### Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Editorial</td>
<td>3</td>
</tr>
<tr>
<td>Executive summary</td>
<td>4</td>
</tr>
<tr>
<td>About Portugal</td>
<td>6</td>
</tr>
<tr>
<td>FDI in Portugal</td>
<td>14</td>
</tr>
<tr>
<td>Portugal emerging as a beacon for foreign investors</td>
<td>24</td>
</tr>
<tr>
<td>Talent and technology, the reality that matters</td>
<td>36</td>
</tr>
<tr>
<td>Methodology: how EY researched this report</td>
<td>46</td>
</tr>
<tr>
<td>About the Attractiveness Program</td>
<td>47</td>
</tr>
<tr>
<td>How can EY help?</td>
<td>48</td>
</tr>
</tbody>
</table>

**Standing strong: with perceptions of Europe declining, Portugal emerges as a beacon for foreign investors**

Investor appetite for Europe hit a seven-year low in 2019. While Europe prevailed as the world’s most attractive region to establish operations in, investment plans slowed down and investor optimism came to an abrupt halt with the outbreak of geopolitical concerns regarding Brexit, slowing Eurozone growth and rising trade tensions.

However, 2018 proved to be a year of renewed prospects in Portugal. In 2017, Portugal was starting to reap the benefits of added international exposure, with foreign investors launching a record-breaking number of projects and creating thousands of new jobs. This year, EY European Investment Monitor reveals an inflection in the pace of foreign direct investment (FDI) inflows - Portugal secured 74 FDI projects, corresponding to at least 6,100 new jobs created. While these figures fall short of last year’s, they must be construed in light of a slowdown of FDI in Europe as a whole, with Asia and Pacific investors retrenching, and a stabilization of FDI activity in Portugal, following a tremendous surge in 2017.

Indeed, business leaders’ assessment of Portugal’s attractiveness is changing, with clear signs of stabilization. But while the unusual optimism of the last two years is readjusting, Portugal’s attractiveness remains strong and short-term investment plans in the country are among the highest in Europe.

While the unusual optimism of the last two years is readjusting, Portugal’s attractiveness remains strong.
Executive summary

Chapter 1 About Portugal
Portugal regained economic growth and successfully restored investor confidence. Page 6

Chapter 2 FDI in Portugal
Following an unusually high number of investment projects in 2017, FDI activity is stabilizing. Page 14

Chapter 3 Portugal emerging as a beacon for foreign investors
Even as the unusual optimism of the last two years fades, attractiveness remains strong and short-term investment plans are among the highest in Europe. Page 24

Chapter 4 Talent and technology, the reality that matters
Talent, infrastructure and incentives are the foundations to unlock innovation leadership. Page 36

Executive summary

Chapter 1 About Portugal
Portugal regained economic growth and successfully restored investor confidence.

More than 2.1% gross domestic product (GDP) growth was attained in 2018. The Bank of Portugal (BoP) expects the economy to continue expanding at a steady pace in 2019.

The return of growth, an improving structural balance, and the consolidation of the banking sector led to an improvement in the market sentiment, substantiated in the declining cost of debt and the upgrade of the Portuguese sovereign debt rating back to investment status.

Chapter 2 FDI in Portugal
Following an unusually high number of investment projects in 2017, FDI activity is stabilizing.

74 FDI projects were secured in 2018 (from 95 FDI projects in 2017).

6,100 FDI jobs were created in 2018.

Top investors:
1. France 19 projects
2. Spain 10 projects
3. Germany 7 projects

Key sectors:
1. Digital 15 projects
2. Transportation manufacturing and supply 14 projects
3. Agri-food 12 projects

Chapter 3 Portugal emerging as a beacon for foreign investors
Even as the unusual optimism of the last two years fades, attractiveness remains strong and short-term investment plans are among the highest in Europe.

Top five attractiveness factors:
- Quality of life: 90%
- Stability of social climate: 79%
- Telecom infrastructure: 73%
- Local labor skills level: 72%
- Labor costs: 71%

Top three areas of focus to keep Portugal competitive:
1. Support high-tech industries and innovation
2. Develop education and skills
3. Reduce taxation

Chapter 4 Talent and technology, the reality that matters
Talent, infrastructure and incentives are the foundations to unlock innovation leadership.

5 in 10 jobs that are hard to fill are found in high-skill occupations. The most acute shortages occur in tech-related occupations.

Top 3 areas of focus to become a leader in innovation:
1. Improve education and training in new technologies
2. Invest in digital infrastructure
3. Increase tax incentives for innovative companies

As it stands today, a positive outlook for the future of businesses is underscored by the need to carefully manage the workforce shift at the intersection of talent and technology.
As Europe faces social and economic changes, Portugal’s outlook shows signs of stability and resilience

After two years of unusual optimism, Portugal seems to be back to calmer waters. Nevertheless, Portugal’s GDP has been increasing above the European average and gross fixed capital formation growth shows that the country is still showing dynamism.

The years of austerity in Portugal seem to be long gone. The country completed a challenging economic and financial adjustment program, regaining economic growth and restoring investor confidence. In May 2014, Portugal reclaimed access to international capital markets. In December 2018, Portugal paid back the remaining of the International Monetary Fund (IMF) loan. An improving structural balance led the debt to GDP ratio to fall by 8 percentage points (p.p.) over the past two years. However, standing at 122% of GDP, debt remains a focus of concern, should any external imbalance impact growth. Still, backed by the consolidation of the banking sector, market sentiment is improving, resulting in a declining cost of debt and the upgrade of the Portuguese sovereign debt rating back to investment status.

Overall, Portugal’s recovery has strengthened and its economic activity accelerated, with investment and exports picking up. Portugal’s GDP grew by 2.1% in 2018, and the BoP expects the economy to continue expanding at a steady pace.

Positive investment outlook

Solid investment growth cemented the rebalancing of the economy. Gross fixed capital formation grew faster than GDP in the period from 2012 to 2017, as stronger government finances enabled infrastructure spending particularly in the transport, energy and utilities sectors.

