

EY's attractiveness survey

Europe 2015

Comeback time



Building a better
working world

What is the European attractiveness survey?

EY's attractiveness surveys are widely recognized by our clients, media and major public stakeholders as a key source of insight into foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

For more information, please visit:
www.ey.com/attractiveness

We would like to extend our gratitude to ...

Jean-Pierre Clamadieu, CEO of Solvay and President of Cefic, the European Chemical Industry Council; **Philip Dunne**, President Europe, Prologis; **Henri Malosse**, President, European Economic and Social Committee; Councillor **Gordon Matheson**, Leader of Glasgow City Council; **Cindy Miller**, President, UPS Europe; **Xavier Trias**, Mayor of Barcelona; **Šimon Vostrý**, Founder and CEO of ZOOM International who contributed to this report with their viewpoint.

Furthermore, we would like to thank the hundreds of business leaders and EY professionals who have taken the time to share their thoughts with us through bad times and good.

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Pascal Macioce
EMEIA Deputy Managing
Partner, EY



Marc Lhermitte
Partner, Global Lead –
Attractiveness and
Competitiveness, EY

There is a breath of spring in this year's European attractiveness survey. After much anticipation, investors seem convinced that Europe has at last broken free from recession and is finding a path to sustainable growth. In 2014, they had already begun backing Europe with a marked increase in the flow of funds to the continent. Now, though cautious, they suggest a breakthrough that is perhaps even more momentous: the possibility that Europe has so improved its capacity to create and innovate, it could plausibly harbor the next Google, and that it has pulled further ahead of China as the world's most attractive investment destination.

These are bold claims that deserve an explanation. EY's survey, now in its 13th year, measures the reality of FDI in terms of projects initiated and jobs created, and reveals the perceptions of more than 800 decision-makers. For more than a decade, it has proved a reliable guide to investment trends and the forces that shape them.

Last year, even as global growth slowed and FDI flows around the world stagnated, Europe attracted US\$305b of footloose investment funding, up 36% from 2013. Though accelerating recovery and cheap shale gas triggered a re-rating of the US, Western Europe convinced even more investors that it is now the place to be. And 59% of them believe that Europe's attractiveness will improve still further during the next five years.

No longer awed by American prowess in building corporate leviathans that dominate the digital transition, investors have regained cautious confidence in European culture and creativity, business agility and entrepreneurship. Following in London's footsteps, cities across the continent have demonstrated their capacity to restore economic growth and competitiveness, and incubate new-age companies that can imagine and commercialize ideas for transforming the lives of millions. And whether unshaven or wearing Louboutin heels, Europe's new multilingual entrepreneurial generation seems every bit as able as that emerging elsewhere.

With impressive aplomb, these newcomers are perfecting the technologies that investors believe will underpin Europe's renewal, in key domains such as information technology, health care and clean tech – long, powerful waves that investors want to ride. But those investors who feel the swell and start to paddle are those who have already invested in Europe and can read the currents. Those watching from afar are still transfixed and deterred by the hazards.

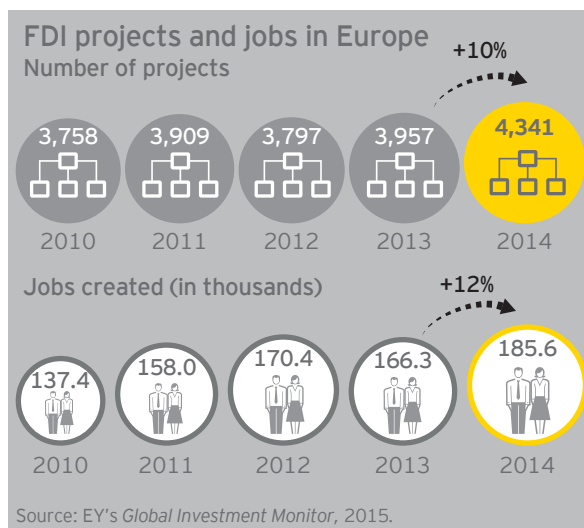
What deters investors from betting on Europe? Excess bureaucracy and slow growth are still seen as major impediments. Geopolitical unrest on the frontiers of Europe, energy insecurity and public deficits are deterrents that pale in comparison to the complexity of rules that straitjacket European employers and entrepreneurs. Yet countries that have moved to enhance labor market flexibility, simplify regulations and lighten burdens on companies are seeing the benefits via faster growth, increased employment and enhanced investment inflows. To make the best out of Europe's comeback, both in terms of economic growth and as a leading destination for FDI, and sustain these trends in the upcoming years, policy-makers should continue to remove obstacles to business efficiency.

Lower energy prices, a weaker euro and quantitative easing have all added impetus to Europe's growth and investment recovery. They have gently encouraged consumption, raised hopes and created a breathing space for policy-makers to establish the enduring, business-friendly environment that will enable investors to deliver a lasting reduction in unemployment.

Investors now believe this is Europe's comeback time. We hope our findings will help ensure they are right.

As foreign investors regain confidence, FDI in Europe hits a new record

- Europe attracted 4,341 projects (+10%) and 185,583 jobs (+12%) while global FDI flows slipped 8% to US\$1.26 trillion.
- Fifty percent of investors see Western Europe as the most attractive region in the world for FDI.
- China is no longer Europe's main competitor (38%, -6 points); the new challenger is North America (39%) with an increase of +8 points.
- Fifty-nine percent of investors (up five points from 2014) believe that Europe's attractiveness will keep improving in the next three years.



Investors playing it safe

Most attractive regions to establish operations

	2014	2015	% change 2014 vs. 2015
Western Europe	45%	50%	+5 pts
North America	31%	39%	+8 pts
China	44%	38%	-6 pts
CEE	29%	28%	-1 pt
India	17%	18%	+1 pt
Brazil	13%	14%	+1 pt
Russia	19%	11%	-8 pts

Source: EY's 2015 European attractiveness survey (total respondents: 808).

The cards are being reshuffled among countries

- Fifty-two percent of FDI projects and 30% of jobs created by FDI are captured by the top three destinations: the UK, Germany and France.
- The UK, with 887 projects and 31,198 jobs, retains a strong lead, but France (608 projects, +18%) has closed a little on Germany (763 projects, +9%).
- Western Europe's mid-sized FDI markets (Spain, Belgium, the Netherlands and Ireland) deliver mixed performances.
- Central and Eastern Europe, Russia and Turkey attract 96,087 FDI jobs (52% of Europe's total), outpacing Western Europe.

The flags on the podium remain the same

Top 10 countries by FDI projects

	2013	2014	Change %
UK	799	887	11%
Germany	701	763	9%
France	515	608	18%
Spain	221	232	5%
Belgium	175	198	13%
Netherlands	161	149	-7%
Poland	107	132	23%
Russia	114	125	10%
Turkey	98	109	11%
Ireland	111	106	-5%
Other	955	1,032	8%
Total	3,957	4,341	10%

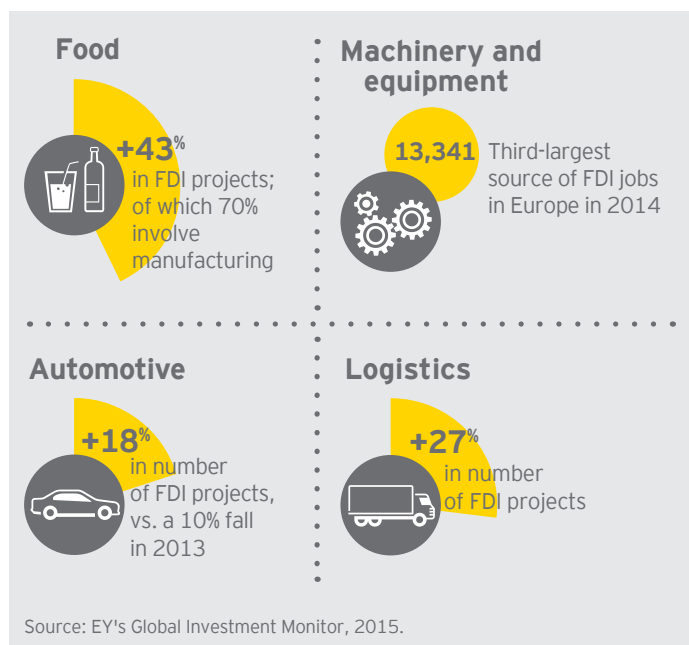
Source: EY's Global Investment Monitor, 2015.

Top 10 countries by FDI job creation

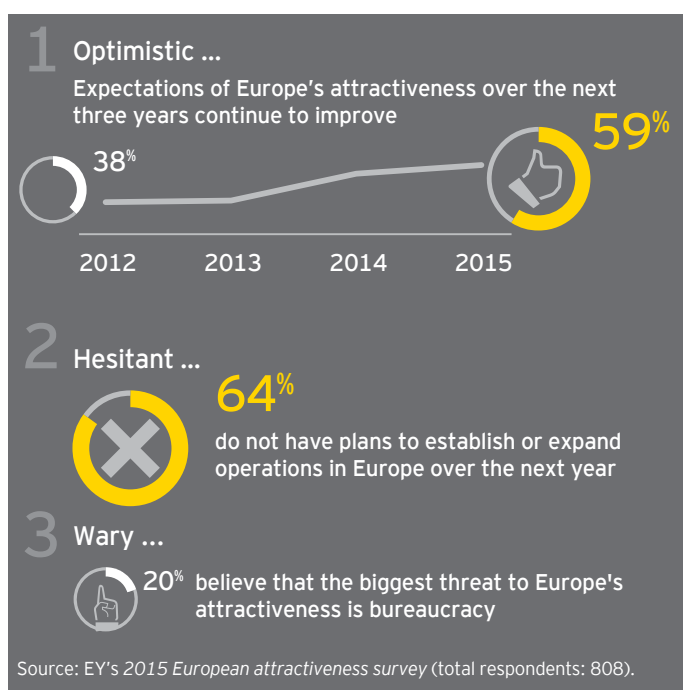
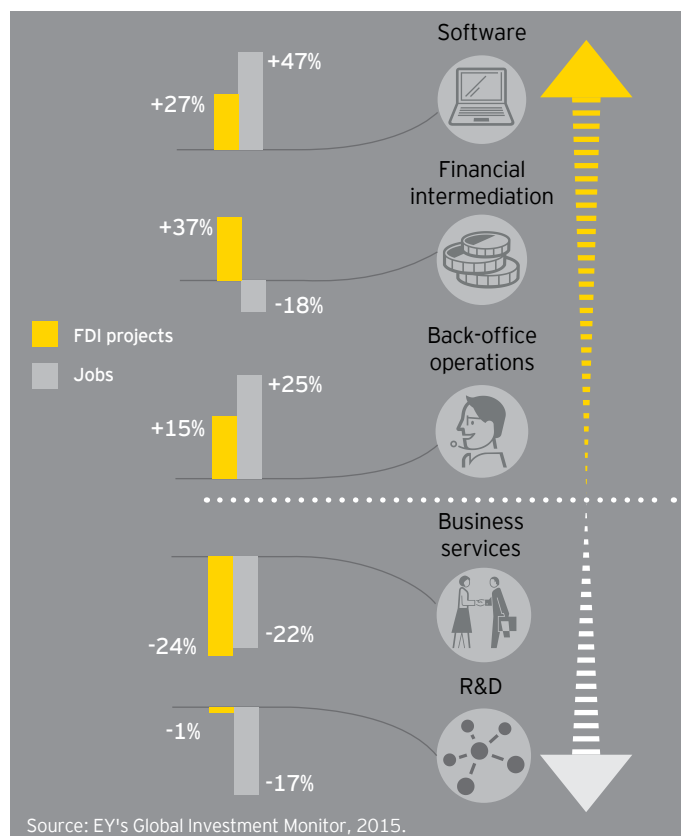
	2013	2014	Change %
UK	27,953	31,198	12%
Russia	13,621	18,248	34%
Poland	13,862	15,485	12%
France	14,122	12,577	-11%
Germany	10,350	11,327	9%
Romania	6,157	10,892	77%
Spain	11,138	9,750	-12%
Turkey	8,696	8,175	-6%
Slovakia	3,493	7,978	128%
Ireland	6,895	7,306	6%
Other	49,996	52,647	5%
Total	166,283	185,583	12%

Industrial investment picks up

- Europe's industrial appeal rebounds in 2014, with more FDI manufacturing (+20%) and logistics (+27%) projects. Automotive (+18%), food (+43%) and machinery and equipment benefit the most from this trend.



- Services have a mixed year: software projects (+27%), financial intermediation (+37%) and back-office operations (+15%) all grow strongly while business services (-24%) and R&D (-1%) slide.



Outlook: unleashing confidence

- Fifty-nine percent of investors are confident about Europe's prospects in the upcoming 3 years.
- Only 32% of investors have plans to establish or expand operations in Europe over the next year, while 64% don't.
- Foreign investors see bureaucracy (20%) and slow economic growth (17%) as the biggest flaws in Europe's attractiveness, overshadowing the geopolitical unrest at Europe's frontiers (11%) and big deficits (10%).
- The big trends that business leaders believe will drive European renewal – the digital, health care and energy transformations – take decades to build momentum, but nonetheless, they want to catch those waves.



Henri Malosse

President, European Economic and Social Committee (EESC)

Rebuilding popular confidence in Europe

Viewpoint

I'm convinced that if Europe wants a future, it must regain the confidence of its citizens. And there's only one way to do that: by making Europe work for its people, responsive to their needs and made real by its attention to their concerns. That's the policy I've been pursuing throughout my presidency of the EESC. We've re-energized our issue-monitoring groups (observatories) by developing impact assessments, by "going local" and also thanks to support from European Citizens' Initiative (ECI), particularly in the battle against mobile phone roaming charges.

Support for these initiatives is critical, because they provide the voice of citizens in shaping European policy. They can help rebuild Europe's popularity.

One of the issues on which citizens most want EU action is immigration. Illegal immigration and especially the development of mafia networks and the appalling human dramas they bring about are challenges EU member states must unite to confront. It is plain wrong to leave Italy and Greece to deal with this alone: their borders are those of all of Europe.

We must find effective, compassionate solutions that respect European values. That is our responsibility. What's missing is a coherent immigration policy at European level: today, policies are decided piecemeal by member states.

The other great concern is unemployment. The EU has endured one of the harshest crises in its history, which has destroyed entire employment pools in every member state, with some especially hard-hit. The great scandal is youth unemployment. More than half of young people are jobless in some southern countries, and many are now obliged to migrate in search of a future. I've met people in many of these areas, and they feel utterly abandoned. Austerity policies that cut budgets critical to building a new future, such as education, only make things worse.

Here too, Europe needs to demonstrate solidarity. The EU's Youth Guarantee, intended to ensure a job, apprenticeship, training or continuing education for all under-25s was originally a good idea. But the effects of administrative complexity have left it ineffective – as so often happens with Europe's good ideas. We need to create measures quickly which are effective locally. We need to involve local players, including companies and labor unions, chambers of commerce and voluntary associations that can provide considerable added value in improving the job market and cutting unemployment levels.

