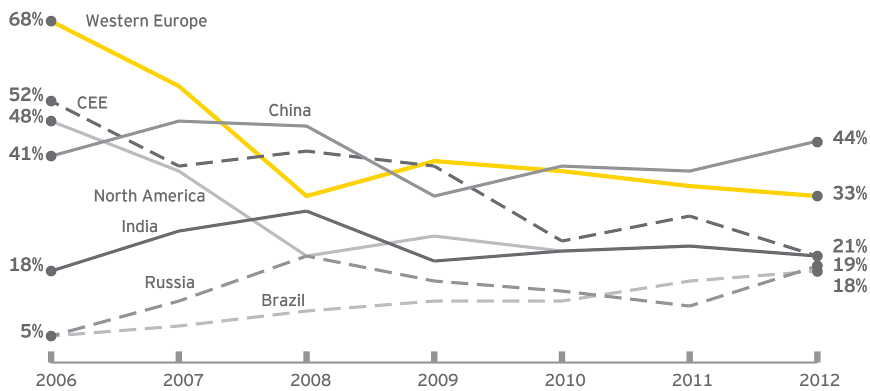
Investors

remain confident about Europe: 81% say Europe will overcome its woes and are fairly positive about its future attractiveness, 38% of respondents foresee improvement in the continent's FDI position over the next three years.

Europe's attractiveness has halved since 2006

Europe continues to hold a strong power of attraction, with Western Europe ranked by investors as the second most attractive investment destination for global FDI (33%), and followed by CEE (21%). These positions, awarded when the Eurozone crisis was intense, confirm the strong fundamentals and strengths of Europe. Yet the score awarded by investors, who once ranked Europe as the most attractive destination for an FDI project, has fallen by more than one-half since 2006. In this year's survey, Western Europe's attractiveness slid by 2 percentage points to 33% and CEE's attractiveness suffered a steep decline of 8 percentage points to 21%, as investors aired their concerns about the European framework. As a result of this dip, and a simultaneous rise in the attractiveness of other rapid-growth economies, CEE is now competing with North America and emerging markets such as India and Brazil. This confirms that the global economy has turned into a multi-polar world; there are now more attractive destinations in which to invest, and Europe is one among them. Western Europe, however, is still ranked far ahead of these markets and is challenging the leader, China.

What are the three most attractive regions in which to establish operations?



Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

Viewpoint

Upgrading Europe's real appeal

Ferdinando Beccalli-Falco, President and CEO, GE Europe and North Asia

I think the distinction that is sometimes made between the financial and the 'real' economy is a false one. There cannot be a real economy without a financial economy to sustain it.

Europe is the world's biggest market and it has segments.

A family friend, who was a banker, used to say that the financial world does not create value, but it is like the bloodstream in the body, while the industrial world makes up the muscles and the skeleton. They are intertwined.

There are some aspects of the financial economy where you might ask about the relevance for industry, but its role in financing companies, issuing equity and processing transactions is essential.

On 14 September 2008, when the financial crisis began, a lot of companies were suffering because there was a block in the bloodstream.

But we do need a stronger industrial economy in Europe, and the idea of reindustrializing regions and countries – including my native Italy – is a good one. In an economy, you need to create value and the financial economy doesn't do that. You create value by buying something at one price, adding different technological steps, then selling it at a higher price.

That's what we seek to do at GE, which has 84,000 employees in Europe. Our level of investment here remains as high as ever, because Europe is the most technologically advanced area of the world and GE is a technology-oriented company. We invest in Europe when we find technology that complements our value chain.

We can feel austerity in Italy and Spain, but the idea of a euro collapse was foolish and the risk of inflation has been exaggerated.

Europe is the world's biggest market and it has segments that are extremely attractive and growing fast: for example, renewables in Germany; oil and gas in Norway and Nordic countries; and infrastructure. And there is good GDP growth in Poland, the former Yugoslavia and Romania, while Russia is investing in new energy, both fossil and renewable.

Think of it this way: Europe's economy is two-and-a-half-times bigger than that of China. So if China grows at 7%, to generate the same volume of business we need to grow in Europe at 2.8% – and that should be feasible.

But we do need a Europe that is more united, with a better decision-making process and a common fiscal, defense and foreign policy, and we need to complete the single market.

China stretches its image lead

Investors are still fascinated by rapid-growth markets. Business leaders see a greater role for emerging giants, particularly China, offering bigger returns on their investments. In addition to the sheer size of its market and pace of consumption growth, China also has built a broad economy, specialized clusters in key industries, easy access to international markets and an enduring image as a low-cost production base, which together make the country a magnet for investors. Consequently, in Ernst & Young's European attractiveness Survey 2012, China retains its crown as the most attractive FDI destination, with 44% of respondents voting in favor of the country – the highest level of investor confidence since 2009. Although rankings of the most attractive destinations remain roughly similar to those of last year, there is a noticeable variation in the "attractiveness gap." The gap between China and Western Europe has increased from 1 percentage point in 2010 to 3 percentage points in 2011 and 11 percentage points in 2012. Similarly, China has extended its attractiveness lead over CEE. In contrast, competition within the pack of other leading players – India, North America, Brazil, CEE and Russia – has never been so intense. For the first time, CEE, India and North America share the third spot, with 21% of the votes each. But Russia and Brazil are not far behind, with 19% and 18%, respectively.

Russia's attractiveness as an investment destination (19%) increased by 8 percentage points – the largest increase of any region, and it overtakes Brazil as the fifth most attractive destination. Investors have regained their confidence in the country, encouraged by its growing consumer market, agreed membership of the WTO from mid-2012, and the beginning of a new round of privatizations.

Central and Eastern Europe falls back

CEE has suffered a significant loss in investor confidence, from 52% of respondents in 2006 ranking it the most attractive place in the world for an investment, to just 21% in 2012. Multiple factors explain this decline. A few years ago, CEE shone in the reflection of Western Europe's halo. It was seen as a low-cost location to serve high-spending Western consumers. Today, Europe's luster has dimmed, and CEE has lost its shine. A rise in non-performing loans, a "very high" dependence on exports to Western European economies and a weak and largely foreign-owned banking system, which contributed to a credit-crunch in the region, are among the drags. According to the International Monetary Fund (IMF), adverse spillover effects from the Eurozone crisis are expected to be largest in CEE, given the region's strong trade and financial links with Eurozone economies.

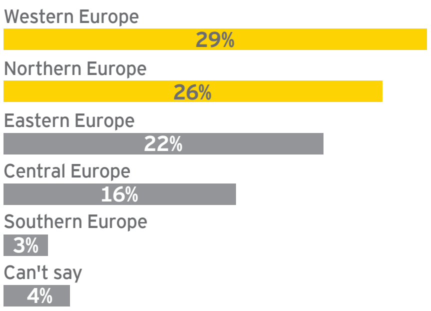
In addition, debt levels in some of the CEE countries are high and economic growth prospects much reduced. Banks have cut their net aggregate lending to the private sector across the CEE region. Many banks there have foreign parents, and there are fears in the region that they may curtail liquidity supplied to their regional subsidiaries. Labor costs have risen too, making manufacturing in CEE less attractive. Add the increasing attractiveness of BRIC and other rapid-growth economies, and now CEE finds itself competing with North America and emerging markets such as India and Brazil.

Nonetheless, some CEE countries and regions, including Poland, Hungary, the Czech Republic and the Baltic states, continue to attract good FDI inflows from investors seeking relatively favorable labor costs and skills availability to maximize returns.

North and South: the great divide

Western Europe is not homogenous in attractiveness. Dig deeper and investors say Northern Europe is relatively more attractive (26%). Though Germany unquestionably has the strongest appeal, Sweden, the Netherlands and Denmark are also often quoted as attractive destinations. But Southern Europe, hard-hit by the sovereign debt crisis, faces a difficult image: it is attractive to only 3% of business leaders quizzed.

Which region in Europe do you see as the most attractive to establish operations?



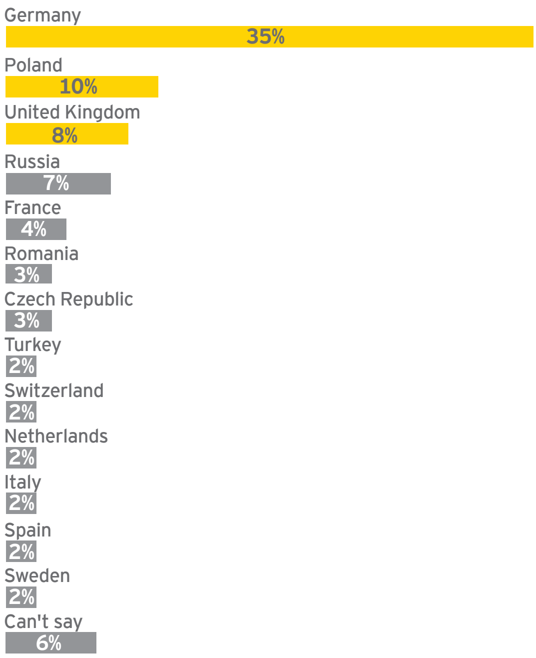
Source: *Ernst & Young's European attractiveness survey 2012*.
Total respondents: 840.

Europe's fragmented attractiveness: who's hot and who's not

In this section, we look at countries ranked one to five by executives asked about their perceived top three destinations for foreign investment.

For further details and individual country descriptions, please visit Ernst & Young's website dedicated to Emerging Markets at **www.emergingmarkets.com**.

What are the most attractive countries in Europe in the next 3 years?