Notably, the recovery of investment has been primarily supported by the corporate sector. Investment in machinery and equipment keeps growing at a strong pace amid high capacity utilization and improved industrial confidence. Indeed, a survey carried out by the European Investment Bank (EIB) shows that more enterprises in Portugal increased their investment in 2018 rather than reducing it.

However, growing concerns regarding Brexit and rising trade tensions may impact corporate investment decisions across Europe. Uncertainty has led businesses to throttle back on foreign investment in 2018 rather than reducing it. Nevertheless, in quality of the Portuguese manufacturing sector. Increased productive capacity in the automotive sector.

Exports of goods still take the lead, accounting for 64% of total exports, and are increasingly more focused on products with higher value-added and technological content. In fact, the OECD Economic Survey provides evidence of strong gains in quality of the Portuguese manufacturing exports over the past decade compared with other European countries, such as France, Germany, Italy and Spain.

Tourism leads service exports

Services exports, in turn, were underpinned by a growing tourism industry. Between 2015 and 2018, travel and tourism exports showed a 13.2% compound annual growth rate (CAGR). Growth in tourist arrivals synched with an increase in the supply of tourist accommodation and low-cost flight connections to Portugal, as well as rising security concerns in competitor markets. But as these concerns fade, so could the tourism upswing. Yet, there is evidence of diversification that demonstrates the endurance of the Portuguese tourism industry. This diversification is visible in terms of the visiting nationalities, regional distribution of overnight stays and the type of tourism itself, with increased promotion of “city break” and “business” tourism to offset seasonality effects.

Main macroeconomic indicators

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019*</th>
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<tr>
<td>GDP (constant growth rate)</td>
<td>4.6</td>
<td>1.5</td>
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<td>1.9</td>
</tr>
<tr>
<td>GDP (real growth)</td>
<td>179.5</td>
<td>184.9</td>
<td>192.8</td>
<td>201.5</td>
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<tr>
<td>PPP GDP (€ per capita)</td>
<td>76.7</td>
<td>77.2</td>
<td>76.8</td>
<td>76.9</td>
<td>77.2</td>
</tr>
<tr>
<td>Private consumption (constant growth rate)</td>
<td>2.6</td>
<td>7.5</td>
<td>7.2</td>
<td>5.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Public consumption (constant growth rate)</td>
<td>0.8</td>
<td>0.6</td>
<td>0.4</td>
<td>0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Gross fixed capital formation (constant growth rate)</td>
<td>4.5</td>
<td>1.6</td>
<td>9.0</td>
<td>4.4</td>
<td></td>
</tr>
<tr>
<td>Exports (annual growth rate)</td>
<td>4.1</td>
<td>2.6</td>
<td>2.2</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Public debt: GDP (percentage)</td>
<td>128.8</td>
<td>130.3</td>
<td>126.1</td>
<td>121.3</td>
<td>119.5</td>
</tr>
<tr>
<td>Inflation (constant rate)</td>
<td>0.5</td>
<td>0.6</td>
<td>1.6</td>
<td>1.2</td>
<td>0.8</td>
</tr>
<tr>
<td>Unemployment rate (percentage)</td>
<td>7.2</td>
<td>7.6</td>
<td>7.9</td>
<td>7.3</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Sources: Statistics Portugal Economic Bulletin March 2019 issued by the BoP; Strategy and Studies Bureau (GEE) of the Portuguese Ministry of Economy; European Commission - Eurostat and Annual Macro-Economic (AMECO) database, IMF World Economic Outlook, April 2019.
Portugal as a compelling FDI destination

The Portuguese calling for trade is internationally recognized. Portugal ranks first out of 190 countries in the Trading across Borders category of the World Bank’s Doing Business index. Still, the need to further improve export performance is acknowledged internally. To this end, the Portuguese authorities are set to raise the number of exporting small- and medium-sized enterprises (SMEs) and increase exports from 44% in 2018 to 50% of GDP by 2025. Nevertheless, the slowdown of Portugal’s major trading partners may provide a headwind to further export growth.

Strategically positioned link in global value chains

According to the Future of Languages Report, Portugal is seen as “a gateway into a Lusophone (Portuguese-speaking) market of 250 million people”. Portuguese is the fifth-most widely spoken language globally and it was ranked the eighth-most important language for the UK’s future prosperity, as it is the official language in nine countries, and it is spoken by people spread across Europe, Africa, America and Asia. Additionally, Portugal is uniquely positioned at the intersection of key shipping routes between Europe, America and Asia, making it an appealing hub for foreign investment within the framework of global value chains.

In 2016, the foreign content of Portugal’s exports was higher than both the OECD and EU averages. This statistic - the import content of exports - is the share of imported inputs in the overall value added of the country’s exports, and it is considered as a reliable measure of international backward linkages in analyses of global value chains. Hence, it suggests a fair global value chain integration of the Portuguese economy. From a sectorial standpoint, computers and electronic equipment was among the industries where this integration was more significant, suggesting an upward move in value chains toward activities with higher innovation content.

Portugal set its sights on developing a business-friendly environment

Portugal has made noticeable improvements in lifting the administrative burden of businesses. Examples of important reforms include cutting unnecessary red tape, improving the firm restructuring and insolvency framework, fostering collaboration between scientific institutions and businesses, amending labor regulations to reduce duality and promoting digitalization.

As a result, new businesses are booming across Portugal. According to the Doing Business Report 2019, reducing time and cost for company formalization increased the number of start-ups by 17%. These new businesses were more likely female-owned and headed by less experienced people, signaling an embracing environment for entrepreneurship. Indeed, entrepreneurship has gained popularity as a desirable career option and entrepreneurial intentions are well above the EU average.

Also, many Portuguese companies have successfully scaled-up their businesses in recent years. In 2016, 12.8% of all Portuguese firms with at least 10 employees were high-growth firms, a higher proportion than that observed in the UK, Germany or France.

Bright innovation ecosystem

Portugal is an innovation hotspot at a global scale. Lisbon hosts the Web Summit, Europe’s largest tech event, and the MoneyConf, a fintech conference where the world’s leading banks, tech firms and disruptive start-ups meet, is also moving from Dublin to Lisbon in 2019. Programs such as Startup Portugal develop further instruments to attract new investment, talent and innovation, such as the 200M Co-Investment Fund and a Startup Visa for foreign entrepreneurs.