It's only by restoring the confidence of citizens and companies that we can relaunch job creation, and that confidence must be built upon concrete measures and reforms.



Context

Back on track

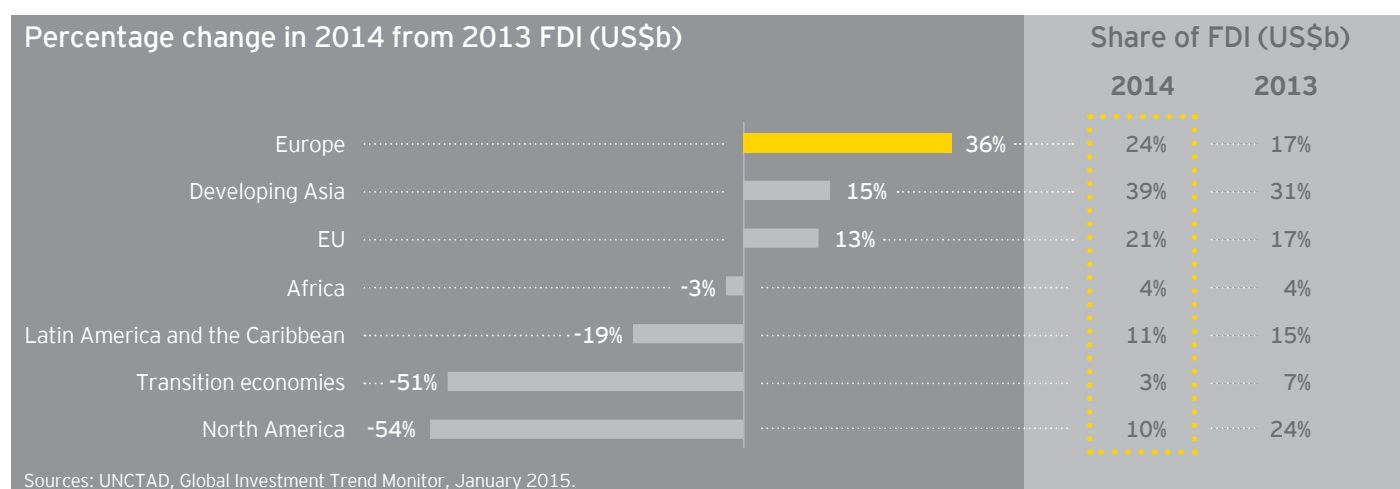
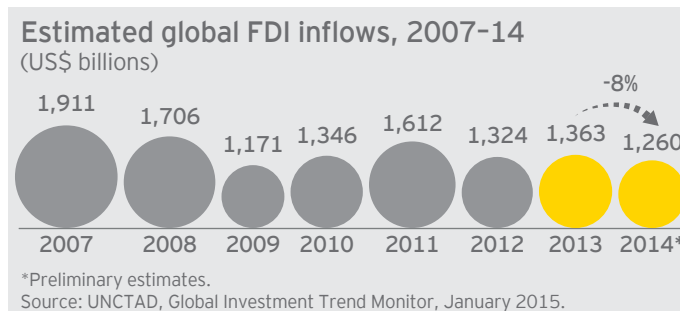
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Europe revives as global FDI falters

Global FDI flows, including M&A, fell 8% to US\$1.26t in 2014, but the outcome was distorted by a single megadeal, which was the exceptional US\$130b divestment by UK-based Vodafone of its stake in US cellular network Verizon.

A worldwide investment recovery was held back by the fragility of the global economy, policy uncertainty and geopolitical risks. Yet within the overall near-stagnation, remarkable shifts occurred. Flows to transitional economies more than halved, to US\$45b, as sanctions and stalled growth caused investors to spurn Russia and to invest less in raw material production in Brazil.

Yet in general, flows into developing economies reached a new peak of US\$704b, up 4%, as increases in Asia compensated for declines in Africa, Latin America and the Caribbean. Meanwhile, cross-border M&A surged 19% to US\$384b, a sign of strengthening business confidence.



Meanwhile, Europe bucked the trend, with strong FDI inflows

FDI inflows into Europe (excluding Russia) rose 36% in 2014, the biggest increase among major regions. Europe's US\$305b of investments made up 24% of global FDI, from 17% in 2013. Inflows to the EU, at US\$267b, rose 13% but remained at only a third of their 2007 peak level. The global uptick in M&A was mirrored in Europe, where companies began a wave of consolidation in financial services, pharmaceuticals, manufacturing and communications. The weakening of the euro, which has accelerated since year-end, has made many Continental European

assets or investment projects more affordable, especially for those paying in dollars, pounds or Swiss francs. But investors may also have reacted to the first signs of a long-overdue and multispeed European economic recovery that has since been confirmed, which is encouraging a rising wave of business investment across the region. In the final quarter of 2014, a sharp fall in energy prices also bolstered Europe's attractiveness and stimulated its nascent economic recovery.

By country, China emerged as the world's leading FDI recipient, with inflows of US\$128b effortlessly pushing the US (US\$86b) into second place.

59%

of investors believe Europe will become more attractive in the next three years

Every second investor says Western Europe is the world's most attractive FDI destination

Europe's attractions include a stable business environment, its research and innovation capacity, and its market

Europe shines, China fades

This year, investors have ranked Western Europe (50%) as the world's most attractive FDI destination for the second year running. The region's attractiveness, as seen by investors, has increased by 5 points since 2014 and by 17 points since 2008, and is now posting three years of sustained improvement. Western Europe is on course to regain its 55% pre-crisis level of attractiveness.

Europe as a whole is seen as increasingly attractive as investors transfer their affections from China and Russia. China is rebalancing its economy from investment to consumption,

accompanied by a managed slowdown. With wages in manufacturing rising at an average pace of 14% per year between 2009 and 2013,¹ the appeal of Chinese labor costs is diminishing. Investors who ranked China the most attractive destination for establishing operations in 2012 and 2013 rank it third in 2015, with 38% of the votes.

The new challenger for investors' affections is North America, which is benefiting from cheap energy that is contributing to a growing economic recovery and a more bullish business outlook.

Investors playing it safe

Most attractive regions to establish operations

	2008	2014	2015	% change 2014 to 2015
Western Europe	33%	45%	50%	+5 pts
North America	21%	31%	39%	+8 pts
China	47%	44%	38%	-6 pts
CEE	42%	29%	28%	-1 pt
India	30%	17%	18%	+1 pt
Brazil	10%	13%	14%	+1 pt
Russia	21%	19%	11%	-8 pts

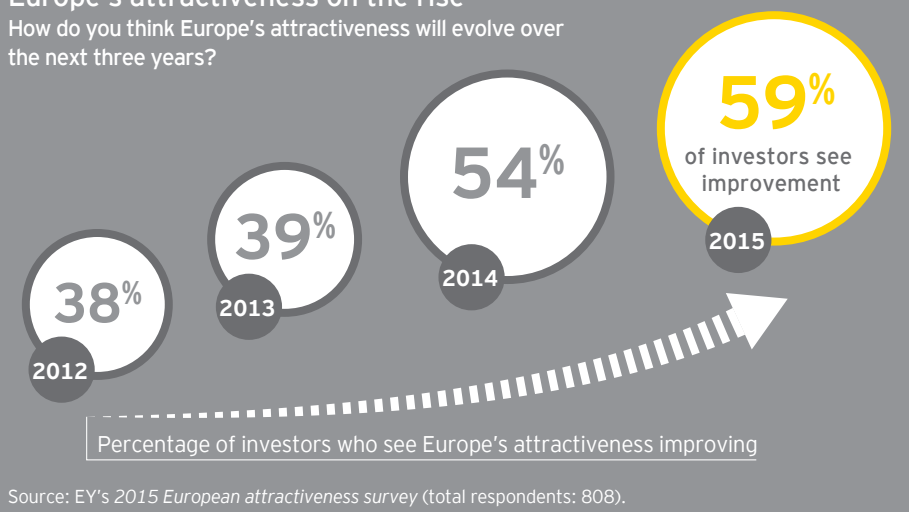
Source: EY's 2015 European attractiveness survey (total respondents: 808).

Investors see a brighter future in Europe

This year, 59% of investors believe that Europe's attractiveness will improve in the next three years (up 5 points on 2014 and a rise of 21 points since 2012). What's most notable is that investors present in Europe have become significantly more optimistic about its outlook. The improvement in Europe's relative attractiveness stems not just from the economic stabilization and recovery in Europe, but also from the slower global growth and greater uncertainty about the outlook for rapid-growth markets and their ability to continue delivering the growth rates achieved over the past decade.

Europe's attractiveness on the rise

How do you think Europe's attractiveness will evolve over the next three years?



¹ "China Statistical Yearbook 2014," National Bureau of Statistics of China, <http://www.stats.gov.cn/tjsj/ndsj/2014/indexeh.htm>, accessed 15 May 2015; EY analysis.

Northern and Western Europe appeal most

Europe's appeal is uneven. The attractiveness of stable and competitive Northern Europe² has risen five points since 2014, and that of Western Europe³ overall, three points. But the appeal of Central and Eastern Europe (CEE), at 28%, has diminished by 14 points since 2008, when it was rated more attractive than both Western Europe and North America. The allure of Southern Europe has been undermined by fiscal problems, recession and labor market rigidities. In the meantime, the crisis in Ukraine and the resulting mutual sanctions between Russia and the EU have damaged businesses, trade and confidence in Central and Eastern Europe.

North America becomes Europe's challenger

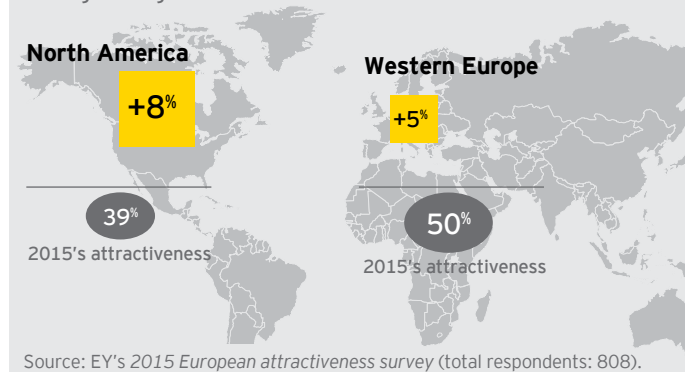
North America (39%, +8 points) has moved up one spot, displacing China (38%, -6 points) as the second most attractive FDI destination. Its attractiveness topped its pre-crisis peak of 38% this year, after reaching a low of 21% in 2012.

The region's increased attractiveness results from ongoing economic recovery. The International Monetary Fund (IMF) has predicted a 3.1% GDP growth in 2015, the highest since 2006. The shale gas revolution has cut energy prices and given a new cost advantage and appeal to the US economy.⁴

North America rising fast

The most attractive regions to establish operations

Change in regions' attractiveness from 2014 to 2015

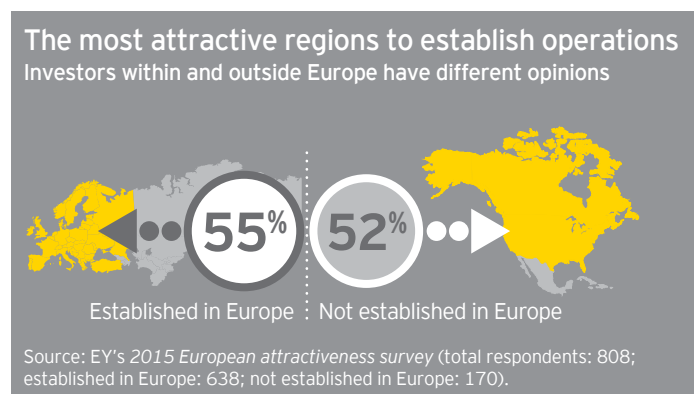


Emerging markets diverge

The stability and sustainability of emerging markets – previously the engines of global growth – are being questioned. China's attractiveness has fallen six points to 38% since 2014, as international companies feel higher operational costs with the rise in salaries. Doubts about the business and economic environment in Russia, hit by sanctions, have caused its attractiveness as an FDI destination to fall eight points. India (18%) and Brazil (14%) are resilient, and each shows a one percentage point improvement in attractiveness against 2014.

Europe's existing investors are upbeat: others prefer North America

Investors present in Europe, who know it well, have sensed a turning point. They are now more enthusiastic about its attractiveness compared with the prospects of emerging countries, especially China.



Investors established in Europe ranked Western Europe (55%) as the most preferred location to set up operations, followed by China (37%). But investors not present in Europe, who are perhaps less close to the European pulse, much prefer North America (52%) and China (40%) over Western Europe (30%). Is that because the US recovery is more advanced, and hence better publicized?

² In our survey, Northern Europe is defined as Sweden, Denmark, Finland and Norway.

³ In our survey, Western Europe is defined as the UK, Germany, France, Belgium, Spain, Switzerland, Netherlands, Italy, Ireland and Austria.

⁴ "World Economic Outlook database," *International Monetary Fund website*, <http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx>, April 2015.



Viewpoint

Trade routes to growth

Cindy Miller
President, UPS Europe

Europe is on a continued trajectory to attract the attention and investment dollars of the world's economic powerhouses

Recent economic turmoil exposed Europe's challenges, but to an even greater degree, it also showed the European economy's underlying strengths.

Many European products – born of the ingenuity and skill of millions of small- and medium-sized enterprises – are in demand all over the world. They're part of an infrastructure that makes the European economy uniquely flexible and robust.

What's more, the Trans-Atlantic Trade and Investment Partnership (TTIP), which is currently being negotiated, has the potential to usher in a new era of vibrant trade between Europe and its trading partners around the world. We're confident that lowering trade barriers and enhancing cross-border infrastructure will continue to position the continent as a strategic player in a global economy.

For those reasons and more, Europe is on a continued trajectory to attract the attention and investment dollars of the world's economic powerhouses. Since 2000, more than half of total US global investment has gone to Europe; Chinese investment in the continent doubled last year.

In 2014, my own company, UPS, announced that we will invest US\$1b in our European network over the next several years to increase the capacity and efficiency of our facilities and infrastructure, and bolster our alternative fuel fleet. We've been a partner and supply chain logistics provider to European businesses of all sizes for nearly 40 years. From our ground-level vantage point, we see vast potential for Europe's trade, goods and services network to continue performing well in the world economy. Our investment underscores that confidence.

Europe must continue to find solutions and resolve its internal differences so that people and goods move unencumbered through the continent. In a globalizing world, trade deals should be a priority so that Europe can capitalize on its huge potential. An integrated Europe, open to the world for business, is one that we're confident will continue to attract worldwide investment.

Risk aversion benefits Europe

Geopolitical events across the globe have raised investors' concerns. The stability and transparency of the political, legal and regulatory environment have become an even more overriding priority for companies weighing where to invest, rising three points to 46% this year. Accessing markets, flagged by 37% of respondents, is also critical.