Source: *Ernst & Young's European attractiveness survey 2012*.
Total respondents: 840. Countries with attractiveness < 2% are not listed.

Germany's bright and shining moment

Germany tops Europe's leader board with 35% of the investors' votes, more than three times those of Poland (10%), perceived as the second most attractive destination in Europe. Germany's strong rebound after the initial credit crisis and its position as the largest international and industrial economy in Europe have had a marked positive impact on the perception of investors. Germany is one of just a few European countries that will escape declining output in 2012, thanks to its strong and growing links with Asia and a benign labor market. German consumers are also likely to increase their spending in 2012.[20] The country's transport, logistics and telecommunications infrastructure, labor skills, stable social climate and political, legal and regulatory environment and its domestic market remain key attractiveness features.

20. *Eurozone Forecast – Spring edition*, Ernst & Young, March 2012.

But investors' upbeat perception is not matched by the actual FDI inflows. Germany received 597 projects in 2011, only 15% of total European FDI projects – the second-highest tally in Europe, not the first. Investors do not find Germany's labor costs and corporate tax rates very attractive. Added to regulatory challenges for those entering the German market, Germany is left lagging the UK in its efforts to attract FDI projects.

The United Kingdom is an island, France is isolated

The United Kingdom was the leading destination for FDI in Europe in 2011. Yet in our survey, respondents ranked the UK the third most attractive destination in Europe, polling just 8% of first-choice votes. Why such a large perception gap? High consumer debt, grinding austerity measures and sluggish and slowing GDP growth of 0.9% in 2011 have weighed heavily on perceptions of the UK outlook. Employment has been slow to resume growth and labor costs are high. Corporate tax rates, levels of tax for top earners and administrative burdens also dented investor confidence. But the UK remains a very open economy, with a currency that can devalue to enhance competitiveness.

Political stability, strong institutions and a respected judicial system appeal too. Though often criticized, the UK has much world-class infrastructure, high skills and a pro-business culture and these continue to attract projects. The global role of London, one of the world's leading financial centers, helps the UK maintain its FDI leadership position, and London is also at the forefront of digital and urban innovation.[21]

France continues to defy the doubters. For the past decade, it was the second most successful country in Europe at attracting FDI projects. When asked to choose their preferred location, investors ranked it fifth.

21. *UK attractiveness survey,* Ernst & Young, May 2011.

Yet when the first, second and third choices of the same panel of investors are combined, France comes out second overall to Germany, and ahead of the UK. What are the key strengths of Europe's second-biggest economy? Investors like France's competitive research tax credit. They also note the structured public-private scheme to rejuvenate the Greater Paris transportation system and an overhaul of higher education. That said, France's high public debt, reluctance to slash public spending and lack of small businesses — especially compared with Germany — will be formidable challenges for the next five years if the country wants to remain a global competitor for foreign inward investment.

Poland defies Eastern Europe's woes, Russia tracks growth

Our survey ranks Poland the second most attractive European country to invest in. The country is a beacon of hope in the CEE region, which witnessed a phenomenal decline in its attractiveness. Poland is the most populous former Communist country in the EU, and well placed to supply German customers at low cost. With strong domestic demand and robust growth through 2011, the country has been less affected by the 2011 slowdown than some of its neighbors. Poland was one of the few countries in the European Union to avoid recession in 2009[22] and though granted a precautionary loan by the IMF in 2010 has never needed to use it. As its economy develops, the kind of FDI that Poland attracts is changing. Once dominated by labor-intensive industries, inflows are increasingly knowledge centered. Well-qualified and productive workers, a pro-business environment and transparent tax and legal systems have helped give Poland a positive image among company and economic development executives worldwide.

Warsaw, Poland's capital, brought forward infrastructure investment as it prepared to co-host the Euro 2012 football championships. It has emerged as Eastern Europe's leading financial center, contributing to a surge in demand for office space that ranked it third in the Urban Land Institute's Emerging Trends in real estate Europe 2012 report.

In addition, UNCTAD ranks Kraków, Poland's second largest city, as the leading emerging city worldwide for investment in global BPO projects.[23] During 2011, Poland witnessed the opening of a large number of international outsourcing and shared services centers. Business is likely to continue to bolster capacity in Poland, aided by strong inflows of foreign capital, retained earnings and increasing corporate credit.[24]

Russia is the other rising star in the East. With 7% of first-choice votes from investors, it is ranked the fourth most attractive country in Europe, just one percentage point behind the UK. Yet when second and third choices from the same panel of investors are added, Russia scores 12%, roughly a quarter the score of Germany and half that of the second-tier grouping of France, the UK and Poland. Russia has markedly improved its appeal overall and excites some investors, but continues to raise concerns among others. Why is this the case? Russia is the only rapid-growth economy in Europe. Its economy is based on high prices for the oil and gas it exports, but is underpinned by a strong domestic market. A well-educated, highly productive and affordable workforce provides the hands and minds for expanding manufacturing and services.[25]

Political tensions exist, but peace has prevailed and there are significant signs of changes that business leaders welcome. One is the agreement in December 2011, after years of on-off talks, for Russia to join the World Trade Organization (WTO). Perceived lack of transparency in Russia's political, legislative and administrative environment has caused unease for inward investors but WTO membership could provide partial reassurance, underpinning an opening of Russia's huge energy sector to foreign investors. A second positive is the renewal of privatizations, announced in March 2012. Strong official commitment to economic growth and diversification, including expansion of Moscow as a financial center and for improved development of high tech, give clear signals about what political leaders want. Finally, though the Russian Federation ranked 120 in the World Bank's Doing Business 2012 report, that was a gain of four places and maintaining steady progress up the chart.

22. "Poland Continues As Bright Spot in Region," *IMF*, 3 February 2012.

23. *World Investment Report 2011*, UNCTAD.

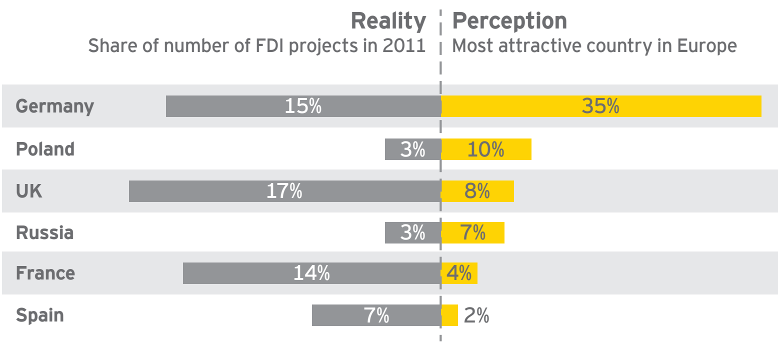
24. Interim forecast 2012, European Commission.

25. *Russia attractiveness survey 2011*, Ernst & Young, October 2011.

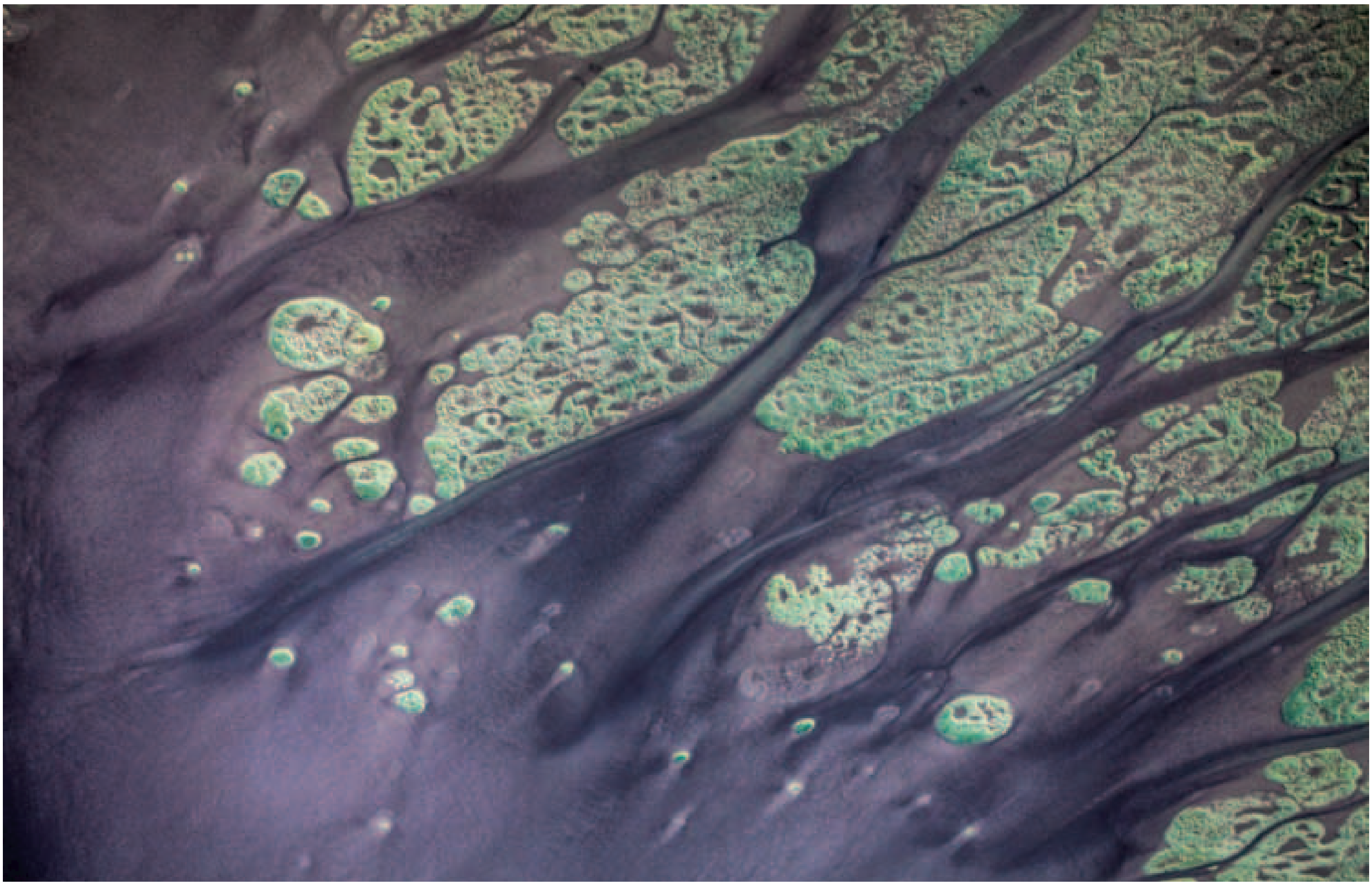
Investment vs. attractiveness: the great mismatch