A range of co-working spaces and over 150 incubators and accelerators bring a new impetus to the ecosystem. The Portuguese Government is also prioritizing the innovation ecosystem through several initiatives to foster technological collaboration and talent development. Conectividade, Inovação e Tecnologia (CIfTe), Indústria 4.0 and Program Interface are just a few examples. All of these initiatives have put Portugal on the international radar. According to Bloomberg, Portugal is among the 60 most innovative countries in the world. In the Global Competitiveness report, the Portuguese innovation ecosystem is also highly regarded. Out of the 140 economies considered, Portugal is 32nd in the innovation capability indicator and 26th in the quality of research institutions.

Catalysts of FDI in this new age.

In 2018, the cumulative stock of FDI inflows to Portugal stood at €119 billion, which accounts to approximately 60% of the country’s GDP. This is among the highest rates in Europe, well above that of other EU countries, such as France (34%) and Germany (26%). This year, EY European Investment Monitor reveals an infection in the pace of FDI, with 74 inward investment projects secured (versus 95 in 2017). This trend mirrors both the deceleration of FDI in Europe as a whole and the stabilization of FDI activity in Portugal following a tremendous surge in 2017.
Transport and digital infrastructure

Massive investment in infrastructure, enabled by stronger government finances, has been effectively supporting business in the country. Portugal ranks 19th out of 140 countries in the Infrastructure pillar of the Global Competitiveness Index. The results of the Attractiveness Survey confirm Portugal’s positioning – 86% of the established investors consider its transports and logistics infrastructure attractive, 88% consider its telecommunications infrastructure attractive.

But the facts speak for themselves: with a broad-coverage road network, traveling by car from Lisbon or Porto to the main cities around is feasible within 1 hour; the railroad is well served, providing North-South and East-West connections across the country; and there are approximately 150 international flights departing from Portugal each day.

There are 15 airports in Portugal; the cities of Lisbon, Porto and Faro are served with international airports. Both Lisbon and Porto have daily flight connections to most European cities, and Lisbon also has privileged connections to Africa and Brazil. Faro is mostly used by charter airlines, providing access to the Algarve region, acclaimed for its golf courses and beaches.

Recent developments were targeted at improving cross-border railway connectivity, launching the renegotiation of seaport concessions, and setting up a second international airport in the Lisbon area – Montijo - to meet a steep increase in tourist inflows. In 2018, Portugal improved its connectivity ranking in the Digital Economy and Society Index, moving up to eighth place in the EU. With extensive deployment of fibre-to-the-home, broadband is available to all and 95% of households have access to high-velocity networks, well above the EU average. Discussions for the implementation of the 5G network are underway and it is anticipated to be fully functional by 2025.

Wide availability of talent

Labor market conditions continued to improve in 2018. Unemployment fell, even as labor force participation rose, thanks to broad-based employment growth. Declining unemployment and an increase of the minimum wage to €600 in early 2019 contributed to a pick-up in wage growth. However, total and working age population remain a structural supply constraint of the economy.

This turnaround of the labor market was met with impressive international acclaim. Portugal ranks 43rd out of 130 countries in the Global Human Capital Report. Within the human capital development pillar, Portugal ranks 18th in terms of the skill diversity of graduates. The Institute for Management Development (IMD), in turn, considers readily available skilled labor, management education that meets the needs of the business community, and broad language skills to be Portugal’s top strengths in terms of readiness of its talent pool.
Uncertainty — a force to be reckoned with

Europe will continue to face political uncertainty throughout 2019. External events in Portugal, such as the October general election, are also bringing instability.

Halfway through 2019, the future economic and political relationship between the EU and the UK remains unresolved. European economic growth forecasts are languid, and populism continues to gain momentum.

Survey participants are unsurprisingly alarmed. Approximately 38% cited Brexit as a key risk to Europe’s attractiveness in the next three years, making it the most pressing concern for foreign investors in 2019.

The impact of Brexit in the Portuguese economy is widely acknowledged. According to the IMF, important trade and tourism links could be disrupted, and a loss of financial market confidence could lead to higher sovereign interest rates. In a recent study carried out by EY Augusto Mateus & Associados (AM&A), the impact of Brexit on FDI from the UK was estimated at -0.5% to -1.9%. The repercussions for trade might be even worse. The estimated impact on exports to the UK ranges between -1.1% to -4.5%. Brexit aside, political instability and populism also rank high among investors’ concerns. Some Western democracies continue to struggle with post crisis patterns of political fragmentation and polarization, and the continued influx of migrants from Africa and the Middle East has deepened populist sentiment. The election of a populist government in Italy, the collapse of Austria’s coalition government and the Catalan independence crisis in Spain are just a few examples of events that fuel mistrust from foreign investors.

The tide of protectionism that is rising around the world is also raising concern among investors. At the beginning of 2018, a record 396 trade and investment barriers existed for EU businesses, up from the 372 barriers that existed one year earlier.

Even though Portugal is not oblivious to these concerns, political instability and populism are not so deeply ingrained in the country. Right wing populism has failed to gain electoral support, and the populist discourse is scarcely found in national politics. Moreover, the two dominant parties in Portugal share a significant pro European consensus on issues such as trade, migration, and the rule of law.

Still, there is uncertainty tied to the next general election to be held in October 2019. Following the inconclusive election in October 2015, the party leader António Costa secured parliamentary support for a Socialist led minority government on the basis of an anti austerity agenda. Even though elections this year could yield another fragmented parliament, since sensitive issues such as migration and Euroscepticism create little political polarization in the country, and moderate parties dominate the political scene, political instability is unlikely to make headlines in Portugal.
FDI in Europe slowed down, with Asia and Pacific investors retrenching

The Global Investment Trends Monitor published by the United Nations Conference for Trade and Development (UNCTAD) reveals that global FDI fell by nearly one-fifth in 2018. In Europe, the 73% decline in FDI inflows was unprecedented. This downturn was primarily a result of large repatriations of retained foreign earnings by US multinationals, following the introduction of corporate income tax reforms at the end of 2017. It also proves that investors’ concerns about slowing European growth and a fraught geopolitical environment are impacting FDI dynamism in Europe.