Europe's strengths play to the qualities investors seek. The region is reckoned to have improved the stability and predictability of its business environment (49%, +5 points). Its big market (31%) and

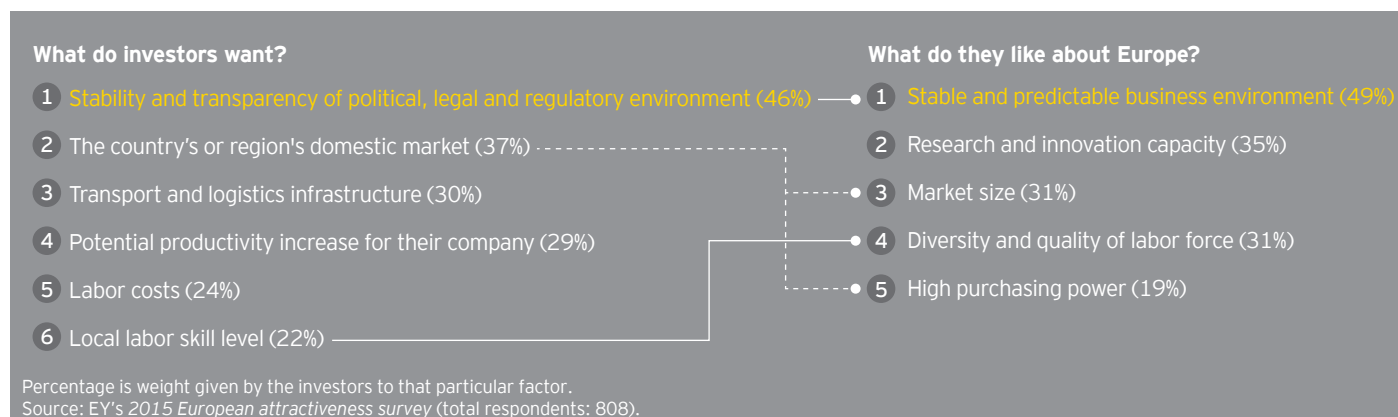
purchasing power (19%) offer attractive investment opportunities for companies. Labor skills, considered the sixth most important factor in investment location, are Europe's fourth most attractive feature, according to 31% of respondents. Investors present in Europe appreciate its skills more highly than those who lack European experience. For investors not established in Europe, its market (32%) and high purchasing power (25%) are more attractive than Europe's labor force (24%). That suggests Europe's workers are seen as better than many "foreigners" realize.



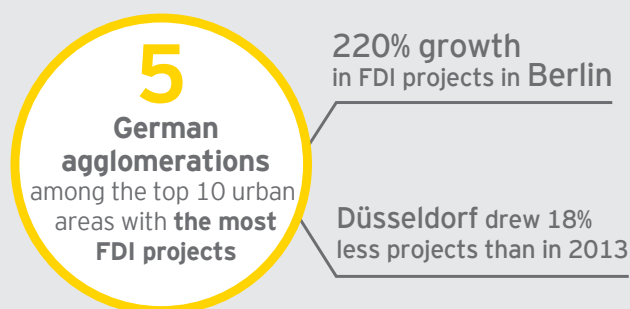
Matching transportation networks to more demanding logistics

As companies expand across borders, it becomes increasingly important for them to maintain tight control over supply chains. That explains why the quality of transportation and logistics infrastructure has become the third most important factor in choosing a location (30%), up five points and two places in the ranking. Europe's infrastructure is no longer seen as a plus as other locations have caught up.

Rather, Europe's transportation networks need an upgrade, especially across borders and around cities that are continuing to draw more inhabitants. The EU has sharpened its focus on infrastructure improvement. EU financing for transportation infrastructure has tripled to €26b (US\$28b) for 2014-20 from €8b (US\$9b) in the previous budget.⁵ By 2030, the EU plans a raft of major infrastructure projects focusing on key transport corridors, enhancing road and rail connectivity with ports, and completing 35 cross-border projects.



⁵ "Transport: €11.9 billion to improve European connections," European Commission press release, http://europa.eu/rapid/press-release_IP-14-988_en.htm, 11 September 2014.



European cities: Berlin rising

In 2015, London, Paris and Berlin remained the three most attractive cities in Europe. But while London's attractiveness slipped two points and that of Paris stagnated, Berlin's appeal surged four points, putting it on the heels of the French capital. Berlin's pull partly reflects its emergence as the prime locus of economic power in Europe (Frankfurt's appeal slipped four points). But investors also recognize Berlin's emerging brand as a technology and lifestyle destination.

In the meantime, Brussels – the home of the European Commission – has climbed to 6th place (from a lowly 11th in 2014) to rank among the 10 most attractive cities in Europe.

London maintains its leadership position

What are the three most attractive European cities?

Cities	2015	% change 2014 to 2015
London	52%	-2%
Paris	29%	0%
Berlin	28%	4%
Frankfurt	11%	-4%
Amsterdam	7%	0%
Brussels	7%	2%
Munich	7%	-4%
Barcelona	6%	-2%
Prague	6%	1%
Madrid	4%	-1%

Source: EY's 2015 European attractiveness survey (total respondents: 808).



London: the unrivaled leader

London remains Europe's most attractive European city, according to 52% of investors. It leads by a hefty margin of 13 points in 2015. As one of the world's dominant financial centers, London benefits from stable institutions, world-class business resources and access to highly skilled talent drawn from all over the world. Our survey shows that 79% of investors from the financial sector consider London the most attractive European city. The UK capital is home to 250 foreign banks, which employ more than 160,000 people.⁶ It is also emerging as a global technology and start-up hub: Facebook has set up its first engineering center outside the US in London.

⁶ "City fears loss of access and influence in event of Brexit," *Financial Times website*, <http://www.ft.com/intl/cms/s/0/1fa0f3dc-a70a-11e4-b6bd-00144feab7de.html#axzz3W2Nmb9MF>, accessed 14 April 2015.

“What’s my vision for Europe? A strengthening and lasting economic recovery that generates the optimism required for innovation, and profits from Europe’s economic and cultural diversity.”

Julie Linn Teigland – Partner | Managing Partner EMEA Accounts, EY

Paris holds its own

Paris dominates Europe’s second economy. It has more headquarters (HQs) of Fortune 500 companies than any other European city – although it must be noted that most are French multinationals. Infrastructure programs (18%) in Paris are ranked the city’s second-best attraction, reflecting the “Greater Paris” project aimed at promoting sustainable economic growth and jobs across its hinterland. Furthermore, Paris Charles de Gaulle airport is the largest cargo hub in Europe. The French capital remains an attractive destination for young international talent and offers affordable education and mobility for international students⁷. Investors rank the quality of its universities as its third-best feature.

Berlin: political standing brings business dividends

In 2015, Berlin’s attractiveness has already risen four points to 28%. As Berlin has become the *de facto* center of European economic policy, its influence and appeal to business have strengthened. Sound governance and infrastructure have combined with affordable property, and a business culture focused on competence and productivity, to make it an attractive location for investors. Engineering remains a key strength: aerospace is

a strong sector, with more than 150 companies’ (including suppliers’) HQs in the German capital.⁸ Berlin’s “Silicon Allee” is emerging as a hub for internet start-ups. And international events, including trade fairs, are adding to its stature.

Investor perceptions reflect reality

While the number of projects drawn to London in 2014 increased only modestly, to 383, it still attracts many more projects than Greater Paris, its nearest challenger. These projects created 3,470 jobs, almost three times as many as FDI in the French capital region. In terms of jobs, the region of Catalonia, centered in Barcelona, was an easy winner, pulling in a slew of big projects that will employ a total of 7,089 workers.

The most striking change, however, was the upsurge of the German capital. Investors ranked Berlin’s attractiveness sharply higher than other German cities and backed their belief by funding many more projects there. As German FDI inflows rose strongly, Darmstadt (Frankfurt am Main area) benefited too, with business services and software leading in both cities. But despite Germany’s federal system and strong regions, other cities saw project numbers decline while Berlin increased its profile. Dusseldorf, Stuttgart and Freiburg, industrial centers for machinery and electronics, saw declines of 18%, 8% and 14%, respectively, in project inflows.

Top 10 urban areas by projects

Berlin trails London and Paris in the FDI stakes – but is catching up

Urban area	Country	2013	2014	Share (2014)	Change	FDI jobs (2014)	Share of FDI projects in country
Greater London	UK	380	383	9%	1%	3,470	43%
Greater Paris	France	173	159	4%	-8%	1,200	26%
Darmstadt (Frankfurt)	Germany	94	124	3%	32%	1,316	16%
Cataluna (Barcelona)	Spain	85	108	2%	27%	7,089	47%
Düsseldorf	Germany	105	86	2%	-18%	1,649	11%
Rhone-Alpes (Greater Lyon)	France	56	83	2%	48%	1,592	14%
Uusimaa (Helsinki)	Finland	89	83	2%	-7%	197	85%
Berlin	Germany	25	80	2%	220%	1,595	10%
Stuttgart	Germany	80	74	2%	-8%	982	10%
Freiburg	Germany	79	68	2%	-14%	268	9%
Others	-	2,791	3,093	71%	11%	166,225	-
Total	-	3,957	4,341	100%	10%	185,583	-

Source: EY’s Global Investment Monitor, 2015.

⁷ “Paris,” *Top Universities website*, <http://www.topuniversities.com/university-rankings/articles/q5-best-student-cities/paris>, accessed 14 April 2015.

⁸ “Berlin – an aerospace center,” *Berlin Business Location Center website*, <http://www.businesslocationcenter.de/en/business-location/industry-information/transport-mobility-and-logistics/aerospace>, accessed 15 April 2015



Councillor Gordon Matheson,
Leader of Glasgow City Council

Viewpoint

Knowledge in place of brawn

Our challenge now is to continue attracting events and visitors who can create a “halo effect” around the city’s brand as a FDI location

Through a sustained program of regeneration, Glasgow has reinvented itself as the economic, cultural, sporting and academic heart of Scotland and one of Europe’s most vibrant and cosmopolitan cities.

Scotland’s largest city has invested over £8b in housing, retail, health, education, hotels, offices and leisure since 2011. We have built a modern, mixed economy in which finance, tourism, conventions, retail and hospitality play a leading role. And we have centered our efforts on our 600,000 citizens.

Secondary school attainment is at an all-time high. With five higher education institutions and ground-breaking vocational colleges, Glasgow hosts 130,000 students drawn worldwide and, increasingly, they chose to work here when they graduate. Our business support program includes the £50m Glasgow Guarantee, which assures every young person aged 16-24 of a job, apprenticeship or training. That’s helped us develop one of the most highly skilled and flexible workforces in Europe. From 2013 to 2015, the city attracted 4,572 new jobs.

Located in the north-west of Europe, Glasgow was built upon ship-building and North Atlantic trade, but economic shifts have forced us to seek new avenues of prosperity. Good connections are vital: we are developing our airport to enhance links with London and key European destinations. We welcome investors and build on our strengths, such as our International Financial Services District, and a life-sciences cluster, the Glasgow BioCorridor, which we plan to complement with a clean-tech engineering cluster.

Last August, the Scottish and UK Governments committed £1.13b of pump-priming investment to the Glasgow & Clyde Valley Region City Deal, a package of infrastructure, labor market and innovation funding that will unlock £3.3b of private investment and create 28,000 permanent jobs.

Glasgow has been transformed. We need to spread the message. Last year we hosted the Commonwealth Games and the MTV European Music Awards. This year, we will host the World Gymnastics Championships and in 2018 we will co-host the inaugural European Sports Championships with Berlin. Our challenge now is to continue attracting events and visitors who can create a “halo effect” around the city’s brand as a FDI location.



Destinations

Powering growth

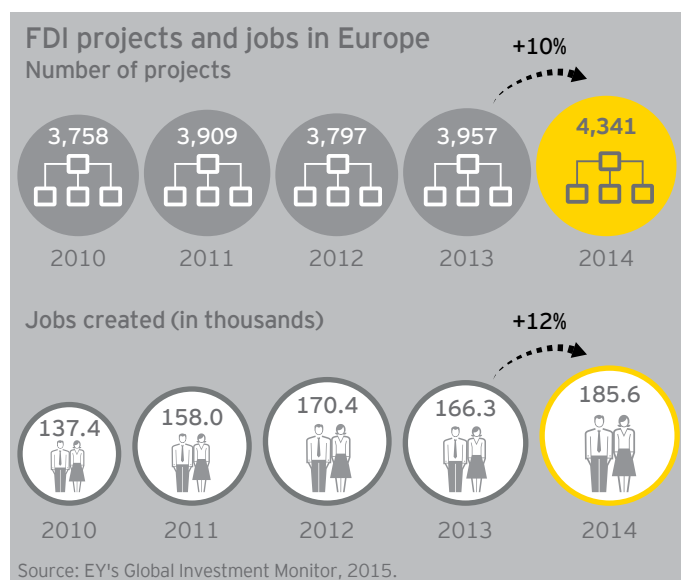
- p.15** FDI bounds ahead of Europe's recovery – to set a new record
- p.19** What kind of projects? Blue collar, white collar
- p.22** Where do they come from?
- p.23** Cross-border M&A in Europe: shopping spree

FDI bounds ahead of Europe's recovery – to set a new record

The surge in international investments is much faster than Europe's GDP growth. With an increase of 10% in FDI projects and 12% in employment, the 43 European countries analyzed in our survey achieved a record year. A total of 4,341 new location and expansion projects helped to create 185,583 new jobs, up by 19,300 from 2013.

European, Asian and American companies have all demonstrated their regained confidence in the continent's wealth and potential, and their determination to make the most of it. Many are reorganizing their activities and adapting their industrial plants (+22%) to a new economic context.

In 2014, Europe's FDI resurgence broadened. While FDI inflows to Western Europe, up 10%, maintained the pace set last year, the upswing spread to CEE, where inflows increased by 9% after years of decline. This is particularly significant as CEE has established a role as workshop and back-office for the European market and become an integral part of many European value chains.



The flags on the podium remain the same

Top 15 countries by FDI projects

		2013	2014	Share (2014)	Change %
	UK	799	887	20%	11%
	Germany	701	763	18%	9%
	France	515	608	14%	18%
	Spain	221	232	5%	5%
	Belgium	175	198	5%	13%
	Netherlands	161	149	3%	-7%
	Poland	107	132	3%	23%
	Russia	114	125	3%	10%
	Turkey	98	109	3%	11%
	Ireland	111	106	2%	-5%
	Finland	108	98	2%	-9%
	Switzerland	76	85	2%	12%
	Denmark	58	75	2%	29%
	Romania	52	62	1%	19%
	Slovakia	34	60	1%	76%
	Other	627	652	15%	4%
	Total	3,957	4,341	100%	10%

Source: EY's Global Investment Monitor, 2015.