Perceptions of the relative attractiveness of individual countries are not always reflected in the actual distribution of FDI. The reality is historical, while perceptions are an indicator of future attractiveness. Projects announced in 2011 may have been in gestation for several years. A corporate executive asked to identify the most attractive countries today may ponder a country's prospects for a decade or more ahead before reaching a conclusion. Today, investors are saying that Germany, Poland and Russia are on a path of sustained attractiveness, and that FDI in these countries is likely to progress as a result. The UK and France, by contrast, are perceived to be declining in attractiveness relative to the three leaders. But these two countries already host huge numbers of foreign firms. When companies look to increase capacity in Europe, in practice it may often be easier, quicker or cheaper to expand existing offices or plants than to set up new ones in ideal locations.

Investor perception vs. reality (2011)



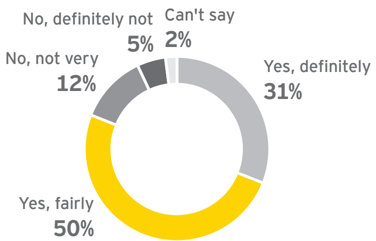
Sources: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.
Ernst & Young's European Investment Monitor 2012.



Overall, investors remain confident in Europe

Business leaders expect Europe to recover from the crisis

Are you confident in Europe's ability to overcome the crisis?



Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

Investors seem pretty confident in Europe's capacity to surmount its complex and multiple difficulties. Four in every five say that Europe will be able to overcome the crisis.

Yet containment is not resolution. Many European countries are facing up to excessive debt, whether public or private; under-capitalized banks; shrinking economies or inadequate growth; too many unemployed and too little structural reform. Business leaders are demanding bolder, meaningful and long-term steps to ensure sustained growth. The IMF expects the Eurozone economy to suffer mild recession in 2012, but begin to normalize in early 2013. This expectation assumes policy-makers will intensify efforts to address the crisis and turn rhetoric into action that will revive growth and lure private investment, after two years of tightening austerity measures.[26]

26. "Foreign Investment in Europe Starts Anew," *The New York Times*, 4 March 2012.

Viewpoint

Upgrading Europe's financial appeal

Lionel Zinsou, Chairman and Chief Executive Officer, PAI Partners

I believe the threat of a fresh liquidity crisis in Europe has been avoided through successful intervention by central banks: monetary policy and key statements have brought things back to normal. We know liquidity will be supplied if necessary.

However, we have not yet reached the end of the process of deleveraging bank balance sheets and adapting to new, more complex regulations. We are perhaps half or two-thirds of the way in terms of Basel III. Insurance companies have made good progress with Solvency II, but have further to go.

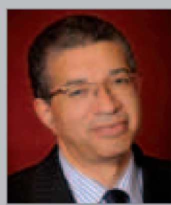
In reality we still have a contrasting landscape. The leveraged buyout (LBO) debt markets remain tough, and bond and share markets are not yet a proper substitute for the intermediation of banks.

But the corporate debt situation in Europe is better than the sovereign debt situation. Many companies have a significant level of cash on their balance sheets. That is both a good and a bad sign. It shows they can invest and buy assets as soon as they see there is a proper environment for growth, but it also signals that companies are being defensive, not that profitability is high.

The question now is over demand and growth. World demand can help some northern European exporters, but we need consumer demand and growth in the big European economies too.

I do not share the view that austerity will cause insurmountable problems. I'm an optimist. Spending cuts will drive greater efficiency in public services and free resources for private spending and investment.

If you look at the past experience of Sweden and South Korea, austerity can act as a platform for growth, rather than the start of a vicious downward spiral of recession. It is a J-curve. For me 2012 will probably be a lost year, but it will create a platform for a better economy, so this is a good time to be investing in Europe. You can buy good quality assets at prices that could look like real bargains two or three years down the road.



Europe is the biggest economy in the world, the most open, and the biggest importer and exporter.

On fundamentals Europe is attractive compared to the US and Japan. It is the biggest economy in the world, the most open, and the biggest importer and exporter. It also has the best savings rate and a currency which is here to last, with Euros comprising around 25% of all world Central Bank reserves.

In the medium term, Europe will remain the number one economic power in the world. We have all the elements for a real economic recovery.

Viewpoint

Upgrading Europe's information and communication appeal

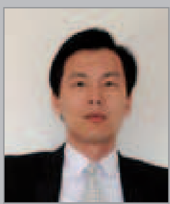
Leo Sun, President, Europe Affairs Department, Huawei

Information communications and technology (ICT) is a global industry and we face a global challenge. The internet and telecoms industries are converging into one. Users enjoy more and more services, whether in voice, data or video. This means that there will be a big reshuffle, and the industry value chain will change in the next 5 to 10 years.

The value chain in Europe has centered on telecoms, but the big internet players are American companies like Apple, Google and Facebook. The convergence that is under way requires huge investment in broadband, but the returns are unclear, because consumers will not be generating more revenue: this represents a huge challenge for the European industry.

We believe there are two ways to address the investment issue. One is through technology innovation: increase returns on investment by upgrading technology. The other way is to enhance global collaboration to develop open standards for future ICT, so that all players worldwide can contribute to this investment and benefit from it.

We want to play a fitting role. We are present in all European countries, with more than 7,000 employees, 37 subsidiaries, 8 research and development (R&D) centers employing 800 engineers in total and US$3.7b of European revenues. We have more than 1,000 assembly workers in Hungary, but most of our manufacturing is outsourced. Our employees in Europe are mainly engineers in R&D, commercial managers, or services and maintenance engineers.



In Europe, we need to do more strategic thinking about what our industry will be like in the future.

Europe is a big market and has been a leading innovator: the European market has driven the direction of Huawei's R&D in recent years. One good example is Huawei's 3G wireless solution, deployed in Europe in response to market demand at least three years before China launched a 3G service. But now the ICT industry is shifting and, unlike Silicon Valley, Europe is not dynamic in terms of future-facing innovation.

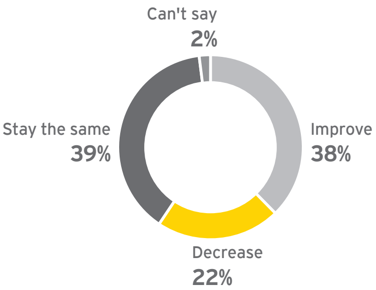
Huawei retains strong confidence in Europe. Despite the financial crisis and other issues, Europe is still a big marketplace that has the confidence of investors; although, for Asian companies, the cost structure of running a business and the culture are very different. Nevertheless, any company that wants to operate globally must embrace this diversity.

But I do think that, in Europe, we need to do more strategic thinking about what our industry will be like in the future and leverage Europe's assets in education, R&D and innovation. Thinking in a static mode is not sufficient; we need to gather all the capabilities of the industry, standard-setters, think tanks and legislators together to create a common framework vision of the future. To keep the future ICT industry open, dynamic, standardized and innovative is fundamental for our whole society. Huawei is ready to play its part in shaping the future of the European ICT industry.

Europe's future attractiveness: where the grass is greener

In the medium term, investors are, on balance, positive about Europe's future attractiveness. Overall, 38% of survey respondents believe the continent's attractiveness will improve, and a similar proportion say it will remain the same. In total, three out of four investors reckon things won't get any worse. Only one in five is pessimistic.

How do you anticipate the evolution of Europe's attractiveness over the next three years?



Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

Foreign investors are markedly more upbeat. Among investors not present in Europe, 51% believe the continent will become still more attractive as an FDI destination. In Europe, an incessant and alarming news flow about austerity and economic difficulties acts as a drag on investor optimism. But executives based in emerging economies, surrounded by growth and opportunity, see a brighter future for Europe too. In a globalizing world, that should make them more energetic investors in the old continent.

The evidence supports this hypothesis. In 2011, Europe became the largest destination for overseas investment by Chinese companies. The number of investment projects originating from China leapt 22%. Chinese companies now see Europe as a primary source of technology and the world's most important market, despite its sluggish growth. In March 2012, China's Foreign Minister, Yang Jiechi, said: "The Eurozone has encountered quite a lot of difficulties, but we believe Europe and the Eurozone have the capability and wisdom to overcome the temporary difficulties, tackle the debt problems and achieve new development." He added that China is willing to keep investing in Europe.[27]

27. "China investment in Europe a 'win-win' situation," *Irishtimes.com*, 7 March 2012.