A survey performed by Germany’s Mercator Institute for China Studies and the research firm Rhodium Group states that continued capital controls and the tightening of investment rules for state firms in China, coupled with growing regulatory scrutiny in host economies, caused Chinese FDI in Europe to fall by 40% in 2018.

FDI in Europe by region of origin (2017-18)

Source: EY European Investment Monitor (EIM), 2019.

The number of projects committed by investors from the Asia and Pacific regions decreased by approximately 22%. These figures provide further evidence on the impact of non-trade aspects of protectionism in investment. The EU has been scrutinizing FDI more closely in critical sectors on the grounds of security and public order. This seems to be influencing FDI, particularly inflows from some countries in the Asia and Pacific regions, such as China. Indeed, FDI projects undertaken by Chinese investors in Europe fell by 27% in 2018.

FDI projects in Europe by region of origin (2017-18)

Source: EY European Investment Monitor (EIM), 2019.
Portugal’s share of investment projects in Europe remained stable

In an uncertain European context, the signs of the Portuguese resilience are frankly positive. Seventy-four FDI projects were secured last year, corresponding to at least 6,100 new jobs created. Although these figures fall short of last year’s, according to the Portuguese Ministry of Foreign Affairs, Portugal drew record FDI in 2018, with a total agreed investment of €1.1 billion.

These results show sustained investor confidence, stemming from a well-entrenched economic recovery, increasing domestic demand, rapid growth of exports-oriented sectors, and an indisputable focus on external diplomacy and foreign investment. All this contributed to broad-based growth observed across sectors and the stabilization of FDI activity levels in 2018.

FDI projects in Portugal

![FDI projects in Portugal](image)

Number of FDI projects across Europe (2018)

![Number of FDI projects across Europe (2018)](image)

After a tremendous surge in FDI projects in 2017, investment curbed in 2018. Nonetheless, it grew as compared with 2016 results.

The accelerating pace of growth in FDI observed over the past three years culminated in an unusually high number of investment projects in 2017, and it is now stabilizing. Seventy-four inward investment projects were recorded during the year, a decrease of 22% from the 95 projects secured by Portugal in 2017, but still an increase of 25% vis-à-vis 2016. These FDI projects resulted in the creation of at least 6,100 new jobs in 2018.

FDI in Portugal remains primarily targeted at new investments (64%), rather than expansion projects (36%).

Despite turmoil in the European FDI panorama, Portugal stays firm.

FDI inflows in Europe are shifting. The number of projects secured decreased. The market share of Europe’s two largest recipients of FDI in 2017 - the UK and Germany - declined. France saw an upsurge in FDI, outrunning Germany in number of projects.

Nevertheless, Portugal’s share of all European projects secured during the year remained fairly stable, at 1%.

Traditional investors remain entrenched, with overseas investors trailing.

Seven of the top 10 countries of origin of FDI projects in Portugal are European. Investors from these countries launched 72% of inbound FDI projects in 2018, up from 57% in 2017. France was Portugal’s largest investor, reporting an expansion in FDI projects of 46% and overtaking the US. Based on data provided by the BoP, the French FDI stock in Portugal was around €6.5 billion in 2018. Spain and Germany are the second and third largest investors in the country, respectively, despite a slight decrease in the number of projects led by German investors.

The reinforcement of French investment was accompanied by a retraction of US investors, who committed to 3 FDI projects in Portugal in 2018, down from 17 in 2017.

Incidentally, the number of FDI projects led by non-European investors decreased to 15 (from 26 in 2017), which represents a 7 p.p. drop in the FDI share of overseas investors in Portugal. This seems to be the result of rising trade tensions and general uncertainty about the global policy environment for investment, apparently less alarming for intra-European investors.

The accelerating pace of growth in FDI observed over the past three years culminated in an unusually high number of investment projects in 2017, and it is now stabilizing.
Regional FDI factsheet

FDI projects in Portugal by region (2017 and 2018)

<table>
<thead>
<tr>
<th>Region</th>
<th>2017 Projects</th>
<th>2018 Projects</th>
<th>Change</th>
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<tr>
<td>Northern Portugal</td>
<td>24</td>
<td>15</td>
<td>-9</td>
</tr>
<tr>
<td>Central Portugal</td>
<td>13</td>
<td>5</td>
<td>-8</td>
</tr>
<tr>
<td>Lisbon area</td>
<td>13</td>
<td>12</td>
<td>-1</td>
</tr>
<tr>
<td>Alentejo</td>
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<td>10</td>
<td>+7</td>
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<tr>
<td>Azores</td>
<td>3</td>
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<td>-2</td>
</tr>
<tr>
<td>Madeira</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Algarve</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Top investors:

- Northern Portugal: France, Germany, Spain and Switzerland
- Central Portugal: Germany, France, Switzerland and UK
- Lisbon area: Spain, France, UK and Brazil
- Alentejo: Spain, France, UK and Brazil
- Azores: Spain, France, UK and Brazil
- Madeira: Spain, France, UK and Brazil
- Algarve: Spain, France, UK and Brazil

Key sectors:

- Northern Portugal: Transportation manufacturing and supply, Business services and raw materials
- Central Portugal: Transportation manufacturing and supply, Business services and raw materials
- Lisbon area: Digital, Business services
- Alentejo: Agri-food, Transportation manufacturing and supply
- Azores: Transportation manufacturing and supply
- Madeira: Transportation manufacturing and supply
- Algarve: Transportation manufacturing and supply

Note: FDI jobs created must be interpreted as a minimum estimate since not every project entry in the FDI database includes job creation data (only those projects for which this information was announced do). Additionally, please note that this indicator is not comparable with last year’s since FDI jobs created in the IBM Database 2017 referred to job projections.

Source: EY European Investment Monitor (EIM), 2016-18.

Trends in regional FDI

1. In 2018, the Lisbon area outperformed Northern Portugal in the number of FDI projects secured for the first time since 2015.
2. Alentejo is resuming FDI activity, following a sharp decline in the number of FDI projects secured in 2017.
3. Central Portugal seems to be losing momentum in the national FDI panorama.
4. Algarve and the autonomous regions of the Azores and Madeira recorded no FDI projects in 2018, curtailing the marginal growth experienced in the past two years.