Top 15 countries by FDI jobs creation

		2013	2014	Share (2014)	Change %
	UK	27,953	31,198	17%	12%
	Russia	13,621	18,248	10%	34%
	Poland	13,862	15,485	8%	12%
	France	14,122	12,577	7%	-11%
	Germany	10,350	11,327	6%	9%
	Romania	6,157	10,892	6%	77%
	Spain	11,138	9,750	5%	-12%
	Turkey	8,696	8,175	4%	-6%
	Slovakia	3,493	7,978	4%	128%
	Ireland	6,895	7,306	4%	6%
	Czech Republic	5,609	7,278	4%	30%
	Bulgaria	5,505	5,688	3%	3%
	Serbia	12,179	5,104	3%	-58%
	Macedonia	1,556	5,020	3%	223%
	Hungary	3,879	4,868	3%	25%
	Other	21,268	24,689	13%	16%
	Total	166,283	185,583	100%	12%

“Manufacturing is one of the economic engines of Europe. It accounts for 15% of value added and plays a key role in driving research, innovation, productivity, job creation and exports: 80% of the EU’s innovations, and 80% of its exports, are generated by the manufacturing sector.”

Alessandro Cenderello – Managing Partner for EU Institutions, EY

Who is winning the national attractiveness race?

The UK, Germany and France continue to account for more than half of FDI projects in Europe and 30% of the jobs generated. Yet new patterns are emerging in the FDI recovery: Germany has pulled ahead of France but is so far unable to close the gap with the UK, which remains Europe’s leading FDI recipient by a comfortable margin. Spain and Belgium are winning out, and jobs are pouring into Russia, Poland and Romania.

The podium: the UK takes gold, while Germany confirms its lead over France

The UK retains the title for attracting the most projects, drawing 20% of all European FDI inflows. Capturing 11% more projects in 2014 compared with the year before, it sustained its lead over Germany, which kept pace but couldn’t close the gap. The most surprising performer was France, which achieved an 18% rise in project numbers but remained in third place.

FDI projects in the UK are getting marginally bigger, generating an average of 35.2 jobs apiece in 2014, so that the overall number of jobs created accelerated 12% to more than 31,000. While software (22% of projects) and business and financial services remain its FDI core businesses, UK FDI inflows reflect the country’s renewed attractiveness as an industrial location. FDI manufacturing projects surged 32%, bolstered by capacity expansion in the automotive industry and provision of machinery and equipment for renewable and conventional energy.

Germany enjoys growth of 9% in jobs and projects alike. Besides its strong industrial performance, Germany’s score is boosted by an improving performance in software (116 projects in 2014, up 40% since 2013). But German FDI is different: on average, each project created only 14.8 jobs, and that number remains constant. Of course, from acorns, oak trees grow.

France showed striking, if contrasting, trends. A strong increase in projects to expand existing facilities (+18%) contrasts with a fall in average jobs per project from 27.4 to 20.7. Yet France is reversing the slide in its European FDI footprint, remaining far ahead of fourth-ranked Spain. While remaining a sizeable market within Europe, however, it struggles to find its position in the global league. In 2014, it captured only 25 projects from BRIC countries, lagging far behind Germany (113) and the UK (85).

Europe’s midfield: marked performance variations

Ireland, traditionally an outperformer, scores fewer but bigger projects. As in the UK, austerity policies, moderate taxes and labor market flexibility pleased investors. The pharmaceutical industry was among the best performers (+5 projects compared to 2013).

Belgium does well, with a 13% rise in projects and 10% rise in jobs created. Its growth was driven essentially by expansion projects, with chemicals (+10 projects) recording the largest growth.

Spain and the Netherlands deliver contrasting results. As Spain emerged from recession after radical economic and labor market reform, international investors returned. Sales and marketing projects surged, and the number of software projects jumped from 18 in 2013 to 36 last year. The automotive and transportation industries also progressed, but R&D and industrial plants lagged. In **the Netherlands**, project inflows slipped, but each provided more jobs.

Switzerland shines, attracting 85 projects, up 12%. An abrupt appreciation of the Swiss franc gave the Swiss more purchasing power – perhaps contributing a sharp rise in new sales and representative offices (+19 projects). It also made it cheaper for Swiss companies to invest abroad and snap up foreign assets through M&A.



Xavier Trias,
Mayor of Barcelona

Viewpoint

Grasping a digital destiny

A city of culture, knowledge, creativity, innovation and wellbeing, Barcelona wants to be an international benchmark

Barcelona is the capital of Catalonia, an economic capital of southern Europe and, we believe, the European capital of the Mediterranean. It's an industrious city, open to international trade, with a diverse economy, a clear commitment to creativity and innovation and a global outlook.

In recent years we have worked hard to position Barcelona internationally as the center of a metropolitan area of 3.5 million people and to promote confidence and credibility worldwide, while improving our economic solvency. Barcelona now has a sound financial situation with a zero deficit budget. We are reducing debt without raising taxes and we are paying our suppliers within 30 days.

According to a recent study by IESE Business School, FDI created more than 20,000 jobs in Barcelona in the period 2011-October 2013. That's an achievement surpassed in Europe by only two other cities: London and Dublin. Barcelona is also attracting significant investment from China and we want to reinforce this trend, to become a major center of Chinese business operations in Europe. Our city branding is already strong, and has great recognition among investors.

Cities and metropolitan areas, achieve the highest levels of economic activity, competitiveness, employment, innovation and education. Two-thirds of the EU population lives in urban areas and high-growth economic models for the 21st century are increasingly based on new economic sectors developing in our cities.

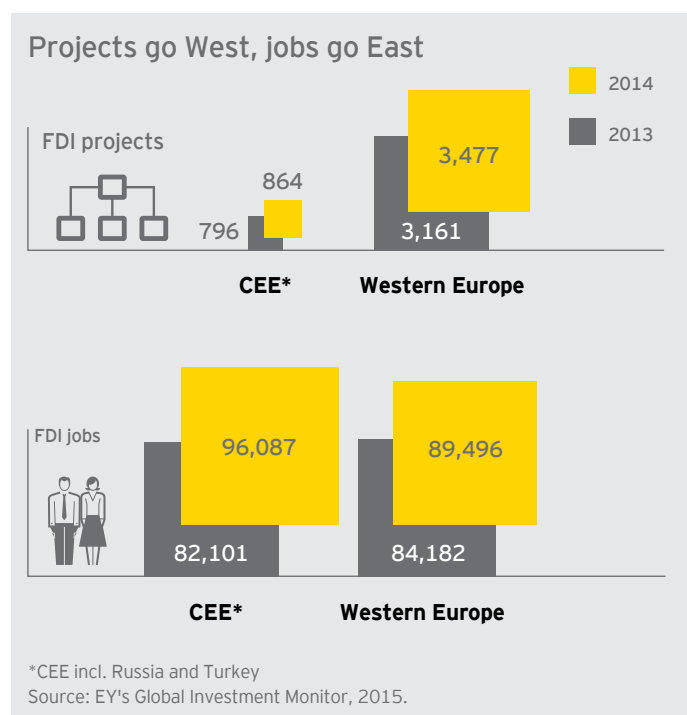
Barcelona was selected as Mobile World Capital 2012-18 and hosts the annual Mobile World Congress. The European Commission last year made Barcelona European Capital of Innovation for using new technologies to get closer to citizens, and Barcelona has become an international benchmark for would-be smart cities, developing strategic economic sectors for the future including smart city and mobile technology, electric vehicles, clean energy, biomedicine and maritime activities. And we are doing this through collaboration between public and private institutions.

A city of culture, knowledge, creativity, innovation and wellbeing, Barcelona wants to be an international benchmark for attracting the best economic opportunities, so as to improve the wellbeing and quality of life of all who live here.

CEE: Who will be the next challenger?

In 2014, countries in **Central and Eastern Europe** overtake their Western counterparts to secure the greatest number of FDI jobs. Eastern stars attracted much bigger projects than Western peers, but national trends vary.

Russia's economic storm began late in 2014 and has yet to be reflected by falling foreign investment in our 2014 figures. FDI created 18,248 jobs, up 34%, with a marked increase to an average of 146 jobs per project – far more than in Western Europe. But a slump in oil prices, a weaker ruble, stalling growth, tension over Ukraine and Western sanctions have now clearly diminished Russia's appeal. Yet it may be that expanding production in Russia was one way to bypass the effect of sanctions.



Poland and **Turkey** retain their investment appeal, emerging as winners in activities generating high levels of employment – even if the average Polish project created 117.3 jobs, down from 130 in 2013. Poland has become a hefty contender, benefiting from its size, gaining weight in Europe's economy and large public infrastructure projects. Poland has become a leader in back-office activities for big corporations: shared-service and contact centers provided 9% of FDI projects and almost a quarter of jobs created. **Turkey**, which shares advantages of scale and cost-competitiveness, plus a gateway location for accessing Middle Eastern and Central Asian markets, may follow suit in the coming years.

Meanwhile, other countries are battling to replicate the Polish model. FDI project inflows into former contenders, such as the **Czech Republic** and **Hungary**, have slowed. Now the challengers for big, labor-intensive projects are found in South-Eastern Europe. **Romania** draws 10,892 jobs in 2014, up 77%. **Serbia** falls back to 5,104 new jobs, **Slovakia** remains a contender and **Bulgaria** is attracting more interest, though it needs further reforms and better infrastructure.

The Baltic trio – **Estonia**, **Latvia** and **Lithuania** – also outperform. Economic realists and members of the Eurozone, they have welded strong links to Scandinavia, and together attract a total of 101 FDI projects in 2014. That's close to Turkey's score, but their limited labor pools make it difficult to sign large-scale projects.

Economic recovery
Falling energy prices
Euro depreciation

+20%
in FDI
manufacturing
projects jobs

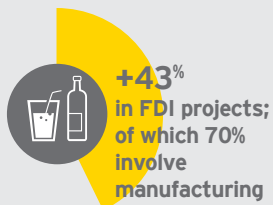
What kind of projects? Blue collar, white collar

Europe remains a manufacturing destination

An economic recovery, a depreciating euro and falling energy prices have all helped revive the appeal of manufacturing in Europe. Taken together, they underpin a 20% surge in FDI manufacturing projects and jobs. Logistics operations, also blue collar, rose 27%, driven by this industrial resurgence and a boom in e-commerce.

Europe's traditional industrial sectors score solid growth

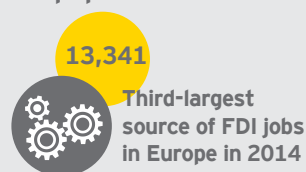
Food



Food companies continue to set up and expand facilities, despite difficult market conditions

Restructuring and optimizing sites across Western Europe drive investments

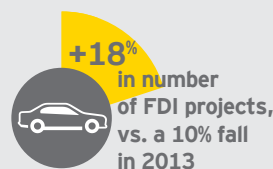
Machinery and equipment



Strong workforce skills and increasing competitiveness as energy prices fell were key drivers

Investments from major companies based in Europe (Siemens and Bosch), the US (General Electric and Tyco) and Japan (Amada)

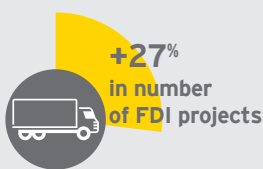
Automotive



Growth in FDI projects was driven by a 5.7% increase in car sales in Europe

68 large FDI projects (employing 500+) in manufacturing went to CEE. The race for smarter cars drives constant technology renewal and hence investment

Logistics



Growth was driven by +18% of sales in e-commerce

Amazon, France's La Poste and German operator Deutsche Post each added 10 or more FDI projects

The UK, France, Germany, Belgium, Spain and Netherlands secured more than 70% of projects

Source: EY's Global Investment Monitor, 2015.

As some services thrive, others falter

Software projects continue to lead service-sector inflows, which are dominated by US investors (40%). The UK is the champion, locking in 31% of projects. It leverages its international talent pool, global outlook and the advantage of having already secured the EMEA hubs of global leaders (Google, Facebook).

Back-office projects were up too. With 127 investments, back-office developments regained their pre-crisis importance (131 projects in 2007). High costs in Western European capitals and a drive to set up regional European hubs helped CEE countries whose affordable, but able, talent pools attract more than twice as many projects and jobs as in 2013 (57 projects and 11,825 jobs).

Financial intermediation burst back into life, delivering the highest number of projects since 2007. Though typically small, they reflect ongoing rationalization within the sector.

Business services continue to drop. Integration of the B2B services market has stalled. Ironically, cuts in public and private spending on external services are undermining the sector's ability to create new projects and jobs, even though more efficiency is sorely needed.

R&D and innovation have run into a brick wall. The number of projects declined only slightly (-2 projects) but created 17% fewer jobs. Europe has long struggled to turn research findings into innovation or go-to-market solutions, and this failure is now undermining Europe's attractiveness. Finance remains a big concern for companies, especially small and medium enterprises (SMEs), which are more innovation-centric. But only 15% of global venture capital activity happens in Europe, against 68% in the US.⁹

Top 10 sectors by FDI projects

Sector	2013	2014	Share (2014)	% change
Software	510	646	15%	27%
Business services	483	365	8%	-24%
Machinery and equipment	308	300	7%	-3%
Automotive	244	287	7%	18%
Food	158	226	5%	43%
Financial intermediation	156	214	5%	37%
Chemicals	167	188	4%	13%
Pharmaceuticals	141	165	4%	17%
Electrical	116	163	4%	41%
Plastic and rubber	124	146	3%	18%
Others	1,550	1,641	38%	6%
Total	3,957	4,341	100%	10%

Top 10 sectors by FDI jobs

Sector	2013	2014	Share (2014)	% change
Automotive	47,962	45,755	25%	-5%
Software	12,946	19,088	10%	47%
Machinery and equipment	8,265	13,341	7%	61%
Business services	12,807	10,042	5%	-22%
Food	4,297	9,408	5%	119%
Pharmaceuticals	2,557	9,009	5%	252%
Electrical	6,714	7,755	4%	16%
Retail	9,429	7,536	4%	-20%
Plastic and rubber	8,653	5,816	3%	-33%
Other transport services	5,689	4,579	2%	-20%
Others	46,964	53,254	29%	13%
Total	166,283	185,583	100%	12%

Source: EY's Global Investment Monitor, 2015.

Top 10 destinations in Europe for international HQs

Country	2010	2011	2012	2013	2014
UK	47	29	29	29	57
Germany	16	17	21	19	20
Ireland	26	15	27	24	16
Netherlands	20	15	21	25	15
France	16	16	23	18	11
Switzerland	10	13	8	10	8
Spain	11	16	20	7	6
Denmark	1	1	3	3	6
Belgium	4	7	5	8	4
Luxembourg	0	5	3	0	4
Other	15	16	8	11	12
Total	166	150	168	154	159

Source: EY's Global Investment Monitor, 2015.

Headquarters are back on track ... in the UK

After a slight drop last year, the number of FDI HQ projects rose a little (159 projects vs. 154 in 2013). Emerging from the economic crisis, the UK was able to renew its competitiveness and leverage its cosmopolitan culture to rise again as the leading destination for HQs in Europe.

Germany, Ireland and the Netherlands also remained relatively resilient, but the high-cost, low-tax environments of Switzerland and Luxembourg appealed less.

⁹ Adapting and evolving: Global venture capital insights and trends 2014, EY, March 2014



Philip Dunne
President Europe, Prologis

Viewpoint

Renewing logistics networks to make European supply chains more competitive

Both the transport and digital initiatives must be implemented if we are to continue to see the much-needed development of European supply chains

Logistics real estate in Europe is in vogue. Demand in many markets is very strong both from occupiers, who want to lease space and from investors, who want to buy the leased facilities.