Europe's future attractiveness

How to get there?

Europe and its half-billion creative consumers remain a world-class source of ideas.

Investors see Europe's strengths in its research and innovation capacity (46%) and the diversity and quality of its labor force (39%).

Respondents identified only two European cities — London and Berlin — as having a chance of producing the next Google, among a list of the top 10 cities.

Investors continue to stress the role of the ICT (33%) and cleantech (26%) sectors as the engines of European growth in coming years.

87% of investors highlight Europe's manufacturing capabilities and expect to manufacture in Europe 10 years from now.

Business leaders vote for supporting high-tech industries and innovation (38%) and entrepreneurship (31%), and for developing education and skills (30%) as long-term growth enablers.

At the heart of Europe's DNA

Perceptions of Europe's value have changed a great deal since Ernst & Young's European attractiveness survey 2011. The business environment in Europe is now seen as less predictable and emphasis on social responsibility has reduced. The focus has clearly switched to the continent's capacity for discovery and innovation.

Creating an innovation mindset

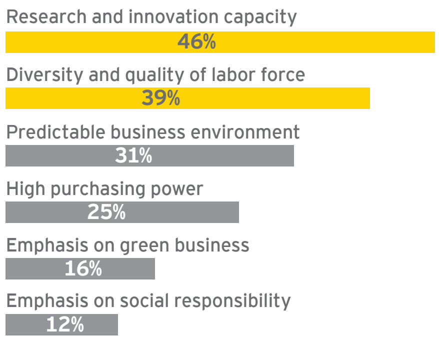
Forty-six percent of respondents say Europe's research and innovation ability is its key world-class feature. This enthusiasm is partly matched by the reality of investment decisions. Leveraging its research and innovation strength, Europe attracted 234 R&D projects in 2011, 6% of total inbound FDI projects.

Certainly, policy-makers in Brussels and at country level need little reminder of the importance of innovation. In the aftermath of the financial crisis and aware that the EU is facing increasing competition from the world's rapid-growth markets, recent years have seen a massive increase in public funds, a proliferation of lines of action, the creation of communities, platforms, infrastructures and even a dedicated initiative – Innovation Union.

Ernst & Young's 2012 report on government and innovation in the EU, The power of simplicity, suggested however that this wide array of actions – all of which have been created with the best intentions – have not generated the expected level of success. Working with the Brussels-based think tank the Centre for European Policy Studies, Ernst & Young undertook a cross-Europe survey of 680 business leaders to discover their perception of the EU's innovation policy. Just 27% of respondents were familiar with the work of the European Commission to promote innovation, 82% thought that access to EU funds should be made easier, and 82% believed that EU policy is too fragmented and needs greater coordination.

In addition to innovation, Europe's most vital competitive advantages are long-term qualities, such as its skills, diversity and stability and the foundations essential to effective business operations in 2012: predictability, stability, economic power and hopes of a greener future.

What are, in your opinion, Europe's world-class features if it wants to remain a major destination for investment?



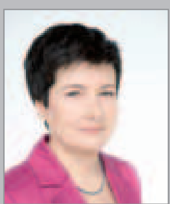
Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840; two possible answers.

Viewpoint

Upgrading Eastern Europe's city appeal

Hanna Gronkiewicz-Waltz, Mayor of Warsaw

Coping with impeded development is the greatest challenge for each metropolis in times of economic slowdown. We have entered the current phase with large investment programs, which we are continuing — building the metro and roads and purchasing new trams and buses.



The development of a city is not only about roads and office buildings, but, above all, people.

For many of these undertakings, we have raised European Union funds. One way we are maintaining Warsaw's development momentum is by seeking off-budget sources of co-financing. It is essential to develop and pursue long-term development plans. What helps us maintain relatively high sustainability is debt-management policy, which Warsaw has been successfully carrying out for several years. To reduce debt-servicing costs, rather than taking commercial loans, we issue bonds or take funding from international financial institutions, such as the European Bank for Reconstruction and Development and the European Investment Bank.

The development of a city is not only about roads and office buildings, but, above all, people. To strengthen the economy of Warsaw, we are fostering entrepreneurial attitudes within its community. So far, 2,500 companies in Warsaw have benefited from municipal projects co-financed by the EU. I believe that it is through promoting business activity that social exclusion can be appropriately addressed. To sustain its development, a city must seek balance as it pursues this goal — this constitutes yet another challenge that presumably all cities have to face. The development of Metro Line II shows how infrastructure investment can help renovate dilapidated areas of the city to improve the quality of life of inhabitants.

The Polish Presidency of the Council of the European Union was an organizational challenge for us; the Euro 2012 football tournament in June and July is another. During Poland's six-month EU leadership, about 37,000 people came to our city for EU summits and meetings. Using the comfortable and fast connection from the airport to the city center, finding their way easily around the city and experiencing the beauty of Warsaw, our guests should have pleasant memories of their visit to the capital to share with their friends and families.

Organizing the Euro 2012 tournament has been a stimulus to accelerate the delivery of infrastructure investments which were, in any case, desirable. We already have a well-developed road, airport and railway infrastructure which connects us with major cities, inland as well as abroad. Hosting the soccer championship enables us to introduce Warsaw to a broader audience. To help them navigate in the city, we are working with Google to put the Warsaw component of the Street View application into operation.

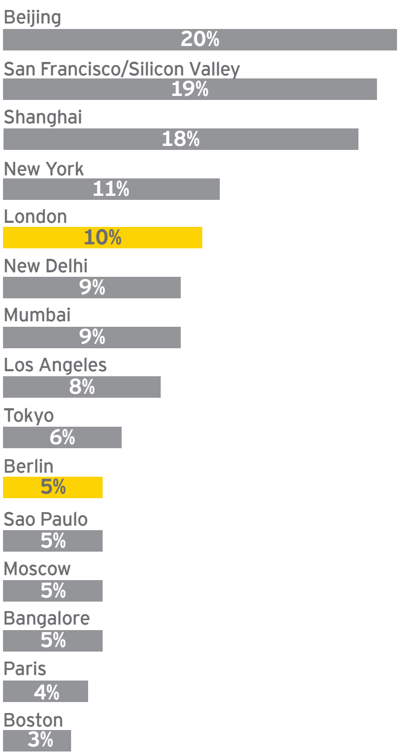
With 11 million visitors each year, the capital of Poland has enjoyed wide tourist appeal for many years. Euro 2012 will enable us to introduce innovations which will ensure an even more comfortable stay in our city for our future guests.

Give it a go: entrepreneurship in European cities

Although investors acknowledge Europe's innovation capability and potential, **respondents identified only two European cities** — London and Berlin — as being in the running to give birth to the next Google.

Companies are increasingly opening or expanding innovation centers in the US and rapid-growth hot spots. Often the aim is to get closer to consumers, enabling existing production facilities to respond more quickly to changes in customer needs. Those customers may be consumers or businesses in dynamic investment ecosystems where R&D of new products, services and technologies occurs. Innovation in both industrial and consumer products often requires enabling development of new components, services and processes. European cities must ensure they too are providing new kinds of open innovation ecosystems, infrastructure and networks in which innovation can flourish. Some governments are energetically implementing education, fiscal and infrastructure policies to ensure their main cities and innovation clusters evolve as high-tech centers. Others need to look, learn and emulate.

Which three cities in the world offer the best chance of producing the next Google?



Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

Viewpoint

Upgrading Western Europe's city appeal

Pierre Cohen, Mayor of Toulouse, President of Toulouse Metropole

To secure the rightful place of Toulouse as a great European city, we have simultaneously to cope with demographic growth, lay the foundations for social and economic change and confront environmental issues. We thus face big challenges on three fronts: the economy, ecology and the quality of life.

Sustainable development is a duty which we will rise to in all areas where we play a role.

Our economy is one of the most efficient in France, thanks to the combination of multiple strengths. We have a big university. We have renowned research laboratories, including the Centre National de la Recherche Scientifique (CNRS); the Institut National de la Santé et de la Recherche Médicale (INSERM); and the Laboratoire d'Analyse et d'Architecture des Systèmes (LAAS). And we have leading industry names, such as Airbus, Thales and the Centre National d'Etudes Spatiales (CNES) as well as a web of innovative small and medium-sized firms.

It is the quality of collaboration and horizontal links between the various players that gives rise to innovations. And it is these innovations that nourish an industry that creates jobs.

Toulouse has emerged today as a great knowledge metropolis. We are strengthening that vocation by launching flagship projects that will enhance the attractions of Toulouse and draw companies and foreign investors.

Four stand out: Toulouse Montaudran Aérospace (which will become one of the biggest 21st century aerospace sites); Oncopole, a life sciences and cancer treatment cluster; a large exhibition center to house international congresses; and a new urban district, Toulouse Euro Sud Ouest, tied to the completion of a high-speed rail line.

Ecology is our second challenge. Sustainable development is a duty which we will rise to in all areas where we play a role, especially public transport. Our city travel plan covers the biggest area in France after that of Paris, taking in 118 communes. It is also the most ambitious, involving €1.9b of investment to extend public transport networks from 52km to 170km over the next 10 years.