Source: EY European Investment Monitor (EIM), 2017-18.
In 2018, digital, transportation manufacturing and supply, and business services remained among the most well-heeled sectors of the Portuguese economy in attracting FDI to the country. Combined, these sectors totaled 42 FDI projects (versus 45 in 2017) and at least 3,400 new jobs created. This corresponds to approximately 55% of both the total number of FDI projects and jobs created in Portugal in 2018.

FDI by business sector

In 2018, digital leads, more traditional industries, such as agri-food, are gaining relevance in terms of FDI inflows and as relevant sources of employment creation. PortugalFoods, an association intended to promote the internationalization of the agri-food sector, has already announced a €6 million investment to promote further foreign investment in this industry over the next three years.

Surprisingly, in a time when digital leads, more traditional sectors of the Portuguese economy in attracting FDI to the country. Combined, these sectors totaled 42 FDI projects (versus 45 in 2017) and at least 3,400 new jobs created. This corresponds to approximately 55% of both the total number of FDI projects and jobs created in Portugal in 2018.

FDI projects in Portugal and jobs created by sector (2018)

Digital remains the most popular business sector for foreign investors, as well as a leading job creator.

The headline for Portugal is its burgeoning digital sector. Despite a sudden decrease in the number of projects, in 2018, one out of five FDI projects in Portugal were targeted at the digital business sector, providing nearly a quarter of FDI jobs created (1,610).

Flagship projects include the expansion of Siemens’ Lisbon Tech Hub, which is an IT competency center the company has in Portugal. This project encompassed an investment of €20 million and the creation of 400 highly specialized jobs in IT.

Second comes transportation manufacturing and supply, a powerhouse of the Portuguese industrial base.

Automotive and aeronautics companies continued to invest in Portugal. In 2018, 14 FDI projects in transportation and supply created at least 1,281 new jobs. For the two aeronautics-related projects – Resiaa’s in Ponte de Sôr and Armor Meca’s in Évora –, Alentejo was the sought-after destination. Together, these projects represented an overall investment of €9 million and contributed to the creation of 150 new jobs, strengthening the aeronautical cluster in the region.

Automotive projects, in turn, were marked by larger scale investments. Renault invested €48 million in its plant in Cacia to develop new solutions to reduce carbon dioxide emissions. The South Korean Hanon Systems, in turn, announced an investment of €48 million to open a new plant in Palmela.

Traditional sectors showed solid growth in 2018. FDI in agri-food businesses quadrupled in 2018, making it the third largest sector in terms of both number of projects (12) and jobs created (921).

Spanish investors, such as Mercadona, notably contributed to this growth, leading four of the 12 FDI projects launched in 2018. Swiss (three projects) and US companies (two projects) followed suit.

Overall, Northern Portugal and Alentejo were the most sought-after destinations for agri-food sector investments, housing four of the 12 projects launched in 2018 each. These were the locations chosen by high-profile investors, such as Nestlé that announced a €40 million investment in Avanca and Porto to increase capacity, upgrade production lines and promote innovation in child nutrition concepts.

Business services continued to grow, this time with a greater focus on customer-serving activities. Portugal’s attractiveness as a destination for business services investment also continued to improve. In 2018, the number of FDI projects in this field increased to 12 and contributed to the creation of at least 508 new jobs.

In early 2018, the Chinese construction conglomerate China State Construction Engineering Corporation opened a branch in Portugal. The start-up incubator Demium also chose Portugal, more specifically Lisbon, to establish its first office outside Spain. Enviresearch is yet another example – it opened a new office in Lisbon to provide regulatory and risk assessment services for the chemical industry in Southern Europe. These projects showcase the contribution of foreign investors for a business services sector that is becoming more diversified and customer-serving-centric (that is, more focused on sales and marketing rather than shared services and contact center activities).
FDI by project activity

Manufacturing projects lead the way, with sales and marketing trailing as domestic demand picks up

Regarding investment by activity, manufacturing projects, particularly in the transportation and agri-food businesses, remain the most popular for foreign investors. In 2018, manufacturing projects were 39% of total FDI projects in Portugal, and provided one-third of FDI jobs.

As the Portuguese economy’s recovery broadens to domestic demand, higher confidence levels, a continued increase in household disposable income and marked growth in consumer credit are driving private consumption. This is reflected in the strong growth of projects serving consumers - the number of FDI projects in sales and marketing grew by 46% in 2018. Conversely, the share of R&D and shared services center activities in the total number of FDI projects slightly decreased in 2018.

Still, there were nine R&D-related FDI projects in Portugal in 2018, most of them in the digital sector. The expansion of Siemens’ Lisbon Tech Hub is just one example. The Zumtobel Group, in turn, established its global software competence center in Porto. The Group expects this project to shape technological transformation in smart lighting, connected systems and Internet of Things (IoT).

Notably, despite its decreasing relevance in terms of number of FDI projects, shared services center projects remain a key source of FDI employment. In 2018, one in five FDI jobs was created in shared services centers.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>39%</td>
<td>48%</td>
<td>33% (2017)</td>
<td>33% (2017)</td>
<td>12% of jobs created</td>
<td>12% of jobs created</td>
</tr>
<tr>
<td>Sales and Marketing</td>
<td>34%</td>
<td>18%</td>
<td>29% (2017)</td>
<td>29% (2017)</td>
<td>7% of jobs created</td>
<td>7% of jobs created</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>12%</td>
<td>9%</td>
<td>18% (2017)</td>
<td>18% (2017)</td>
<td>3% of jobs created</td>
<td>3% of jobs created</td>
</tr>
<tr>
<td>Shared services center</td>
<td>7%</td>
<td>9%</td>
<td>18% (2017)</td>
<td>18% (2017)</td>
<td>1% of jobs created</td>
<td>1% of jobs created</td>
</tr>
<tr>
<td>Internet data center</td>
<td>3%</td>
<td>0%</td>
<td>1% (2017)</td>
<td>1% (2017)</td>
<td>3% of jobs created</td>
<td>3% of jobs created</td>
</tr>
</tbody>
</table>

Note: FDI jobs created must be interpreted as a minimum estimate since not every project entry in the FDI database includes job creation data (only three projects for which this information was announced do). Additionally, please note that this indicator is not comparable with last year’s since FDI jobs created in the IBM Database 2017 referred to job projections.