A study published in January by INREV,¹⁰ one of the most important European real estate bodies, confirmed that logistics continued to be popular among investors: 52% had the intention to invest in this sector this year, double the number recorded in 2012. And cross-regional and cross-border investment flows are up everywhere in all regions; in 2014 they increased 40% to US\$125b.

Europe is still the main beneficiary, driven by money coming in from North America. Asian and Middle Eastern investors are maintaining steady levels of investment in Europe at about US\$10b a year.

Investors now understand the long-term benefits of logistics real estate, which have been sharpened by the significant rise in e-commerce.

In my viewpoint in last year's survey, I argued that inadequate distribution networks slow Europe down, and that we needed to develop an integrated intermodal infrastructure network that would drive competitiveness through more efficient movement of goods, products and services, both in and out of Europe and within Europe to consumers.

So I was encouraged to see two key initiatives from the European Commission take shape this year. In January, the European Commission identified the infrastructure priorities and investment needs for the Trans-European Transport Network until 2030. The new Commission President, Jean-Claude Juncker, has identified jobs, growth and investment, and a connected digital single market as the most pressing priorities for EU policy. This was followed in April by the creation of the Digital Transport and Logistics Forum to help optimize the use of digital technologies in freight transport and logistics.

Both the transport and digital initiatives must be implemented if we are to continue to see the much-needed development of European supply chains – and continued strong inflows of capital into logistics real estate to support that long-sought development.

¹⁰ INREV is the European Association for Investors in Non-Listed Real Estate Vehicles.

Where do they come from?

Europeans lead the way

Foreign direct investors are turning Europe into a single market. Ten of the top 15 investors in Europe, by country, are European. Though American companies top the table, furnishing one-quarter of all investment projects, more than half of the companies investing across borders in Europe are headquartered in a European country.

Decades into the foundation of the EU, European companies are still striving to build integrated European operations, fully exploit the single market and achieve seamless sourcing and distribution with their EU neighbors. Investment trends align with investor perceptions: investors now present in Europe see bright prospects, and they are backing them by launching projects and creating jobs.

German companies, the next-largest inward investment group, are also the most active within Europe, providing more than 10% of projects. In 2014, they launched 15% more cross-border investment projects and created 28,953 jobs in neighboring countries, up 29% from 2013. German companies are making cars, components and machinery and equipment across Europe to sell in markets across Europe.

UK companies (Europe's third-largest cross-border investors) also rekindled their enthusiasm for Continental Europe in 2014, launching 18% more projects, although averaging just 16.7 jobs. The type of project is evolving, however: there were fewer in business services, historically a UK strength, and more in software and financial intermediation.

Meanwhile, French and Swiss companies, usually active, initiated fewer cross-border projects in Europe in 2014.

US companies: over here, big-time

US companies joined the upswing, investing in 7% more FDI projects. But they came big-time, investing in substantial projects that created 39% more jobs than in 2013. In automotive, their average project generated 105 jobs; in machinery and equipment 80; and in pharmaceuticals 71. Software provided 21% of the projects, up 13%, though activity in business services declined. The UK, Germany and France remain the favorite destinations for US investments.

Japanese FDI: UK maintains its leadership

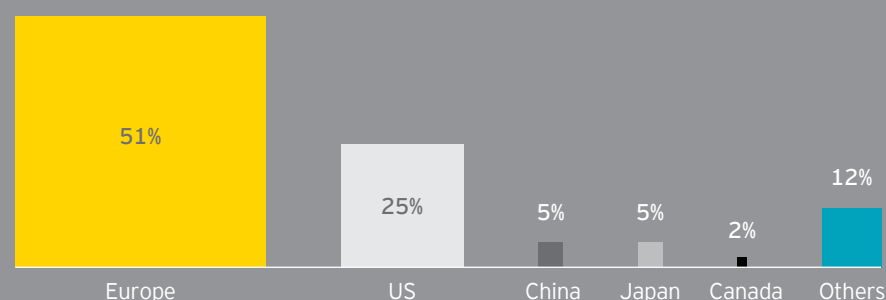
In 2014, Europe attracted 205 projects from Japanese companies. UK continues to lead as the favorite destination for Japanese FDI with 47 projects, followed by Germany (42) and France (34). Completion of the EU-Japan free trade agreement, under negotiation since 2013, should strengthen investment ties.¹¹

Emerging market investment: China shops

Chinese companies leapfrog Japan's to become the fifth-largest FDI investors in Europe in 2014. With 210 projects, up by almost 40%, Chinese business provided 5% of inbound FDI and funded 11,718 European jobs. As part of its rebalancing agenda, the Chinese Government is promoting outward investment as a means to acquire technology, brands and resources overseas to boost domestic high-value manufacturing and services.¹²

China leads BRIC countries, which together announced 364 FDI projects in Europe last year, amounting to 8% of Europe's FDI. Many are large industrial projects in automotive, food, and plastic and rubber. More surprising is a 10% decline in projects from India as investment fell in software, automotive, pharmaceuticals and business services. The fall may prove temporary or may reflect improving opportunities at home.

Geographic origin of greenfield FDI in Europe by number of projects (2014)



Source: EY's Global Investment Monitor 2015.

¹¹ "Japan," European Commission website, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/japan/>, accessed 21 April 2015.

¹² "China invests in Europe," HSBC, <http://www.hsbc.com/news-and-insight/2015/china-invests-in-europe>, accessed 21 April 2015.



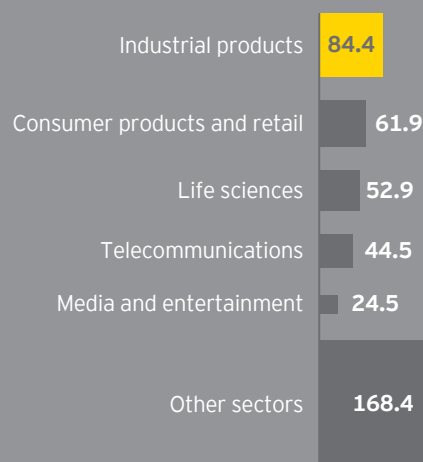
Cross-border M&A in Europe: shopping spree

European companies launched a shopping spree in 2014¹³. Amid a recovering global M&A market, European acquirers accounted for 46% of global cross-border deals by volume, and more than half of the assets that changed hands in Europe. As the US economy strengthened, and Europe showed the first signs of recovery, consolidation became the order of the day across many sectors. Last year, there were 79 US\$1b+ deals in Europe, out of 222 worldwide and 4 out of the top 5 deals were intra-European. The largest of these was the announcement of two cement-makers, Swiss Holcim and French Lafarge, joining hands in a US\$40.6b transaction.¹⁴

Central to the global and European financial markets, the UK keeps the lead with a share of 23%. A rebound of large deals in 2014 put France in second position, right before Germany. Continued restructuring and privatization as well as the return of growth have helped Spain to enter the top five.

Industrial companies proved to be the most appealing target for M&A operations, followed by consumer products and retail and life sciences.

Cross-border M&A by target sector involving European targets by value (2014, in US\$b)



Source: Dealogic; EY analysis.

Top 10 European target countries in cross-border M&A by value (2014, in US\$b)

	2013	2014	Share	% change 2014
UK	65.4	100.7	23%	54%
France	20.3	77.6	18%	282%
Germany	52.7	41.7	10%	-21%
Spain	17.0	34.2	8%	101%
Netherlands	21.2	31.6	7%	49%
Italy	19.5	23.7	5%	21%
Switzerland	9.3	21.7	5%	133%
Sweden	2.8	14.8	3%	429%
Portugal	16.7	13.1	3%	-22%
Norway	8.3	12.4	3%	49%
Others	80.5	65.1	77%	-19%
Total	313.8	436.7	100%	39%

Source: Dealogic; EY analysis.

For the first time in four years, European investors outpaced Americans. They announced 51% of the deals, their highest share since 2010. Swiss companies undertook 14% of European M&A by volume, followed by investors from the UK (13%). France (7%) and Germany (6%) trailed: currencies, coincidence or differing approaches to wealth creation?

North America was the second-largest source of European M&A deals (31% of volume in 2014), dominated by US investors who signed 27% of all M&A deals in Europe. From a peak of 38% in 2012, their share had fallen for the past three years but is now back to pre-crisis levels.

BRIC countries accounted for 8% of transactions last year, thanks largely to increasingly active Chinese investors, who are increasing their presence throughout Europe, and especially in France (23% of their European M&A) and Italy (19%). Consumer products and retail (18%) were their targets of choice in 2014, trailed by oil and gas (12% by volume).

¹³ The analysis pertains to cross-border (inter-country) M&A transactions only and includes cross-border transactions within Europe.

¹⁴ Incl. net debt.



Outlook

Fix the flaws, ride the waves

- p.25** The tipping point
- p.27** Fixing the flaws:
building a better business
environment
- p.29** Riding the waves:
investing in the trends
that will shape Europe's
future
- p.30** Looking outward too
- p.32** Betting on (innovative)
Europeans

“The EU should take bolder action to reverse the declining role of industry and to promote investments in advanced manufacturing, so as to drive the use of digital technologies and help European companies seize the huge opportunities these technologies offer for innovation and increased output.”

Alessandro Cenderello – Managing Partner for EU Institutions, EY

The tipping point

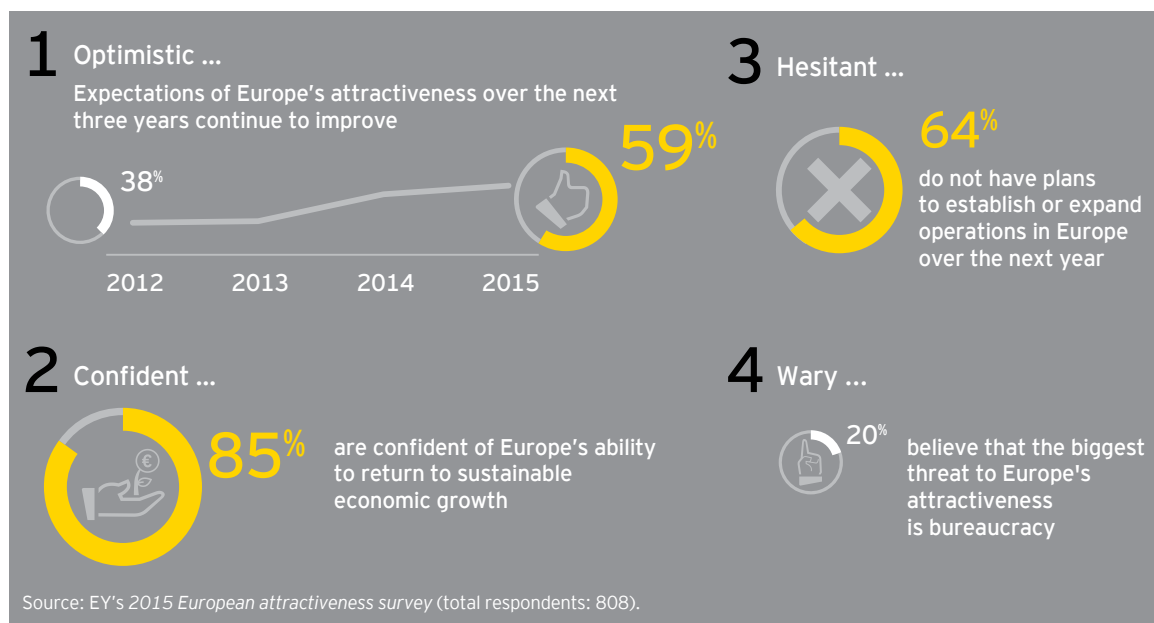
Investors are confident about Europe

Investors demonstrate a strange mixture of sentiments about the future of FDI in Europe. They are cautiously confident: 85% of those we've interviewed believe that Europe will return to sustainable economic growth. After at least two letdowns and prolonged agony, they hesitate to confirm that a tipping point has arrived. Only slightly more than a half of them (54%) believe sustainable growth will return in less than five years, showing they are worried that optimism may prove groundless. Yet, in 2014, they voted with their checkbooks, unleashing a wave of European FDI and an M&A buying spree – both focused on carefully selected areas.

Investors assert that Europe will return to sustainable or solid economic growth but are divided about the timing. Lower energy prices and a weaker euro, combined with quantitative easing started by the European Central Bank, inspire faith that both investment and exports will continue to recover. But by how much – and when?

Yet wariness overshadows investment intentions

Despite the upsurge in projects launched in 2014, investors seem markedly cautious about the year ahead. Concerns over slow growth, geopolitical events within Europe, and elections in several European countries could have cooled investment intentions. Are companies waiting to see if the uptick is sustained? Or is the real reason that investors beyond Europe are only now recognizing the tipping point spotted by “locals” in 2014?



“The Europe of the future is dynamic, competitive, and inclusive. It embraces change and leads in policy setting and strategy execution. European institutions are agile, dynamic and open to adopting new ways for delivering their services to citizens. The Europe of the future is secure in its borders and a leader in international cooperation and cultural development.”

George Atalla – Global Leader, Government & Public Sector, EY

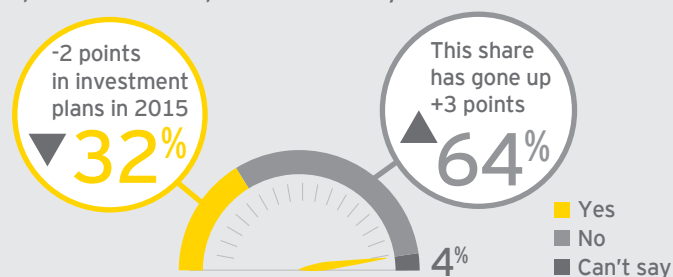
Thirty-two percent have investment plans for next year

When asked about their plans, only 32% of the decision-makers interviewed confirm they intend to establish or expand operations in Europe over the upcoming year. Investors already present there (40% have investment plans for 2016) are more much more positive than newcomers, only 5% of whom are considering setting up in Europe.

This is reflected in the nature of preferred investments: the favorite path is expansion (45%), followed by acquisition (26%). Greenfield investment is the preserve of a small minority, and reshoring is a rarity. Only 4% of international business leaders have plans to relocate operations back to Europe. Investment looks to be driven by those with a deep understanding of Europe and a commitment to optimizing their operations across the continent.