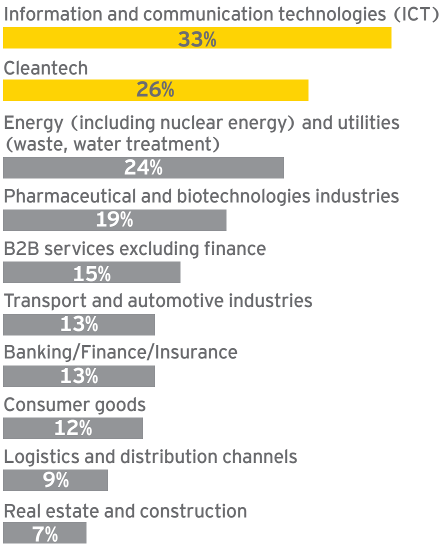
Our third drive is to enhance the quality of life. The heart of this is a sweeping project to renovate the city center, led by Catalan urban planner Joan Busquets. By making the most of our heritage, pedestrianization and better use of public space, the city center will become a place to live and breathe for citizens and our many visitors.

Toulouse is becoming a metropolis. Dynamic development is strengthening the attractiveness — and renown — of our city.

The future is digital and green

As new technologies sweep aside old ways of doing things, respondents continue to stress the role of information and communication technologies (ICT) (33%, +9 percentage points) and the cleantech sector (26%, +3 percentage points) as the engines of European growth in the coming years.

Which business sectors will drive European growth in the next two years?



Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

▶ **The ICT sector**

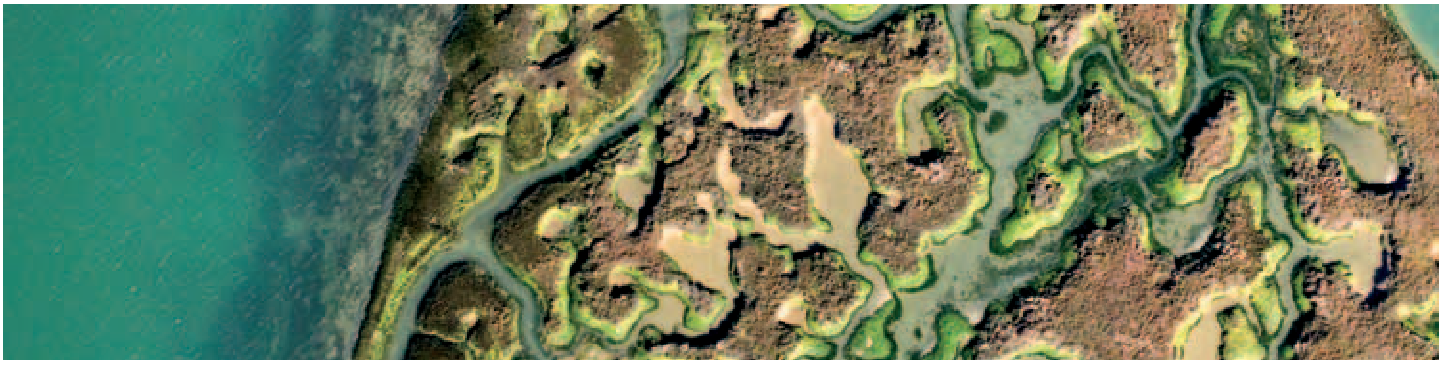
is central to the dream of a smart and digital Europe. Breakthroughs in digital and communications technology have unleashed innovation that is transforming swathes of manufacturing and services. The media and retailing industries are being reshaped by the convergence of mobile phones and digital technologies. A new generation of shoppers looks at products in the high street, checks prices by mobile phone, and buys online. Physical stores are changing; multi-channel marketing and distribution is already the norm. Cars are becoming computers on wheels, and robots rule in many factories that create their components. And the revolution is only beginning. Within ICT, cloud computing, smart grids, gaming, internet business, IT security and mobile data services are expected to be the growth areas. Germany, the Netherlands, Hungary, the UK, France, the Czech Republic, Sweden and Poland have become exporters of digital products and services to the world.

To drive economic growth further and create digital jobs, Europe requires substantial R&D investments to explore new ways to use technology and lead its development in new fields. The continent's weakest link in the complex innovation chain is private spending on R&D. Although Europe, Japan, China and the US feature similar levels of public R&D spending, it is the scale of private investment that explains huge differences in outcomes. Google invests far more of R&D in ICT than the EU spent for ICT in its Seventh Framework Program for Research (FP7) – approximately €2b versus €1.3b.[28] The lack of private innovation initiative is not only visible through the low levels of venture capital funding, but also through the place R&D has in the organizational structures of European firms. As the above-mentioned survey by Ernst & Young and the Centre for European Policy Studies shows, only 66% of European companies say they have a dedicated R&D department.[29]

▶ **Green energy**

is another area of European strength with great potential. European countries have leading-edge technologies in renewable energy and environmental solutions. They are well placed to benefit from the clean tech revolution that is sweeping through much of the world's industrial infrastructure. Ernst & Young's Country Attractiveness Indices, which track the relative attractiveness of 40 countries' renewable energy markets, has placed Germany in third position, behind only the US and China. Europe's renewable energy market remains strong and is buttressed by the UK, Italy, France, Sweden and Spain, which are significant players. EU regulatory obligations and standards often shape and drive the market. And despite reduced public spending, governments can also help Europe's private sector compete in the technology race. For example, in December 2011, German government development bank KfW launched its Energy Turnaround Action Plan that aims to provide 50% of external loans to support a range of renewable projects.

28. *Next generation innovation policy*, Ernst & Young, October 2011.
29. *The power of simplicity*, Ernst & Young, May 2012.



Viewpoint

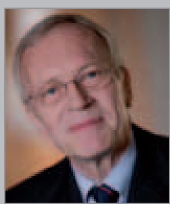
Upgrading Europe's energy appeal

Joachim Bitterlich, Executive Vice President International Affairs, Veolia Environnement Paris; Chairman Veolia Environment Germany

Europe faces a huge challenge to meet its future energy needs and CO2 emissions targets. This landmark change could be the centerpiece of a European economic recovery program for the next decade – creating employment, spurring innovation and enhancing competitiveness. Why am I looking in vain for those willing to orchestrate such a program?

Jacques Delors – and at a later stage the Commission – put forward the idea of a European energy marketplace, but we are very far away from that. We have to totally renovate our power grids in Europe if we want to integrate all the renewable energy generation we seek, and we need to reinforce cross-border connections.

In the energy arena, we are in a time warp of national thinking. Each country shapes its energy mix and strategy independently. After the accident at Fukushima in Japan last year, Germany made a fundamental change in its energy strategy – away from nuclear generation – without even informing its neighbors. Yet today, some Germans are trying to discourage those neighbors, including Poland and France, from operating or building nuclear plants.



We need to look at the question of regulation too.

The majority of Germans don't want any more nuclear power, but without nuclear energy, Germany will have to rely more heavily on gas, as well as renewables, and that adds to concerns about security of supply – a real challenge that urgently needs an ambitious, but realistic road map.

A pan-European energy policy would provide scope for greater efficiency and improved energy security. In electricity, increased cross-border transmission offers many benefits, beside those arising from having a larger power market. A technical failure would be less likely to cause a blackout because power could be more readily supplied from elsewhere.

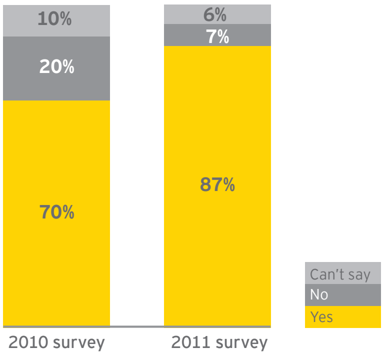
We need to look at the question of regulation too. With national regulators, we have very different policies in Germany, France and the UK. Is this the right approach? We have an excellent European Energy Commissioner, Günther Oettinger. With more power, he could do a lot of good.

A common European energy policy could be of great benefit both to Europe's citizens and its industry. Look at the need for investment: this could be an El Dorado both for innovation and for our economies. Why is no one pushing it more?

Making manufacturing hopes a reality

Made in Europe

Ten years from now, will you still manufacture in Europe?



Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

In the *European attractiveness survey 2012*, investors confirm their long-term appetite to invest in manufacturing in Europe. When asked about Europe's manufacturing hopes 10 years down the line, 87% of the investors say "yes, we can," compared with 70% in 2010. Wishful thinking or a credible forecast? The current economic context is tough, yet often the entrepreneurial and innovation ecosystem of a successful industrial cluster can outweigh the advantages offered by low-cost labor elsewhere. Investors engage in a constant search to manufacture new products, more efficiently. But "made in Europe" is a powerful label in emerging markets, where European brands, technology and services are admired and sought-after.

Sharpening an edge in high-value products

To attract manufacturing investment, Europe should focus where its strength lies: **high-value products and advanced manufacturing**. Several sectors illustrate Europe's manufacturing potential:

- Europe is world leader in machine tools, a key enabler for aerospace, rail vehicles, energy, medical, automotive and other industries. Europe's machine tool industry accounts for 32% of global production and 53% of world exports.
- Europe is a significant technology provider and advanced manufacturer of micro-electronics for use in telecoms, industrial machinery, medical devices and vehicles. Since advanced technology, capital, automation and productivity drive competitiveness, Europe remains an attractive place for technology and manufacturing.
- Europe is the world's largest vehicle producer with annual output of more than 17 million passenger cars, vans, trucks and buses, equal to 25% of world vehicle production. Although Germany has the biggest vehicle and components cluster, centers of design and manufacturing excellence are located throughout the continent.