Source: EY European Investment Monitor (EIM), 2019

Case study

Mercedes

Mercedes-Benz opened up a Digital Hub in Portugal in May 2017: Mercedes-Benz.io Portugal. The goal of the hub is to create the next generation digital platforms for marketing & sales for all Mercedes-Benz. The company has already more than 100 people and will continue to grow its size in the next few years.

Driving the Digital Future in Portugal

There were different reasons why Mercedes-Benz selected Lisbon to open its first worldwide Digital Hub but two can be highlighted: (1) local talent - there are plenty of good engineering schools across the country and the quality of the developers is very high; (2) international talent - Lisbon is more and more a technology hub city, attracting talent from all over the world.

Alexandre Vaz
Managing Director
Mercedes-Benz.io Portugal
Portugal emerging as a beacon for foreign investors

Portugal: a beacon of light in an uncertain European context

Portugal’s attractiveness is influenced by the wider European setting, but the country remains ahead of its peers.

The optimism prevailing in Europe came to an abrupt halt with the outbreak of geopolitical concerns related to Brexit, slowing Eurozone growth and rising trade tensions. Uncertainty, not just in Europe but around the world, is unsettling investor confidence and it has caused businesses to throttle back on foreign investment.

In fact, even though Europe maintains its leading position as the most attractive region to establish operations in, optimism fell (from 50% in 2018, to 37% in 2019) and short-term investment plans slowed down (from 35% in 2018, to 27% in 2019).

Recent developments in investor sentiment toward Portugal mirror this wider European context. Still, Portugal has once more outpaced its fellow European countries. Attractiveness remains strong and the proportion of investors planning to invest in Portugal over the coming years is one of the highest in Europe.

Attractiveness perception and short-term investment plans across Europe

Even as unusual optimism fades, Portugal prevails as an attractive FDI destination

Portugal’s attractiveness remains strong, even though investor sentiment is softening. After two years of strong gains in investor confidence, perceptions of Portugal’s attractiveness among business leaders are stabilizing. Fifty-two percent of respondent investors expect Portugal’s attractiveness to improve over the next three years, while 36% expect it to stay the same (up from 28% in 2018). Those who already operate in Portugal remain more optimistic about the country’s future attractiveness.

Likewise, short-term investment intentions showed signs of deceleration. Twenty-five percent of the investors surveyed stated their intention to invest in Portugal over the next year, down from 30% in 2018. This trend is visible in the responses of both established and non-established investors.

Are you planning to establish or expand operations in Portugal over the next year?

Although short-term investment intentions are slowing down, investment with higher value-added content is gaining ground. In the short-term, Portugal is expected to house investment projects primarily related to sales and marketing offices and manufacturing. One out of three investors cited each of these fields as priorities over the coming year.

While investment intentions show signs of deceleration, interest in manufacturing projects is making a comeback (+14 p.p. from 2018 results) as the ongoing modernization of the industry provides further scope for entry and differentiation. Perhaps more importantly, investment in R&D activities is booming, growing at an even faster pace (+10 p.p.).

Taken together, these results suggest a rising interest in higher value-added activities, and prove Portugal’s success in transitioning to a more innovative and knowledge-intensive economy.
Attractiveness factors
Solid strategic assets sustain the resilience of the Portuguese investment ecosystem

High perception ratings on key structural factors such as quality of life, social stability, infrastructure and local labor have been fueling Portugal’s appeal to investors globally, underpinning the country’s resilience to external shocks. Over half of the survey respondents find the quality of life and stability of the social climate in Portugal to be very attractive.

From a global standpoint, Portugal is viewed as a benchmark of excellence in these dimensions. It is the fourth most peaceful country in the world (based on the Global Peace Index) - this draws greater relevance given the current climate of insecurity felt in Europe. Plus, Portugal ranks an impressive 6th peaceful country in the world (based on growing and attracting talent indices, the country ranks in the top 10, of the Expat Insider ranking. In three years, Vodafone successfully tested the resilience of the Portuguese labor legislation is attractive (versus 30% of non-established respondents). The same happens regarding incentives offered by either regional and municipal authorities (51% versus 33%) or the central Government (48% versus 35%). These were areas of recent intervention by the Government. The survey findings seem to suggest that non-established investors are still unaware of the positive outcome of such reforms. Regarding taxation, the reduction of the tax burden for businesses is one area of focus identified by investors as a priority for Portugal to remain competitive.

However, our survey suggests Portugal is falling behind in some key fundamentals to remain a priority destination for FDI. The flexibility of the labor legislation, incentives and taxation seem less attractive, especially for non-established investors. In fact, nearly half of the established investors surveyed think the flexibility of the Portuguese labor legislation is attractive (versus 30% of non-established respondents). The same happens regarding incentives offered by either regional and municipal authorities (51% versus 33%) or the central Government (48% versus 35%). These were areas of recent intervention by the Government. The survey findings seem to suggest that non-established investors are still unaware of the positive outcome of such reforms. Regarding taxation, the reduction of the tax burden for businesses is one area of focus identified by investors as a priority for Portugal to remain competitive.

But beware: there is still a perception gap between established and non-established investors. In fact, although the perceptions of both sorts of investors have evolved in the same direction, a divide is still clear. Those who already operate in Portugal tend to evaluate the country’s attractiveness in a much more favorable way.

Portugal is, indeed, in the forefront of next generation telecom. Earlier this year, Vodafone successfully tested 5G technology in Lisbon. Its 5G Hub innovation center will be made available to companies, universities and start-ups that wish to test their designs. Vodafone seeks to deploy other 5G antennas from Lisbon to Porto by year-end, ahead of its commercial launch in 2020. Besides connectivity, high mobility standards also weigh on investors’ perceptions of the country’s appeal. Portugal ranks 19th out of 140 countries in the infrastructure pillar of the Global Competitiveness Index. Finally, the local labor skills level and cost are also met with a great deal of appreciation, with one in three international investors highlighting these factors as very attractive.