Investors cautious about their investment plans in Europe

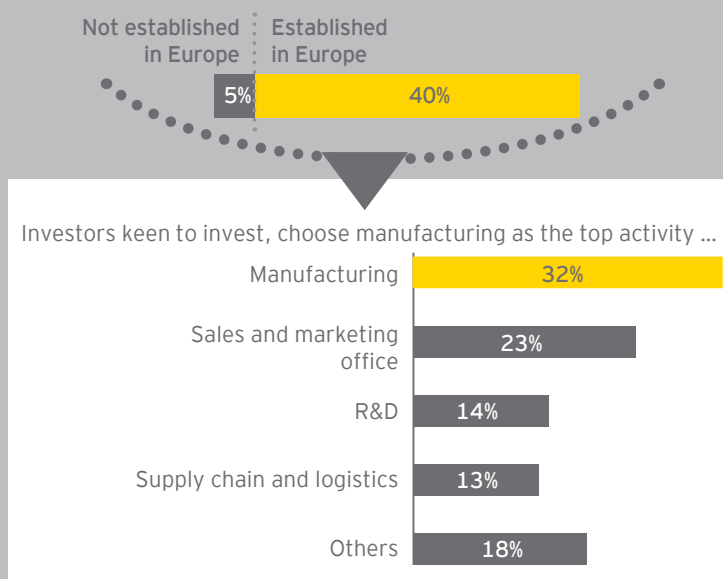
Percentage of investors who have plans to establish or expand operations in Europe over the next year



Source: EY's 2015 European attractiveness survey (total respondents: 808).

Investors within Europe more keen on expanding operations in Europe

Percentage of investors who have plans to establish or expand operations in Europe over the next year



Note: "Others" includes headquarters, back office, training centers and others.

Source: EY's 2015 European attractiveness survey (total respondents: 808; for activity: 255; for mode of investment: 261).

Fixing the flaws: building a better business environment

Bureaucracy is seen as the biggest threat to Europe's attractiveness (20% of investors), outweighing slow growth. Investors fear bureaucracy and slow growth more than public indebtedness, energy insecurity, unemployment or anything else. Public policy-makers need to act.

Less bureaucracy, more growth

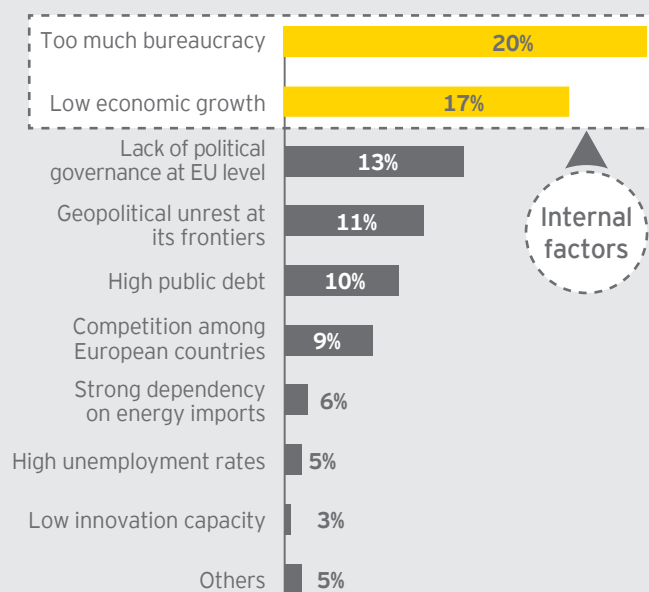
Market interventions, red tape and worse have long plagued Europe. Their impact is more profound in eastern countries such as Romania, Bulgaria and Slovakia. Corruption scandals have also emerged in major European economies, including France and Italy, though washing dirty linen in public may be a sign that tolerance of corruption is diminishing and genuine efforts are being made to stamp it out.

With some worthy exceptions – think UK, Baltic states and even Spain – Europe lacks the economic dynamism that has now re-emerged in the US economy. While other major economic regions are growing more strongly, the Eurozone is still struggling to demonstrate sustained growth.

But blaming Brussels is too simple. As some have shown, national, and even regional and local governments still have ample room to set policies that facilitate rapid growth, just as individual states do within America's federal system. And after last year's transition, the new European Commission is starting to implement a more dynamic, business-focused agenda. Big geopolitical uncertainties remain, notably on the EU's eastern border, over the future EU membership of Greece and the UK, and with respect to the euro. Unemployment and immigration have spurred popular distrust of the EU and the rise of Euroskeptical political parties. This is all the more reason to fix the flaws, and fast.

Give us a chance ...

What's the biggest threat to Europe's attractiveness as a destination for foreign investment?



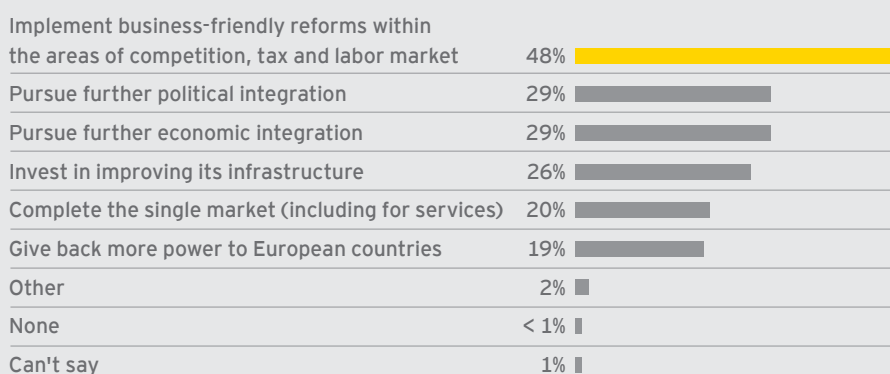
Source: EY's 2015 European attractiveness survey (total respondents: 808).

How to get there

A call for economic reform tops the agenda for investors in 2015. This year, one-third of respondents (33%) said that Europe should improve its competitiveness via economic reforms. Last year, they were much more focused on the need to overhaul research and education.

Investors ask for business-friendly reforms

How should the EU improve Europe's attractiveness?



Source: EY's 2015 European attractiveness survey (total respondents: 808).

Almost half of the investors questioned want the EU to implement business-friendly reforms in the areas of competition, tax and labor markets. They also want a lighter regulatory burden. Established investors, who wrestle daily with red tape, are especially keen for business-friendly reforms, while non-established investors see a need for closer EU political integration. To those present on the continent, however, this is clearly a secondary issue.



Viewpoint

Policy changes are needed to reverse declining competitiveness

Jean-Pierre Clamadieu,
CEO of Solvay and President of Cefic, the
European Chemical Industry Council

Europe is the cradle of the global chemical industry. We are an important contributor to economic development and wealth, providing modern products and materials and enabling technical solutions in virtually all sectors of the economy. With a workforce of 1.2 million and sales of €527b (2013), our industry is one of the largest European industrial sectors and an important source of employment.

Yet Europe's leading position is not a given. Global chemical production has doubled in the past 20 years, but Europe's share has shrunk from 32% in 1993 to 17% in 2013. European chemicals output was flat last year and still remains below its 2008 peak. A recent study by Oxford Economics showed why: our industry has undeniably experienced loss of competitiveness in the past decade.

Investment flow into Europe's chemical industry will only regain its rightful size if the continent's competitiveness is restored

Chemical investment is booming in markets such as China, where demand remains strong, and in the US and Middle East, where energy and raw materials are relatively cheap. But in Europe, it lags. At the same time, our industry has to adapt quickly to global challenges such as climate change and resource scarcity.

To restore the competitiveness of Europe as a chemical manufacturing location we need four significant policy shifts.

First, we rapidly need an ambitious global climate agreement to reduce greenhouse gas emissions effectively while ensuring a fair level-playing field between the concerned economic players across the globe. The reform of the European quota trading scheme should rapidly lead to a predictable long-term framework and ensure adequate protection for industries exposed to carbon leakage.

Second, we need reliable supplies of energy and feedstock at competitive prices. Even after the recent fall in oil prices, the production costs of the basic chemical building block, ethylene, remains twice as high in Europe as in the US. Ill-structured policies lead to high and unpredictable energy costs in Europe. Yet we need incentives that encourage European industry to invest and grow.

Third, we need better and more coherent regulation. Regulations that are too prescriptive and detailed stifle entrepreneurship, innovation and competitiveness, especially when it comes to SMEs.

Finally, we need more open competition and open markets. Europe's net chemical exports last year were €44b, but the surplus is declining. Trade agreements with key partners such as the US and Japan would enable our industry to enhance efficiency and better exploit our technical strengths.

Our industry is highly innovative, yet innovation will not fall on fertile ground without investment. And the investment flow into Europe's chemical industry will only regain its rightful size if the continent's competitiveness is restored.

Riding the waves: investing in the trends that will shape Europe's future

Europe's investors scan decades ahead

Business leaders believe high value-added sectors, such as ICT, pharmaceuticals and clean tech, will be the future vectors of investment and growth in Europe – and have been saying so for years. Their view is very far-sighted but tends to skate over nearer-term opportunities.

The digital transformation is clearly driving massive economic and social change in Europe. ICT is attracting massive investments though many would say it needs even more. Software is already the number one sector for FDI projects in Europe. But the journey of other sectors from idea to mainstream investment opportunity takes decades.

In our breakdown of 2014 FDI projects in Europe, pharmaceuticals ranked 8th and utilities 22nd. But change is gathering momentum at last. Pharmaceuticals recorded 17% growth, and utilities projects doubled in 2014. In truth, these sectors are identified by investors as proxies for two technological tsunamis that are sweeping through health care and energy supply. A combination of digital technologies, big data and scientific advance are beginning to revolutionize and personalize medicine.

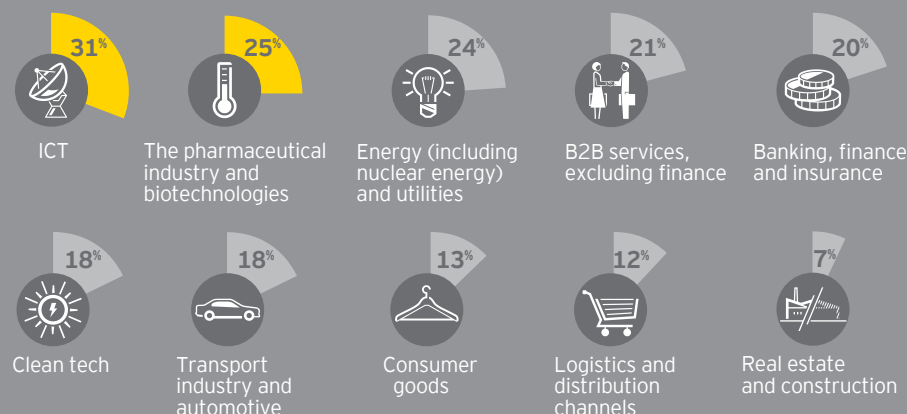
And the energy transformation, characterized by distributed renewable generation, smart grids, connected appliances, efficiency and optimization, is advancing apace. But pharmaceuticals and utilities are mere rubber ducks bobbing on the surface of these inexorable waves.

Shift from R to D

Investors apply the same mindset when asked where investment should be directed. Of the investors we surveyed, 58% consider R&D to be the most attractive FDI activity in the coming years, a response similar to that of 2013. Today, R&D makes up only 7% of FDI projects. Established investors put even more weight on R&D activities in Europe: 63% of them said R&D activities will attract the most investment in Europe in the coming years, compared with just 38% of non-established investors.

High value-added sectors seen as future drivers of Europe

Which business sectors will drive European growth in the coming years?



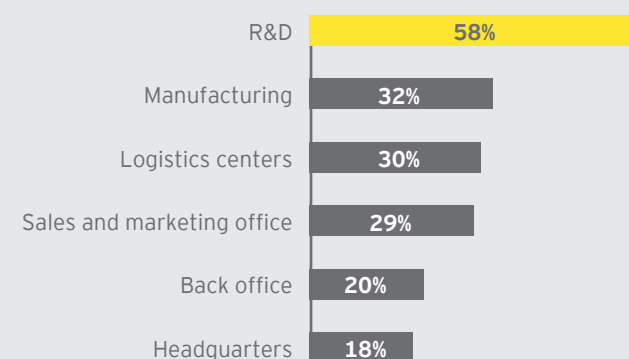
Source: EY's 2015 European attractiveness survey (total respondents: 808).

This highlights a serious issue. Today, good science and innovation happen worldwide. Europe's distinguished pioneers have lost their monopoly. Europe is now in a global contest to acquire knowledge and use it to make the world a better place, generating wealth and jobs along the way. There is no room for complacency.

In particular, Europe still has to improve the interconnections between pure research, development and the commercialization of ideas. It has to improve funding mechanisms for promising ideas and develop better ways to scale up quickly those that find commercial success. Above all, it must learn how to nurture and attract, retain and develop the talented and creative researchers, managers and entrepreneurs who will drive its emerging technological revolution.

R&D considered a potential investment function for the future

Which business functions will attract the most investment in Europe in the coming years?



Source: EY's 2015 European attractiveness survey (total respondents: 808).

Looking outward too

Engaging with southern neighbors

Preoccupied with Europe's reconstruction, policy-makers have been inclined to shun the continent's southern neighbors, except when security or humanitarian crises force their way onto the agenda. Yet business has begun to awaken to the opportunities promised by renewed engagement with the countries that fringe the Mediterranean Sea and link it via the Middle East to the Persian Gulf. Our recent BaroMed survey drives home the importance of this region to Europe's economic future.¹⁵

Made up of 27 countries and five sub-diverse regions with a shared heritage and intertwined cultures, BaroMed is home to 535m people, and their numbers will reach 750m by 2040. With GDP topping US\$10t, the area generates 14.5% of global GDP, and in 2013, it attracted US\$85.5b of FDI – more than China. Investors responding to our survey rated the region more attractive than Europe, Asia or Africa as a whole.

Trading places

Historic, cultural and economic ties between Europe and the Balkans, Turkey, North Africa and the Middle East and Gulf regions have been reinforced in recent years by migration, trade and investment. Rapid economic growth on the southern fringe of Europe has opened new markets and encouraged companies to integrate Turkey, North Africa and the regions between into their value chains. Participating in the economic development of the BaroMed region offers a win-win for companies and governments alike, in which a collaborative search for both profit and human development can enhance regional stability and prosperity. The potential is widely recognized by US and European corporations, cultural organizations and educational institutions, which have already developed close connections across the region. A large and widespread diaspora facilitates access through shared language, culture and networks. Engagement, not isolation, is the way forward.

Key figures in the BaroMed region

EU Med

Population in 2013 (millions)	185.10
GDP in 2013 (US\$b)	6,624
Economic growth (2009-13)	-0.4%
FDI projects (2009-13)	9,389
Value of FDI projects 2009-13 (US\$b)	328.3

North Africa

Population in 2013 (millions)	171.36
GDP in 2013 (US\$b)	707
Economic growth (2009-13)	+7.8%
FDI projects (2009-13)	1,207
Value of FDI projects 2009-13 (US\$b)	105.9

Gulf countries

Population in 2013 (millions)	48.68
GDP in 2013 (US\$b)	1,642
Economic growth (2009-13)	+13.9%
FDI projects (2009-13)	3,994
Value of FDI projects 2009-13 (US\$b)	194.2

Turkey and Balkans

Population in 2013 (millions)	88.47
GDP in 2013 (US\$b)	963
Economic growth (2009-13)	+6.1%
FDI projects (2009-13)	1,752
Value of FDI projects 2009-13 (US\$b)	100.1

Middle East

Population in 2013 (millions)	41.83
GDP* in 2013 (US\$b)	369
Economic growth (2009-13)	+8.9%
FDI projects (2009-13)	768
Value of FDI projects 2009-13 (US\$b)	51

Countries in the BaroMed region: Albania, Algeria, Bahrain, Bosnia-Herzegovina, Croatia, Cyprus, Egypt, France, Greece, Israel, Italy, Jordan, Kuwait, Lebanon, Libya, Malta, Montenegro, Morocco, Oman, Qatar, Saudi Arabia, Slovenia, Spain, Syria, Tunisia, Turkey and the United Arab Emirates (UAE).