Selling European quality to emerging high-earners

Globalization and the integration of rapid-growth countries into the world economy have opened new markets for European manufacturers. Having lured away many labor-intensive European manufacturing jobs, Chinese manufacturers have raced up-market, and others follow, increasing competition to produce sophisticated products. China now accounts for a fifth of global manufacturing. Yet **Europe benefits from the demand of middle class consumers in emerging economies**, which is growing fast. German luxury carmakers BMW, Mercedes and Audi have 20% of the Chinese market and according to the German Association of the Automotive Industry (VDA), in 2011, China registered more German-made cars than Germany.

The rise of manufacturing in the larger emerging economies was aided by cheap labor. But in India and China today, land and labor costs are soaring. According to Joerg Wuttke, a veteran industrialist with the EU Chamber of Commerce in China, the cost of manufacturing in China could swell twofold or even threefold by 2020, enhancing the relative attractiveness of making some products in Europe.[30]

30. "The end of cheap China," *The Economist*, 10 March 2012.

Viewpoint

Upgrading Europe's chemical appeal

Jean-Pierre Clamadieu, Chief Executive Officer, Solvay

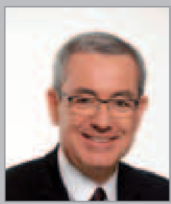
In the chemical industry, location decisions are based on three factors: access to markets, access to energy and raw materials and access to brain power.

Today demand for chemicals remains strong in Asia and in Latin America, is recovering in the US and is still weak in Europe.

However, what is attractive in Europe is that it is a sophisticated market which requires innovation, for example in the automotive industry, where Europe is a technology leader.

Regulation has played an important role in the industry's competitiveness, especially in driving innovation that responds to environmental and climate change concerns. But changes are underway, and today it is no longer clear that other countries and regions will follow the European model.

In Europe we have seen trends showing that customers would like to favor eco-friendly products. But to do so, we need to reach agreement in European and beyond on definitions of eco-friendly products. Only once definitions are agreed can the whole value chain be aligned to produce the new generation of breakthrough products that European customers want.



Europe desperately needs an energy policy that addresses not just competition, but also security of supply and energy cost.

Yet the most urgent issues, which go to the very heart of European chemical industry competitiveness, are resource scarcity, energy efficiency and access to competitive energy.

The energy supply picture is changing enormously and today poses a significant challenge for the European chemical industry.

For the past decade, gas, which our industry uses both as feedstock and for energy, has cost half as much in the US as in Europe. Now shale gas has reduced US prices to a third those of Europe, and chemical industry investment projects are even returning to the US from the Middle-East.

Europe desperately needs an energy policy that addresses not just competition, but also security of supply and energy cost. It is frustrating that in European countries where there could be shale gas deposits we don't see governments fostering exploitation subject to environmental safeguards.

In talent and brain power, Europe offers conditions which are favorable and a significant number of Solvay's research activities are located in Europe, even though some research needs to be close to markets. The quality of people turned out by our universities is high, and we can work well with public laboratories. Europe must continue to develop this advantage: other countries are not sitting there doing nothing.

Helping manufacturers consolidate, collaborate and innovate

European manufacturers must adapt to thrive. **Policies promoting collaboration and open innovation can bolster competitiveness**. Research grants and entrepreneurial support systems help too. And industrial competitiveness policy must both support and stimulate the continuous process of adjustment to changing conditions and the restructuring that is essential to remaining globally competitive, rather than striving to save jobs overtaken by technology change.

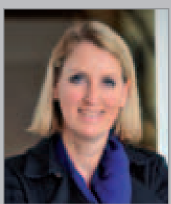
But companies must also be able to link pay and productivity better to ensure that labor is incentivized to move into the right skills, and to match the performance of countries with labor force flexibility. Doing so would help cut unit labor costs and enhance the capacity of firms to innovate and develop new products. Germany has led by example in this respect, increasing annual exports to China from €13b in 2001 to almost €60b in 2010. From a starting point of just €3.5b, France's exports increased fourfold — to a mere €14b — over the same period.

Viewpoint

Upgrading Europe's entrepreneurial appeal

Andrea Vogel, Leader EMEIA Strategic Growth Markets, Ernst & Young

Flying around the Middle East, Africa and Russia today, you can feel the buzz in the air. Some countries in southern Africa are growing faster than China. When you are there, you can feel there is something going on around entrepreneurship. They are where China was 20 years ago. The infrastructure is not right yet, but private equity is entering the continent, finding opportunities.



I really think we need to organize venture capital networks and overhaul the way we work in Europe.

In the Middle East, the majority of the population is under 35 years old. They need to create tens of millions of jobs. The state companies and family businesses cannot create them: they have to come through entrepreneurship. And in Russia, this is the first generation that has become entrepreneurial.

In Europe too, growth will have to come through entrepreneurship. But it is clear that we need unified steps to facilitate innovation and entrepreneurship, and remove barriers.

In Africa, European innovation is being used to leapfrog the high cost of providing services in the way we Europeans traditionally do.

In Nigeria you can walk into a tent and open a bank account accessed via your mobile phone. eHealth is growing rapidly in Africa. They lack our governmental health systems, but if you are diabetic, you can use a mobile phone App to measure whether you need to take insulin. Much of the population is concentrated in 8–10 large cities. Distribution is not such a problem as we imagine. You can reach these people.

There is a lot of talent and innovation in Europe, but we don't do very well at moving innovation out of universities and turning it into products. In Greece, it takes six months to start a company. To be competitive, we have to do some leapfrogging ourselves. The EU can play a lead role in removing barriers and promoting schemes that work.

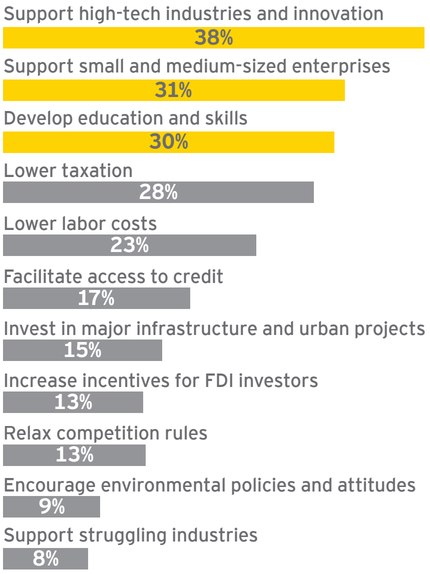
If you want to stimulate enterprise and innovation you have to make both easier and more profitable. Since France began offering tax credits to venture capitalists three years ago, there has been a huge increase in early-stage investment there, helping innovation. That policy is a good model.

I really think we need to organize venture capital networks and overhaul the way we work in Europe. Some countries have rigid rules on working hours, but the new generation doesn't want to work nine to five. European markets need to operate more efficiently. The world around us is changing fast; but too often, when you get off a plane in Europe, you find that nothing has changed.

Delivering value for money

Investors want innovation and entrepreneurship, too

In your view, where should Europe concentrate its efforts to remain attractive in the global competition?



Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

Europe's attractiveness has changed substantially since 2011 and so have investor ideas about measures to renew growth on the continent. In the 2011 edition of Ernst & Young's European Attractiveness Survey, panel members urged government leaders to focus on Europe's business credentials, particularly improving the cost of doing business. In their responses this year, investors seek "entrepreneurial innovation." To be more competitive and successful, Europe needs more innovation, more entrepreneurs and more jobs. **Investors accept Europe's levels of cost, provided they receive high-quality output.** This is a radical change in perceptions. How can Europe continue to improve value for money and raise quality without slashing costs? More than ever the focus is on the creation of a pan-European network of ingenious and entrepreneurial suppliers who can help international companies come up with the new products and services that will capture sales in the markets — European and global — of tomorrow.

Renovating innovation

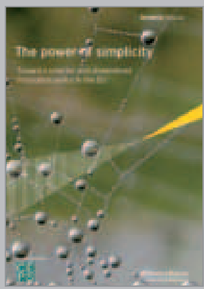
Europe's future as an investment destination is interlinked with the ability of its policy-makers to create an environment for innovation to flourish. Unfortunately, there appears scope for improvement. In our survey *The power of simplicity*, Ernst & Young's report on government and innovation, **69% of business leaders viewed innovation policy in the US and Japan as more effective than in the EU** and 69% believed innovation policy in the EU has not matched industry's needs. And according to the European Commission's Innovation Union Scoreboard 2011, Europe ranks fourth in terms of innovation performance, behind the US, Japan and South Korea. BRIC economies that used to trail Europe are also quickly catching up.

To compete effectively in the race, Europe needs to simplify policies designed to drive innovation and ensure they deliver.[31] The European Union and the Commission have made research, development and innovation a high priority. The "Innovation Union" flagship initiative under the EU2020 program laid the groundwork. In November 2011, the Commission unveiled proposals for Horizon 2020, an €80b R&D program for 2014–20. This aims to unite existing EU research programs, simplify and streamline EU funding for R&D and promote strategic priorities. According to the Commission, the budget for Horizon 2020 is 46% more than that of the preceding 7th Framework Program for R&D. Horizon 2020 is also expected to cover the full innovation cycle and be managed with standardized and simplified procedures so far as subsidiarity and competition rules permit. Though the Commission's commitment is clear, there is no guarantee that multiple complex initiatives will enable EU innovation policy to restore European leadership in research, development and innovation.

31. *The power of simplicity*, Ernst & Young, May 2012.