EY Attractiveness Survey reveals that 48% of businesses believe access to skilled labor is the most critical criteria in determining where they invest in Europe. Therefore, a continued focus on growing and attracting talent is paramount to meeting investor expectations. Much ground has already been covered. In the IMD World Talent Ranking, Portugal is the seventh best out of 63 countries in terms of development of home-grown talent. The factors at play here are manifold. Educational outcomes have improved significantly in recent years. The attractiveness of the national higher education system was bolstered by the presence of 13 Portuguese universities in the Times Higher Education World University Ranking. Additionally, steps have been taken to raise the skills of adults and promote digital literacy through initiatives such as the Qualifica Program and INCoDe.2030.

Portugal has also worked on attracting and welcoming talent from beyond borders. The Tech Visa was created to ensure expatriate processing of visas and residence permits for technological and innovative companies wishing to hire highly-qualified staff from outside the EU. An array of tax incentives reinforce Portugal’s commitment in this respect. The special tax regime for non-habitual tax residents may entitle foreigners and the Portuguese diaspora alike to a flat income tax rate of 20% for 10 years. Moreover, the golden residence permit program, known as the Golden Visa scheme, enables non-EU citizens to obtain a temporary residence permit and settle business activities in Portugal. Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal)
Tourism, real estate and construction, and ICT take the lead.

Turning to the survey findings on which business sectors will drive growth in the upcoming years, respondents’ impressions remain relatively unchanged from 2018. Investors expect tourism, real estate and construction, and ICT to lead the way for the Portuguese economy.

1 Tourism
33% of investors believe the tourism sector will drive Portugal’s growth in the coming years.

2 Real estate and construction
26% of investors believe the real estate and construction sector will drive Portugal’s growth in the coming years.

3 ICT
25% of investors believe the ICT sector will drive Portugal’s growth in the coming years.

The goal is clear and, with the implementation of a carefully defined strategy – Tourism 2027 –, it is getting closer and closer: tourism becoming a year-round job-creating activity, that preserves the territory and the environment, draws on the local culture and communities, and decisively contributes to the economic development of the country.

Luís Araújo
President of Turismo de Portugal

Real estate and construction reaffirm their position as real powerhouses of the Portuguese economy.

Major migratory and tourism inflows are generating a momentum for real estate and construction opportunities. Unlike in other countries, the Portuguese Government has not tightened rules on foreign ownership or increased property taxes. Instead, it implemented a number of incentives that made Portugal a more desirable destination. The Golden Visa scheme and the special tax regime for non-habitual residents, for example, attracted new arrivals to the country and backed rising demand for new housing. The resulting rebound in residential investment is also expected to strengthen the construction industry’s growth in 2019, according to Fitch Solutions’ Business Monitor International.

ICT sector development looks promising too, powered by a robust talent supply.

Business leaders also believe Portugal is likely to perform strongly in ICT, one of Europe’s fastest-growing sectors. The technological consultancy firm IDC estimates that the Portuguese ICT sector will grow by 2.2% in 2019, faster than GDP. Cloud, IoT, big data and cybersecurity will experience the highest growth rates until 2022. A sizable and skilled talent pool with strong digital skills paves the way for the expected success. According to the European Commission, one in five companies in Portugal employ ICT specialists, slightly above the EU average. Moreover, comparatively fewer companies report hard-to-fill vacancies requiring ICT skills in Portugal (31%) than in the EU as a whole (47.5%).
Areas of focus

Taken together, the survey results suggest that, although Portugal’s attractiveness remains strong, investor sentiment is softening. Thus, concerted efforts are needed if Portugal is to remain a preferred destination for global firms and entrepreneurs alike.

With this in mind, business leaders were asked what Portugal needs to do to remain competitive, and they highlighted areas of untapped opportunity. These are manifold, ranging from infrastructure to talent, and from support systems for businesses to the businesses’ own footprint.

According to them, Portugal’s top priorities should be developing education and skills, and reducing taxation.

Support high-tech industries and innovation

This is the top priority for 41% of investors interviewed. This concern prevails across Europe, and is listed as the top priority for investors in the Netherlands (37%), Germany (35%) and Belgium (34%).

Eurostat figures show that the tech (software) industry is growing five times faster than the rest of the European economy, and tech firms are powering job creation.

Still, Europe’s pool of capital remains fragmented, and there are fewer private investors prepared to support tech businesses scaling-up.

Portugal has been working toward bridging the funding gap. StartUp Portugal, the Portuguese Government’s taskforce for entrepreneurship, has implemented several tools to support the industry. The 200M Co-Investment Fund is one such example. It develops innovative funding instruments for high-potential start-ups by promoting co-investment from private sources.

In turn, the Incubation Voucher was designed to help start-ups face their first business expenses and facilitate access to one of 135 certified business incubators.

The Portuguese tech ecosystem also benefits from a valuable series of international events, such as the Web Summit and the Lisbon Investment Summit, which help driving the flow of knowledge, talent and capital.

Much of the recent initiatives were geared toward supporting youngsters and nurturing talent from scratch. The StartUp Voucher, for instance, is aimed at sponsoring young entrepreneurs aged 18 to 35 years old through grants and mentorship. The StartUp Momentum is a one-year program intended to support recently graduated and senior students, who are eligible for public social support and wish to create a start-up, through funding, free housing and incubation.

Develop education and skills

With disruption making its way across countries and industries, reshaping entire value chains and changing the way we work and live, companies’ needs have changed. They need the best practitioners and technologists, which means people must be equipped with the right skills to fit the workplace of the future. Following this trend, 36% of investors say Portugal must develop education and skills to address these concerns.

According to the European Centre for the Development of Vocational Training, Portugal is becoming more qualified. As a result of recent reforms to education policy, younger cohorts of the Portuguese population are substantially more educated. Generational turnover is set to infuse the labor force with renewed and highly-qualified talent. Nevertheless, Portugal remains focused in improving the skills of its people. Compulsory schooling was extended to age 18; there is ongoing work to modernise vocational education training; targeted support to young unemployed people was reinforced through the EU Youth Guarantee Program; and a national digital skills initiative was launched – INCoDe.2030 - to enhance digital literacy and promote employability.