*Excluding Syria.

Source: UNCTAD (2014).

¹⁵ BaroMed 2015: the next opportunity, EY, April 2015.



Šimon Vostrý,
Founder & CEO, ZOOM International

Viewpoint

Give us a predictable operating environment, with effective institutions, and no corruption

We need a lot of software engineers. If Europe wants to be competitive, it has a lot of catching-up to do

People in the software business often say that the US market is a graveyard of European companies – by which they mean that companies that have achieved some cross-border success in Europe then try to expand in the US, imagining it is just another national market. They often fail. But the hazards are just as great in the other direction.

For established US vendors keen to expand overseas, Europe is one of the logical places to look at. But treating Europe like one big country is a big mistake of course. Opening an office in the UK or Ireland because people there speak the same language (and because it is closest for a round-trip flight from the US) is a good first step, but understanding how to do business in Europe means going local country by country, and learning about local culture and the way of doing business as well as showing commitment by translating your product – and providing customer services – in many different languages.

That adds up to a lot of work and financial investment. And then as soon as you start opening branch offices you face a lot of compliance issues, from adhering to local book-keeping standards to respecting ever-changing laws and regulations. Of course, there are countries where these things are very stable, such as the Netherlands – and that is why you see many companies setting up their holding companies there.

So what is my dream for Europe? A stable operating environment with minimal corruption and functioning institutions. Software entrepreneurs do not need subsidies, tax holidays or other support to create jobs. We need a predictable operating environment with reasonable taxes and laws that do not change all the time. We need fewer regulations, less paperwork and the opportunity to do things predictably, online and fast.

And we need a lot of software engineers. There is a worldwide shortage of software talent and this will only get worse as software takes over the world. If Europe wants to be competitive in this space, it has a lot of catching-up to do.

“To win the war on talent, Europe must not only offer great education and work permits to non EU nationals, but it should also boost its entrepreneurial appeal by reducing the complexity around taxes, business administration and labor laws: An Entrepreneurial Europe must emerge.”

Didier Hoff – Partner Human Capital FraMaLux, EY

Betting on (innovative) Europeans

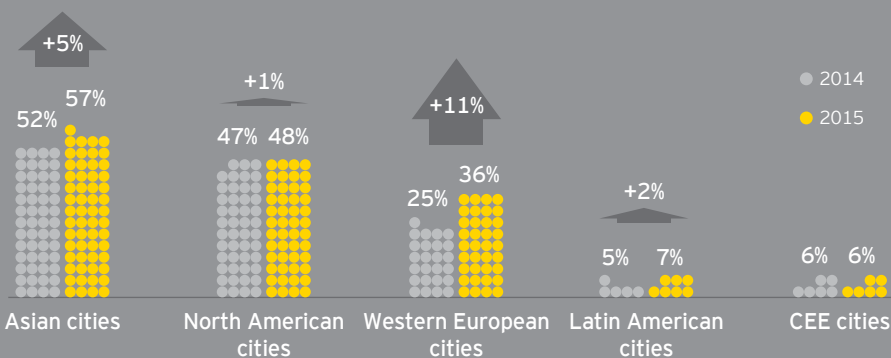
Technology, talent and the will to succeed

Perceptions of Europe's capacity for fostering innovation and entrepreneurship are being transformed. Today, 36% of investors think that Western European cities provide the best chance of producing the “next Google.” That's a year-on-year rise of 11 points. After years of being seen as a tail-ender in the race to invent tomorrow's world, Europe is suddenly perceived as a strong contender. Though CEE cities lag with a rating of 6%, Western Europe's challengers have markedly closed the gap with Asian and North American rivals.

What's changed? Although there's still work to do, European entrepreneurs are achieving breakthroughs in combining technology and consumer demand to create innovative, successful and sizeable businesses. Whether it's Arm Holdings designing the world's mobile phone chips from Britain, Paris-based BlaBlaCar changing the way Europeans travel, Rocket Internet building web start-ups from Berlin or Finnish coders perfecting video games, Europe is demonstrating its growing capabilities in the new economy.

London, Berlin, Paris (the three most attractive cities in Europe) and Moscow are ranked among the 15 cities of the world most likely to produce the “next Google.” London, with 17%, up four points, remains among the world's top five. But it is Berlin, up six points to 11%, that makes the biggest gains in perceived capacity for innovation and entrepreneurship. Leading European cities, including London, Paris, Berlin and Barcelona, now host burgeoning digital clusters and hold world-class new economy innovation events. But any list of European digital hotspots today also includes Helsinki, Budapest, Krakow and Tallinn. In Europe, even as the old economy has stumbled, innovation and entrepreneurship have gone mainstream.

Western Europe closing the innovation and entrepreneurship gap Which cities offer the best chance of producing the next Google?



Source: EY's 2015 European attractiveness survey (total respondents: 808).

London, Paris and Berlin stepping up innovation and entrepreneurship

Which cities offer the best chance of producing the next Google?

Cities	2015	% change 2014 to 2015
San Francisco and Silicon Valley	25%	-1%
Shanghai	23%	1%
Beijing	23%	7%
New York	21%	3%
London	17%	4%
Berlin	11%	6%
New Delhi	9%	3%
Mumbai	8%	1%
Tokyo	7%	1%
Los Angeles	7%	0%
Paris	7%	3%
Boston	6%	4%
Hong Kong	4%	-1%
Singapore	4%	-2%
Moscow	4%	-1%

Source: EY's 2015 European attractiveness survey (total respondents: 808).

Mobility is crucial to European renewal

Migration is a vector, a motor and a motivator for entrepreneurship and talent. Whether from the provinces to the capitals, or poor countries to rich ones, young people migrate in search of opportunities for personal development and enrichment. Massive migrations within and to Europe in recent decades have added a new dimension to traditional patterns of national migration. Sometimes they have spurred resentment in host populations. Invariably, as Europe's history shows, they have brought entrepreneurship, innovation and extraordinary economic energy. Migration is a cornerstone of Europe's emerging economic renewal. Migrants, or their sons or daughters, are in the vanguard of the techno-cultural transformation.

As digital technologies transform Europe's economy and society, demand for talent will strengthen further. To support this growth, Europe needs to facilitate the inflow of international talent. Bottlenecks are commonplace, and sometimes the situation is getting worse. Complex regulations, non-business-friendly immigration policies, delays and costs in obtaining work permits – all create a tough environment for incoming international talent. High youth unemployment rates (reaching 50% in Spain and Greece) and anti-foreigner rhetoric alarm some potential immigrants. Even as Germany makes the entry of talented workers easier, the UK pushes foreign graduates toward the departure gate.

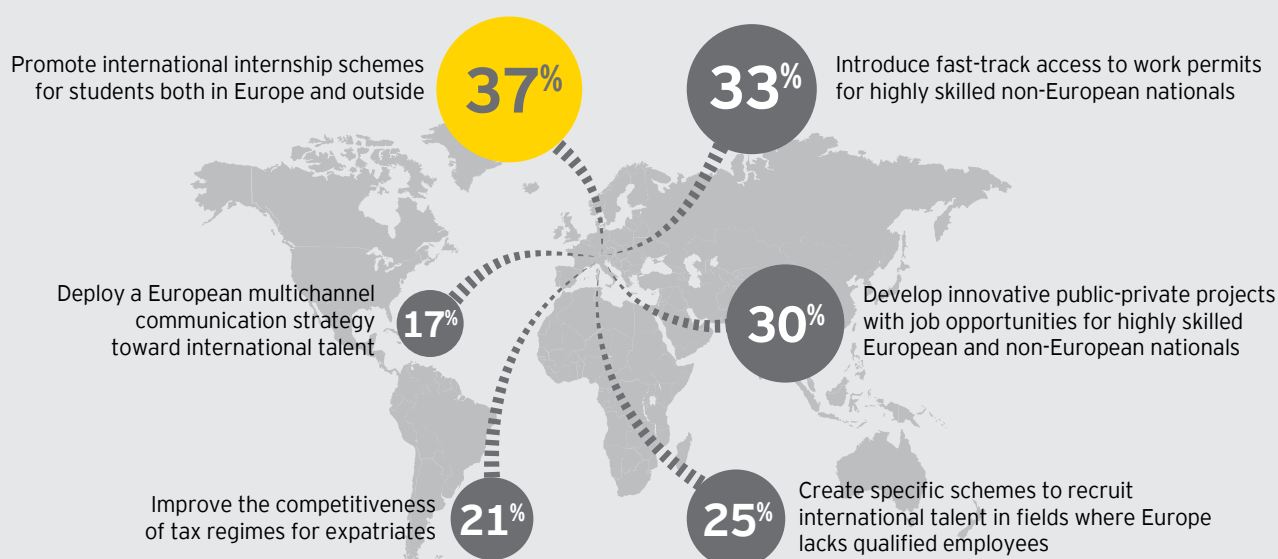
To streamline migration and attract highly skilled non-EU professionals to Europe, the EU issues a "Blue Card," which allows them to work in EU Member Countries (except for Denmark, Ireland and the UK).¹⁶ But investors think more needs to be done. They worry that policies will prevent them from hiring, installing or developing the talent they need in their European operations.

Cross-border businesses need culturally diverse and internationally experienced people if they are to prosper. Gaining such experience needs to start early. That's why 37% of investors believe that promoting international internship schemes will improve Europe's ability to attract and retain talent. This issue leaps 20 points from 2014 to become their overriding recommendation. Visa reforms are also a priority. Nearly as many investors (33%) call for fast-track access to work permits for highly skilled non-EU nationals.

A revolution is sweeping Europe. Popular alarm repeated to European and national policy-makers reflects the extent to which the wave of change is washing over ordinary citizens. The intertwined currents of demographic, technological and economic change have combined and are now reshaping European society, culture and employment. After the longest economic hiatus since the 1930s, investors seem at last to have sensed a change in the wind. They are stepping up their investments in Europe. They are cautiously optimistic about its prospects. And they have given clear guidance about how to facilitate European renewal. May their voices be clearly heard.

Improving talent mobility is top priority

Measures to improve Europe's ability to attract and retain international talent?



Source: EY's 2015 European attractiveness survey (total respondents: 808).

¹⁶ "Frequently Asked Questions: the EU Blue Card Directive," European Commission website, http://ec.europa.eu/dgs/home-affairs/what-is-new/news/news/docs/20140522_faq_blue_card_report_june_2014_final_en.pdf, accessed 15 April 2015.

What does all this mean for business?

Europe is back on a path of stability and growth. But the global economic and political environment remains complex and hard to predict. Amid challenges and uncertainties, corporate leaders must continue to innovate, invest and grow their businesses, while policy-makers must pursue measures that will attract, retain and grow international business.

Cautious confidence: almost 9 in 10 investors believe Europe will return to sustainable economic growth – but most think it will take five years or longer.

For business

Countries in Europe will grow at differing speeds, driven by varying forces: services and business models successful in one country may not work in another. Stand-alone strategies may pay in some markets; strategic partnerships with a local partner or partners may be the only viable option in others.

Which products and services are best adapted to which market today and what will happen tomorrow? How should you approach new markets?

For government

Many industries and services in Europe face competition from locations that combine cost, scale and skills advantages. Foreign firms often bring new ideas, technology and capital, boosting local value-chains and making them more competitive and connected to the global economy.

What policies can make a particular sector more competitive? How can entrepreneurs, midmarket companies and multinationals better cooperate?



How EY can help

- ▶ Our strategy teams provide cutting-edge market studies and expertise for industry and services, for both traditional and highly innovative markets.
- ▶ Our Attractiveness & Competitiveness teams work with national, regional and local governments to revitalize existing economic activities or foster new ones. Our policy evaluation professionals provide independent insight into the consequences of regulatory and funding initiatives for economic and local development.

Navigating in a complex environment: 20% of business leaders see bureaucracy as the main flaw in Europe's attractiveness and 48% want the EU to improve the business environment.

For business

Tax and regulatory environments can vary hugely between countries and are notoriously complex. Thoroughly understanding current legislation will help you reduce risk and costs for your business. Tax optimization can be crucial to maintain the competitiveness of your operations in a globalized world.

How can you fit your business to the changing, multifaceted tax and regulatory landscape? How can you maintain or enhance returns on investment?

For government

Designing and implementing the right policies is tricky, especially on an interconnected planet where consequences vary among diverse stakeholders. In a world where companies and talents vote with their feet, policy-making needs to be based on robust analyses and projections.

How can you draw on experiences in other countries and continents to create benchmark policies? How can you predict policy impacts on markets and people? How should you channel and coordinate discussions with stakeholders?



How EY can help

- ▶ Working together, our global and local teams of tax professionals can help you tackle issues, from local tax accounting to tax performance and cross-border tax, help you see how your business is being affected today, and how regulatory change could affect it tomorrow. Our expertise also includes global trade and transfer pricing.
- ▶ Our Government & Public Sector teams provide administrations with sound, robust and independent analysis drawn from subject and international expertise. EY is a leading consultancy for Digital Government and Public Financial Management.



Looking outward: in 2014, 4,341 foreign companies decided to sign a lease, hire people and start serving customers and clients in one of 43 countries in Europe.

For business

When preparing or reviewing a business case in Europe, decision-makers must look at the full picture, assessing both apparent and less visible costs and how they are likely to evolve in the future. More than elsewhere, companies must pay attention to inflation and deflation, indirect costs and factors that shape them: turnover, productivity, production or infrastructure bottlenecks, skill shortages and resources. And they must scan for cash grants and incentives that can reduce capital spending.

Where should I set up my next operation to best benefit my supply chain? Will I be able to grow? How can I secure my talents and suppliers? What are the DOs and DON'Ts when setting up business in a country? Which incentives can I qualify for?

For government

Attracting foreign companies and assisting domestic firms to reshore requires people, human energy, determination, resources, the right international and on-line presence and the availability of quality facilities. More than that, constant business intelligence and analysis are necessary to decipher relevant trends in the global economy and markets.

Realistically, how ambitious should you be, and what companies should you target that could locate their activity in your country, region or area? How can you ensure your promotion agency and its achievements rise to your expectation? How can you make best use of data and on-line marketing to secure and support the inflow of investment?