Celebrating entrepreneurship

More than 30% of survey respondents believe that support for small and medium-sized enterprises (SMEs) should be increased. There is a loud call for encouraging entrepreneurial culture in Europe to reinvigorate its economy. Digital and communications technology is transforming what people and companies do, and how they do it. New ideas for using these technologies to satisfy consumers or enhance business operations spring forth, and must be quickly developed and brought to market. An extraordinary period of industrial evolution is under way, and successful economies will be those that succeed in fostering this creativity and converting it into viable products and services through entrepreneurship by inventors of ideas and solutions. SMEs are thus expected to play the most crucial role in creating employment and greasing the European growth wheels. They will furnish many of the ideas, components and services that enable today's corporate champions to prosper. Some will blossom into mid-sized companies serving global markets, such as the Mittelstand companies that are the bedrock of Germany's industrial and export success. The best policy for governments aiming to encourage innovation and entrepreneurship is to ensure a highly competitive market where it is easy to start a new business, raise finance and succeed — and where business failure becomes a launchpad for renewed endeavor, rather than a badge of shame.



Ernst & Young Growing Beyond Innovation study 2012

The Ernst & Young Growing Beyond Innovation study 2012 highlights three main recommendations for governments to boost Europe's innovation performance: We propose a new, three-tier approach to EU innovation. This aims to improve its effectiveness and reduce administrative burdens for companies wishing to rely on existing funding tools and other initiatives by EU institutions.

Layer 1

Governments should act as leaders and investors by creating the main building blocks of an innovative environment — world-class infrastructure, a high-performing education system and research and innovation-friendly legal rules.

Layer 2

Governments should create funding and facilitating initiatives to strengthen links between researchers, entrepreneurs and private investors, possibly with the help of public funding and tax credits.

Layer 3

Government has the key task of "nudging" existing innovation efforts toward long-term policy goals. This should mostly occur through the strategic use of public procurement and launching a limited number of partnerships that address key long-term market failures.

We believe there should also be a stronger focus on the EU's "Grand Challenges" and key strategic R&D sectors. As highlighted by industry, European Innovation Partnerships should be promoted in all cases in which strong societal needs are at stake. In those partnerships, market participants have so far been able to avoid the current fragmentation of competences at EU level. This has occurred by involving all relevant Directorate Generals of the European Commission and participants from other EU institutions in a dialogue that has focused on industry, EU citizens and global technology challenges. Policy-makers should consider innovation at every phase of the policy cycle. In particular, competition policy should be handled by the European Commission in a way that is compatible with innovation. The recent announcement by the Competition Commissioner, Joaquín Almunia, that the state aid regime will be revised and made more growth-friendly is to be strongly welcomed. While there is no catch-all solution, a smarter and more streamlined innovation policy will underpin a much-needed economic resurgence across the EU.

Developing the right skill-set

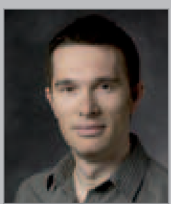
To support innovation and entrepreneurship, our respondents also emphasize **the importance of imparting the right skills.** Thirty percent say that governments should develop education and skills to increase Europe's attractiveness as an investment destination. At the January 2012 World Economic Forum in Davos, Switzerland, business leaders complained that it is hard to find hires with the right qualifications and talent. Though companies train and retrain, they want governments, universities, colleges and schools to partner them in this activity, which is outside their core business. Curricula in schools and colleges should be redesigned with business input to equip job-seekers with the skills business needs and encourage entrepreneurship at a young age. Governments should study successful school-to-work models, such as Germany's apprenticeship system, and adapt them to create skill training systems that facilitate economic growth and competitiveness.

Viewpoint

Upgrading Europe's skills appeal

John Van Reenen, Professor of Economics and Director, Centre for Economic Performance, London School of Economics

The European Union has a skills challenge. The demand for skills has been rising strongly for the last century and this is likely to continue, due to ongoing technology change with a more recent globalization twist.



Universities need to be able to expand and increase in quality.

Today, the EU seeks economic growth and jobs. To deliver them, productivity growth is not the only thing that matters but, in the long run, it is almost the only thing that matters. The most important factor in determining growth is skills, so unless the EU gets the right skills, it will fail to grow and innovate.

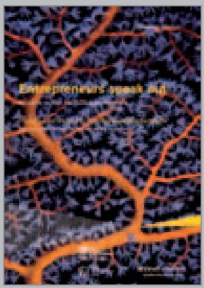
Compared with the US, the EU has far fewer people in college education. Universities need to be able to expand and increase in quality — which requires more autonomy from the state and the ability to set higher fees that reflect costs — in order to invest in better research and faculty. This needs to be combined with generous bursaries to low-income families so that the talented poor are not discouraged from attending university.

But we also need a way to up-skill young people who are not likely to go to college and give them a route to better wages and job opportunities. Germany, Austria and Switzerland have the best apprenticeship system, and this is also at the heart of the great German manufacturing machine.

Countries like the United Kingdom are better at giving young people general skills through educating the elite well, but fail to educate the bottom third properly — which is why staying-on rates in education after 16 are so low and why the UK has a problem of high youth unemployment and high rates of young people not in education, employment or training (the famous NEETs).

Replicating Germany's skills success will not be easy and it will be a long battle to get a decent apprenticeship system throughout Europe. In the southern EU, it would help to reduce the excess protection given to older 'inside' workers. The Monti reforms in Italy, for example, are trying to address the ridiculous situation where firms with more than 15 employees cannot sack workers, no matter how incompetent they are. Thus Italian firms only hire young workers on temporary contracts and have little incentive to give them proper training and careers.

Austerity cuts are going too fast in many countries including the UK, France and Germany. It is a false economy to cut the future sources of wealth. EU states must invest in education and training now. That would deliver higher growth, better productivity and more jobs, especially for young people.



Recommendations from entrepreneurs to government

Ernst & Young's Entrepreneurship barometer, produced for the G20 Young Entrepreneur Summit in October 2011, suggests the following recommendations for government.

1 Consider non-traditional, community-based approaches that value real-life experiences

Governments could consider initiatives that would enable universities or even professor-student ventures, such as removing legal barriers or providing funds. Canada and China provide examples of such programs. In Canada, the Small Business Internship Program provides SMEs with financial support to hire a post-secondary student intern to assist them in their adoption of e-business strategies, to increase their productivity and competitiveness. About 400 student interns are hired annually to help with information and communications technology projects.

2 Provide training assistance for those moving from a corporate role to entrepreneurship

Turkey provides an example of a program that helps specific groups of people move from the "idea" stage to specific entrepreneurship training. In such programs, training can be arranged for a general audience or targeted specifically at, for example, younger people, women and disadvantaged groups. Turkey's Applied Entrepreneurship Education scheme consists of a minimum of 60 hours of training and workshops covering the characteristics of entrepreneurship and business ideas, plus business plan exercises. It is provided through several entry points, including universities, professional organizations and municipalities.

3 Broaden the scope of university entrepreneurship education

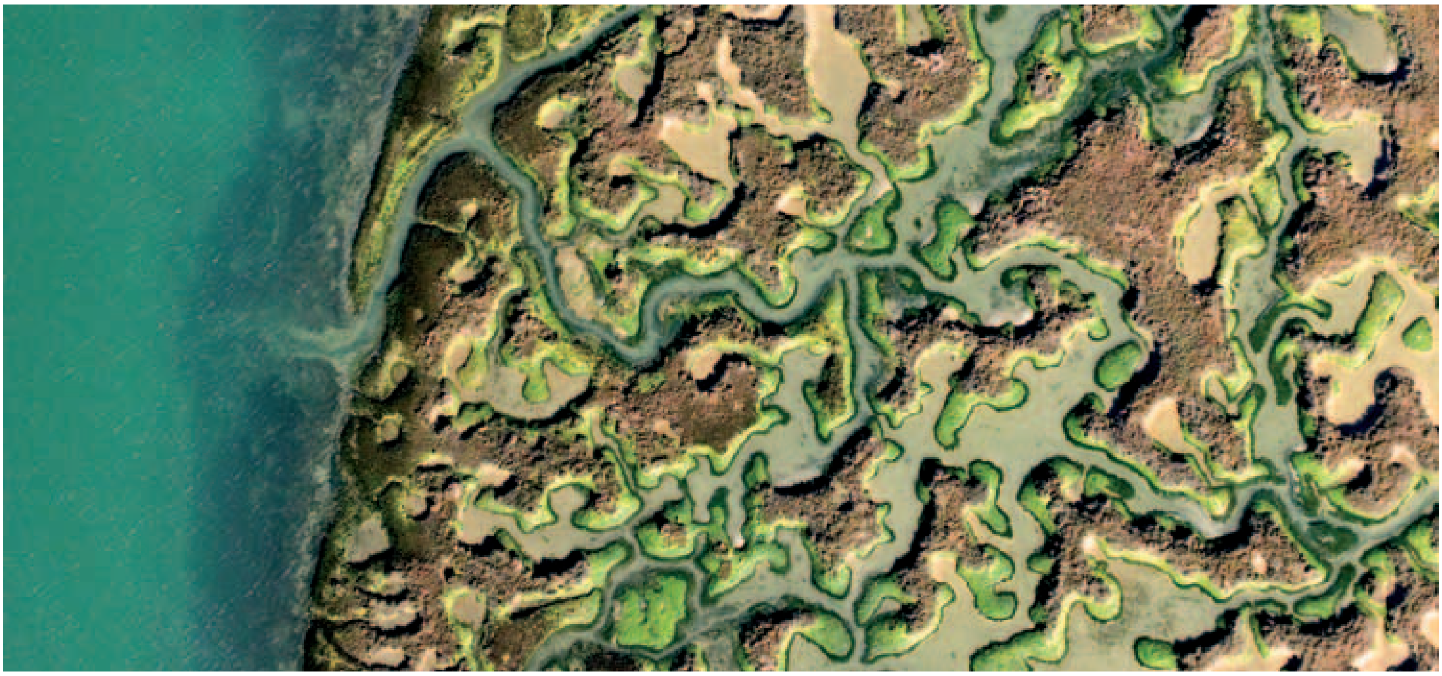
Governments can foster the spread of entrepreneurship education beyond the traditional realms of business and economics studies. Students in disciplines outside these fields represent a deep vein of potential entrepreneurial take-up. Similarly, the types of support for entrepreneurship in higher education settings can be broadened. At present, these are dominated by course lectures and seminars. Governments can consider initiatives to build business incubators, to provide start-up coaching and to organize seed funding.

- France's Centers for Entrepreneurship at Grenoble University and elsewhere raise awareness among students by teaching entrepreneurship-specific courses, organizing conferences And seminars funded by the local community and business and expanding networks.
- The Technical University of Munich offers interdisciplinary, applied and more practical courses to a diverse group of students. Special seminars and real case studies are offered to those students keen to develop a deeper understanding of the entrepreneurial aspects of their subject.
- Spain's Enterprise Initiative Center (CIADE) at the Autonomous University of Madrid raises awareness and provides training and technical assistance through tutoring. It also provides project finance through entrepreneurial networks.

4 Change the perception of entrepreneurship as a career option from primary school onward

Universities should constantly involve successful entrepreneurs in education initiatives such as lectures, seminars and speeches. For example, by promoting the success stories of young entrepreneurs, organizing conferences and widening the reach of seminars, universities, as well as post-secondary vocational schools, can highlight entrepreneurship as a valid career option for students from primary school onward.

Germany's Gründerland Deutschland initiative aims to strengthen the business culture in order to encourage more Germans to start their own business or engage in other entrepreneurial activity. The initiative entails a range of measures, from public relations campaigns to promoting a public-private venture capital fund.



A call for reforms

The areas where investors believe Europe should concentrate its efforts are also those where they believe reforms are urgent. To help make Europe a leader in innovation, investors seek an improvement in education and training (47%) and call for a more innovative culture (32%) and tax incentives for innovative companies (29%).

1. Improving universities

Nearly half (47%) of our survey respondents say that improving education and training in new technologies is the most urgent need to enhance Europe's credibility as an innovation destination. The European Union is home to almost 40% of the 500 best universities in the world, according to the annual ranking by Shanghai Jiao Tong University, China. But the top end is dominated by the US. Policy-makers, business and academia need to strengthen links, prioritize quality and relevance in education, and ensure appropriate laboratory ideas become commercial products and services.

2. Promoting a culture of innovation

32% of our respondents want a more innovative culture in Europe. A weak spirit of innovation and entrepreneurship in many European countries and universities limits the growth of innovation and the success of university-industry partnerships and academic spinoffs. Better policies can create an environment for innovation to flourish.

3. Incentivizing innovation

29% of our respondents want more or better tax incentives for innovative companies. EU innovation policy has focused on competition — now it needs to motivate and facilitate.

What are the main areas of reform to make Europe a leader in innovation?

Source: *Ernst & Young's European attractiveness survey 2012*. Total respondents: 840.

Methodology

The *Ernst & Young's European attractiveness survey 2012* is based on a twofold, original methodology that reflects:

1 The "real" attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on Ernst & Young's European Investment Monitor (EIM). This database tracks FDI projects that have resulted in new facilities and the creation of new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent.

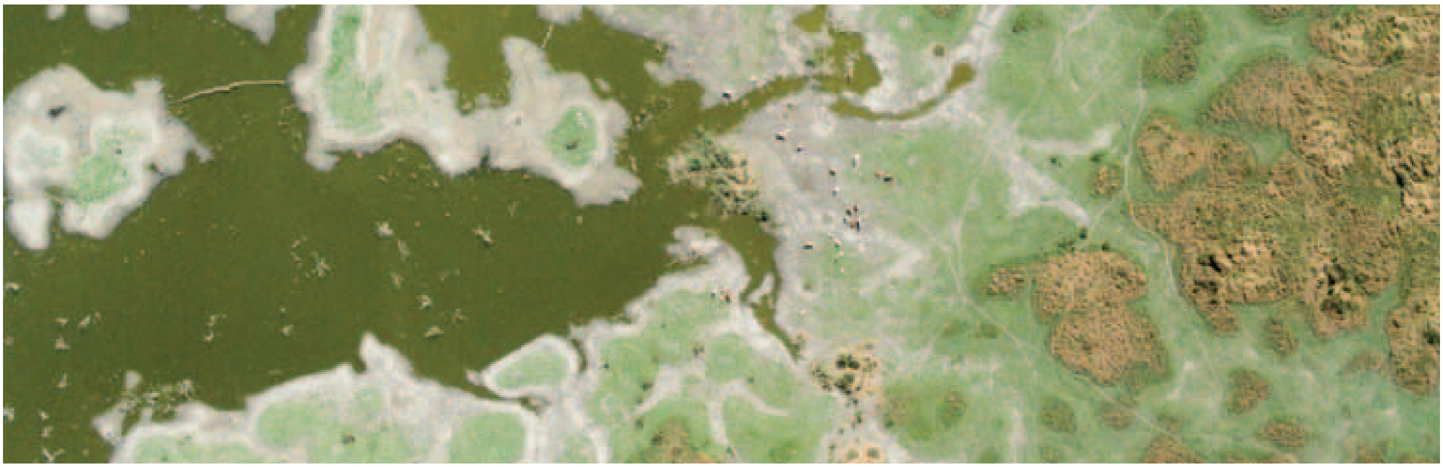
Data is widely available on FDI. An investment in a company is normally included if the foreign investor has more than 10% of its equity and a voice in its management. FDI includes equity capital, reinvested earnings and intracompany loans. But many analysts are more interested in evaluating investment in physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Europe, Ernst and Young created the Ernst & Young EIM in 1997.

The EIM is a leading online information provider, tracking inward investment across Europe. This flagship business information tool from Ernst & Young is the most detailed source of information on cross-border investment projects and trends throughout Europe. The EIM is a tool frequently used by government and private sector organizations or corporations wishing to identify trends and significant movements in jobs and industries, business and investment.

Ernst & Young's EIM, researched and powered by Oxford Intelligence, is a highly detailed source of information on cross-border investment projects and trends in Europe, dating back to 1997. The database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment, thus providing exhaustive data on FDI in Europe. It allows users to monitor trends, movements in jobs and industries, and identify emerging sectors and cluster development. Projects are identified through the daily monitoring and research of more than 10,000 news sources. The research team aims to contact 70% of the companies undertaking the investment directly for validation purposes. This process of direct verification with the investing company ensures that real investment data is accurately reflected.

The following categories of investment projects are excluded from EIM:

- M&A or joint ventures (unless these result in new facilities, new jobs created)
- License agreements
- Retail and leisure facilities, hotels and real estate investments
- Utility facilities including telecommunications networks, airports, ports or other fixed infrastructure investments
- Extraction activities (ores, minerals or fuels)
- Portfolio investments (pensions, insurance and financial funds)
- Factory and other production replacement investments (e.g., a new machine replacing an old one, but not creating any new employment)
- Not-for-profit organizations (charitable foundations, trade associations, governmental bodies)



2 The "perceived" attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. The field research was conducted by CSA institute in February and March 2012, via telephone interviews, based on a representative panel of 840 international decision-makers.

An international panel of decision-makers of all origins, with clear views and experience of Europe:

- 51% European businesses
- 31% North American businesses
- 13% Asian businesses
- 3% Latin American businesses
- 2% Latin American and Oceanian businesses

Of the non-European companies, 66% have established operations in Europe. As a result, overall, 81% of the 840 companies interviewed have a presence in Europe.

We built a global panel from all business models and sectors to further demonstrate a representative opinion on the diversity of international strategies:

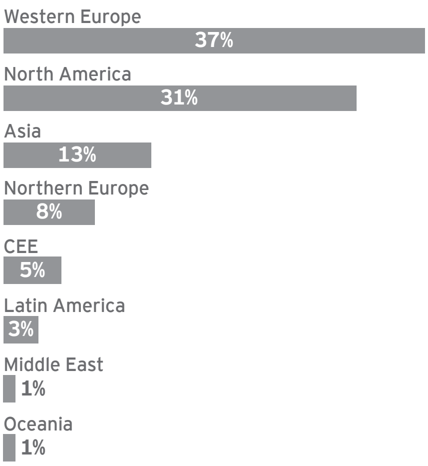
- SMEs (small and medium-sized enterprises)
- Multinationals
- Industrial companies as well as service providers
- Companies from Brazil, Russia, India and China (BRIC countries) made up 13% (among the total interviewed companies)

Divided into five main sectors, the businesses surveyed are representative of the key European and global economic sectors:

- Industry, automotive and energy
- Private and business services
- Consumer goods
- Chemical and pharmaceutical industries
- Hi-tech and telecom infrastructure and equipment

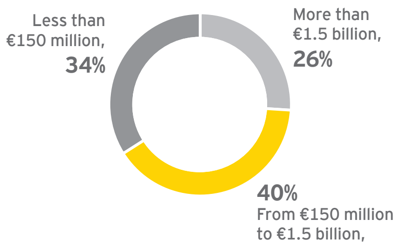
Profile of companies surveyed

Geography



Profile of companies surveyed

Size



Profile of companies surveyed

Job title

Ernst & Young

Assurance | Tax | Transactions | Advisory

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