How EY can help

- ▶ In the past 20 years, our International Location Advisory Services team has helped companies of all sizes in all sectors to set up operations worldwide. EY looks at all the factors affecting international operations: costs (entry, operations and exit), geopolitical risks, market opportunities and infrastructure quality. Our professionals can draw upon a vast network of relationships with government bodies, local suppliers and service providers.
- ▶ EY's Attractiveness & Competitiveness team regularly assists leading national and regional agencies in setting up, restructuring or guiding their promotion efforts targeting international investors. Moreover, our Cross-Border Business desks help our clients to conduct and follow business abroad.
- ▶ EY's Growing Beyond Borders (GBB) tool includes data on more than 4,000 indicators on demographics, economics and business, with a built-in map for visualization. Sharing GBB data with clients, we can conduct interactive sessions to help them develop their analyses and reach decisions.

Investing in markets of the future: ICT (31%) and pharma-biotech (25%) are the sectors investors believe will drive Europe's growth.

For business

Developing an innovative product or service takes effort, time and money. Myriad complex regional, national and EU-wide schemes can help co-finance innovation from light-bulb moment to go-to-market stage.

How can you access public and private funding? How can you ensure all the paperwork is done correctly, so that tax authorities don't ask for refunds? How can you evaluate the value and potential of an innovative start-up before buying it, or selling out?

For government

With public budgets constrained, using public-private partnerships to finance infrastructure, education and innovation has gone from interesting option to necessity.

What are the options? How can you find the right partners? How can you tailor your proposals to ensure that they are financially viable and appealing for a private partner to join? And how can you ensure that the rewards are shared fairly?



How EY can help

- ▶ We help innovative companies optimize state aid and tax credits for R&D. Our Transaction Advisory Services experts help promising start-ups find new sources of funding or navigate M&A. EY's Entrepreneur Of The Year (EOY) awards uncover exceptional new entrepreneurs.
- ▶ EY professionals have cutting-edge expertise in financial modeling for complex investment projects.

Betting on talent and mobility: 4 of the 15 cities most likely to produce the next Google are in Europe, according to C-suite business leaders.

For business

The race is on for skills, talent and creativity, in an environment where competition for specific skills gets fiercer every day. Besides pay-checks, getting the best out of a talent pool may require shifting to more flexible business operating models and adopting multicultural approaches or collaborative partnerships. New forms of outsourcing and co-sourcing of production and service delivery bring new opportunities.

What are you failing to do? How can you fix your shortcomings and ensure you hire and retain people who will take your business to new heights?

For government

Cities are the pulsing hubs of the global economy and innovation. They are locked in an intense competition, across a new spread of factors from lifestyle and cuisine to art and employment opportunities, to develop distinctive "brands" and attract the best and brightest minds and most cutting-edge businesses.

How can policy-makers make urban sprawl or inner-city living compatible with high living standards? How can a city become a lab fostering new technologies and competitive advantages? How can it attract talents, whether students, decision-makers, entrepreneurs or creatives?



How EY can help

- ▶ Our People & Organizational Change services teams will put their deep knowledge of each sector alongside you to help align your talent to your business strategy and ensure the present and future success of your business.
- ▶ We assist capitals and "second cities" in their development projects. Our Real Estate Transaction services help developers, investors and urban administrators manage the emergence of new districts for business, education and living. Our Climate Change and Sustainability services help cities become better places to live and foster green economic growth.

EY Eurozone Forecast - March 2015



Cheap oil and supportive policy to drive the recovery

After a year of tentative recovery in 2014, the Eurozone moves into 2015 aided by two important growth drivers: sharply lower oil prices and quantitative easing (QE).

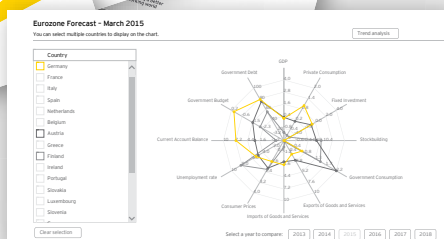
This edition of the *EY Eurozone Forecast* is therefore positive for the coming years, even though structural constraints are expected to hold down growth in the medium term.

Highlights of the latest edition of the *EY Eurozone Forecast* include:

- ▶ GDP growth of 0.8% is forecast for this year. It is then expected to pick up to 1.2% in 2015 and 1.6% a year in 2016-18. This is substantially lower than the pre-crisis average of 2.3% in 1997-2007.
- ▶ The Eurozone's recovery should become more domestically driven. Households are set to receive a substantial boost from energy prices that are lower than anticipated.
- ▶ The labor market should continue to improve as businesses will invest and hire more confidently in the years ahead.
- ▶ However, we are concerned about the Eurozone's vulnerability, although it looks set to continue its recovery from the last crisis. With 12 Eurozone member states' public debt above 90% of GDP, governments have minimal room for fiscal stimulus.
- ▶ Becoming the Eurozone's 19th member on 1 January 2015, Lithuania is well placed to adapt to Eurozone membership. It will also become a more attractive destination for foreign investment and give the Baltics states a growing profile in the area.



Visit ey.com/eurozone to find the March edition of the quarterly *EY Eurozone Forecast* as well as individual reports for the 19 member states. On the website, you can also use our comparison tool to explore a variety of economic trends across the Eurozone.



The “real” attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on EY’s Global investment monitor (GIM). 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.

The GIM is a leading online information provider, tracking inward investment across Europe. This flagship business information tool from EY is the most detailed source of information on cross-border investment projects and trends throughout Europe. The GIM 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. 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 and 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 investing companies to validate details recorded.

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 GIM:

- M&A or joint ventures (unless these result in new facilities or new jobs created)
- License agreements
- Retail and leisure facilities, hotels and real estate investment
- 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 and government bodies)

The “perceived” attractiveness of Europe and its competitors by foreign investors

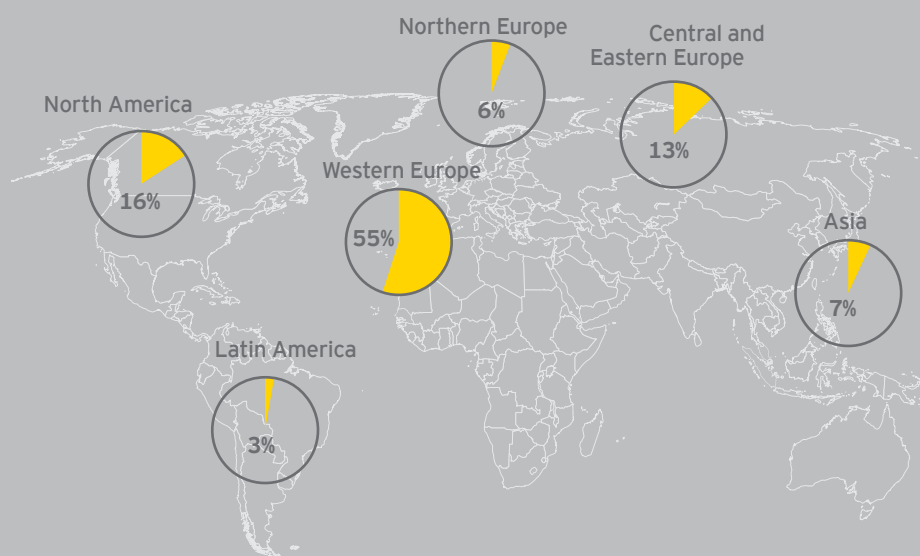
We define the attractiveness of a location as a combination of image, investors’ confidence and the perception of a country or area’s ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute in January and February 2015, via telephone interviews, based on a representative panel of 808 international decision-makers. This panel was made up of decision-makers of all origins, with clear views and experience of Europe:

- 52% European
- 30% North American
- 12% Asian
- 3% Latin American
- 2% Middle East
- 1% Oceania

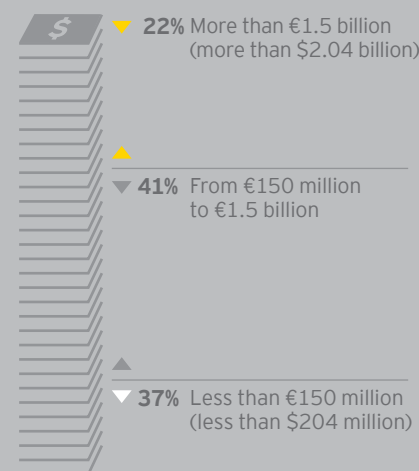
Of the non-European companies, 33% have established operations in Europe. As a result, overall, 79% of the 808 companies interviewed have a presence in Europe.

Profile of companies surveyed

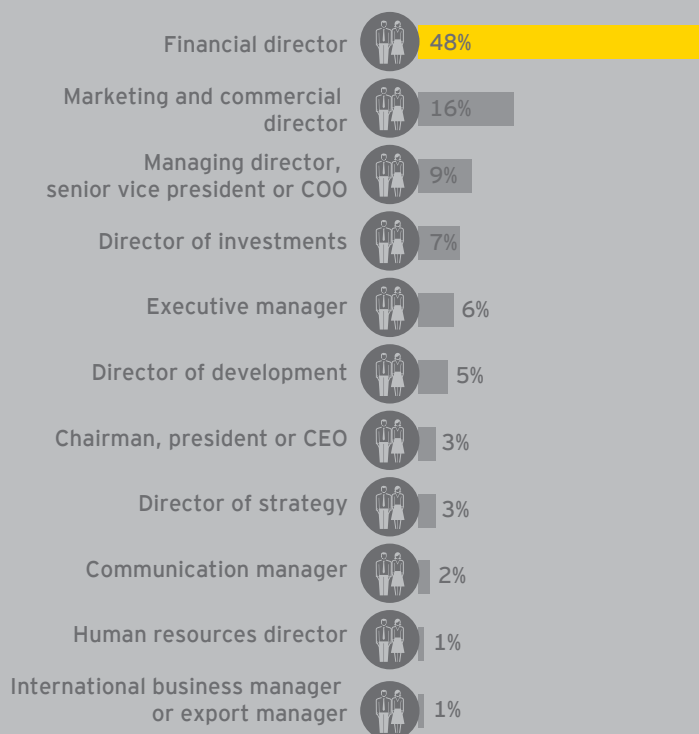
Geography



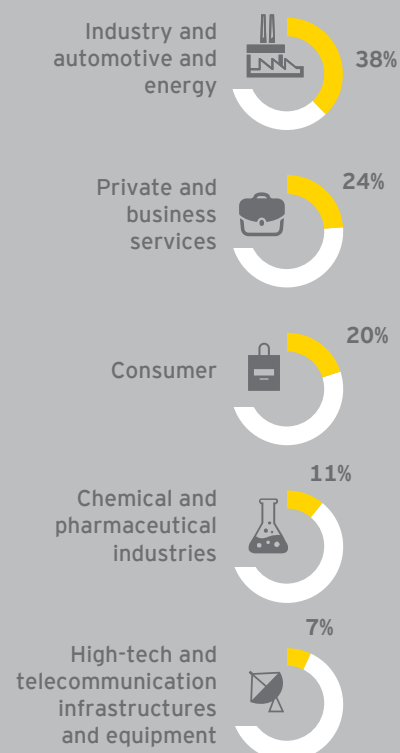
Size



Job title



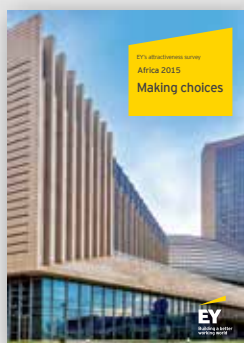
Sector of activity





BaroMed 2015 – The next opportunity

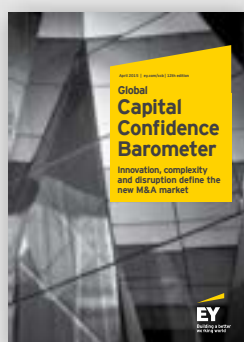
EY's BaroMed attractiveness survey uncovers the remarkable potential of the Mediterranean region. Big transitions and disruptions in countries around the Mediterranean Sea and Arabian Gulf have, in recent decades, made life complicated for investors and disrupted economies in a region with a formidable trading tradition. As investors regain interest in developing integrated manufacturing and services here, visit ey.com/attractiveness to discover where the best opportunities may lie.



EY's 2015 Africa attractiveness survey – Making choices

Launch date: 2 June 2015

Despite some economic headwinds, the *EY 2015 Africa attractiveness survey* is confident that Africa is still a continent on the rise. Growth is resilient throughout the region and although investors' confidence has softened somewhat and FDI project numbers are down, the value of total foreign investment increased in 2014, as did the number of jobs it created. This mixed picture reflects Africa's diversity and complexity. We think that the continent's investment situation has reached an inflection point. So, where is Africa in its journey and what is required to secure inclusive and sustainable growth? To find out, visit ey.com/attractiveness.



Global Capital Confidence Barometer

Innovation, complexity and disruption define the new M&A market

The 12th Global Capital Confidence Barometer finds the global M&A market maintaining the positive momentum that developed during 2014. For the first time in five years, more than half of respondents are planning acquisitions in the next 12 months, as deal pipelines continue to expand.

View the report online at <http://www.ey.com/ccb>. Follow us on Twitter: @EY_Press.



Megatrends 2015

Making sense of a world in motion

Megatrends are large, transformative global forces that impact everyone on the planet. EY has identified six megatrends that define our future by having a far-reaching impact on business, society, culture, economies and individuals.

While each of the megatrends stands on its own, there is clear interactivity. Digital, for example, is closely intertwined with expected transformations across the other five megatrends. Big data, sensors and social applications will underpin the reimagining of health management. Digital technologies will drive the realization of tomorrow's "intelligent cities." Digital oil fields will lead to increased savings and output in the energy space, while "smart grids" will revolutionize the production, delivery and use of electricity worldwide. The ability to create digitally based business models has lowered the barrier to creating new and innovative ventures for entrepreneurs around the world.

In some cases, successful outcomes in one megatrend are related to developments in another. As the world urbanizes to the tune of 750 cities contributing 61% of global GDP by 2030, urban areas will require sustainable and resilient solutions to optimize resources, reduce risks and promote the well-being of all citizens. The economic promise of an increasingly global marketplace will be dependent on major investment in infrastructure and related financing in the world's new and existing cities.

The megatrends illustrate a world in motion. Economic power continues to shift eastward. New markets and new trade linkages are emerging. The boundaries between industry sectors are blurring. New entrants that are digitally native are overturning existing business models. Existing players in one sector (technology) are entering other sectors (health) with exciting new propositions. As we hurtle toward 2030, developments within these six megatrends, as well as the interplay between them, will certainly bear close watching.



About EY

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Contacts

Marc Lhermitte

Partner, EY Advisory
+33 1 46 93 72 76
marc.lhermitte@fr.ey.com

Ilse Blank

Global Economic Programs Leader
+27 11 772 5063
ilse.blank@za.ey.com

Raffaella Santarsiere

Global Press Relations
+39 027 221 2944
raffaella.santarsiere@it.ey.com

This survey was carried out by EY, under the direction of Marc Lhermitte, Ilse Blank, Vincent Raufast, Martin Polivka and Virag Jain with the participation of Ross Tieman, Sarah Pralong, Marie-Armelle Benito, Corinne Dreux, Nathalie Caumette, Nishant Monga, Barry Perkins, Jayant Chhabra and the collaboration of Yves-Marie Cann, Aurélie Mohorcic and the teams of the CSA institute.