Going forward, a positive attitude to highly skilled immigration could become a true differentiator, especially considering Portugal can leverage on its appeal to expatriates. According to the Expats Insider survey carried out by InterNations, expats in Portugal are especially impressed with the quality of life and the ease of settling in.

To combat brain migration, Portugal is also investing in measures to bring back the highly skilled Portuguese diaspora. In 2018, the Government introduced a new regime to attract former residents back to Portugal, offering a 50% reduction on income tax, coupled with financial support for relocation and housing expenses.

Reduce taxation

Reducing taxation remains a concern among 35% of the investors surveyed. This proportion is fairly in line with other European countries, such as the Netherlands (32%), Germany (32%) and France (29%), where this is also a concern.

Still, Portugal ranks 39th in the Paying Taxes category of the World Bank’s Doing Business Index, well above Germany (43rd) and France (55th). Even though only 35% of respondents find corporate taxation in Portugal attractive, according to the same index, the total tax and contribution rate as percentage of profit in Portugal is among the lowest in Europe.

Coupled with the low effective tax burden, a lenient tax regime for non-habitual residents, the free remittance of funds and a friendly residence permit regime further enhance the country’s positioning as a valued destination for FDI.

Main areas of focus to maintain Portugal’s competitive position in the global economy

<table>
<thead>
<tr>
<th>Area of Focus</th>
<th>2018 remain total</th>
<th>Established investors</th>
<th>Non-established investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support high-tech industries and innovation</td>
<td>41%</td>
<td>30%</td>
<td>41%</td>
</tr>
<tr>
<td>Develop education and skills</td>
<td>36%</td>
<td>41%</td>
<td>32%</td>
</tr>
<tr>
<td>Reduce taxation</td>
<td>35%</td>
<td>31%</td>
<td>45%</td>
</tr>
<tr>
<td>Invest in major infrastructure and urban projects</td>
<td>30%</td>
<td>20%</td>
<td>27%</td>
</tr>
<tr>
<td>Support SMEs</td>
<td>24%</td>
<td>38%</td>
<td>26%</td>
</tr>
<tr>
<td>Improve product quality and the add value to services</td>
<td>19%</td>
<td>21%</td>
<td>17%</td>
</tr>
<tr>
<td>Reduce labor costs</td>
<td>15%</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Encourage environmental policies and attitudes</td>
<td>12%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>Facilitate access to credit</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Support struggling industries</td>
<td>8%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Relax competition rules</td>
<td>8%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>None</td>
<td>5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Can’t say</td>
<td>1%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).
Regional attractiveness

Leveraging the country’s strengths, the bid for foreign investment has spread across Portugal.

Following in the footsteps of Google, Natixis and Vestas (among others), Daimler recently established its Tech and Data Hub in Lisbon, further reinforcing its investment in Portugal. Daimler cites the hotspot for digital nomads and young and talented people in the field of technology, and the commitment of the local universities to training in data science, artificial intelligence (AI) and machine learning, as decisive factors for its choice of location.

Oracle has also announced it will open a new development center in Porto. The pool of skilled professionals coming out of the local network of universities, the proximity to an international airport with regular flights to major cities in Europe, Middle East and Africa (EMEA), and the region’s technological culture weighed on the firm’s decision to establish operations in the city.

What region in Portugal do you see as the most attractive to establish operations?

Still, the Lisbon area remains the most attractive for international investors. The Lisbon area continues to dominate in terms of regional attractiveness. Yet, the perception of the country’s attractiveness among investors is gradually shifting, as the “peripheral” regions are competing for the deserved attention. This shift is pushed forward by established investors, for whom these regions are starting to look more promising.

Looking at investment intentions, the picture slightly changes. The Lisbon area and Northern Portugal closely fight for leadership. Of those investors who stated their intention to invest in Portugal in the coming year, 29% plan to do it in the Lisbon area versus 26% in the Northern region. We also see investment moving toward Portugal’s fringes, with the remaining regions accounting for 15% of short-term investment intentions.

There is still a number of investors who do not receive information on Portugal’s attractiveness on a regular basis, especially prospective investors. Seventy-six percent of non-established investors report never having received information marketing Portugal’s attractiveness, vs. 84% of established investors. This may be a critical factor to explain the discrepancy between the investment sentiment of established versus non-established respondents, especially if one considers that established investors have easier access to information and relevant stakeholders.

Still, a modest improvement from last year’s results is noticeable. The percentage of non-established respondents that never received marketing materials and information on Portugal decreased from 82% to 76% this year. And while no non-established investor reported receiving regular information last year, in 2019, 6% of non-established respondents claim to receive regular updates on Portugal’s attractiveness for FDI.

Several agencies and flagship initiatives work together to tackle this issue.

InvestLisboa, InvestPorto, InvestBraga and Choose Coimbra are just a few examples of local investment promotion agencies in Portugal. These programs are intended to welcome and advise firms on establishing operations in the respective regions.

StartUp Portugal Ambassador Mission – This is a program designed to promote the Portuguese startup ecosystem. Four Portuguese ambassadors have been appointed to travel the globe and spread the word about what is happening in Portugal; what support exists, what infrastructure is available and what competitive factors make Portugal an attractive location to launch, grow or invest in a start-up.

Invest in Tourism – This platform was created by Turismo de Portugal, the national tourism authority integrated within the Ministry of Economy, to attract investment for the tourism industry. It is a useful source of information regarding business opportunities in this industry.

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Talent and technology, the reality that matters

The intersection of talent and technology will drive the business paradigm of the future

The pace of change driven by technology has been unprecedented in disrupting businesses. Greater responsiveness is required to meet customer expectations, and companies seek to harness new technologies to optimize for effectiveness, promoting greater agility and empowering faster decision-making. As technology matures, businesses are forced, once again, to challenge the status quo and prompt innovation from within to stay competitive.

To keep pace with disruption, business leaders are under immense pressure to attract and retain the right people. However, proficiency in new technologies is only one part of the talent equation. A recent OECD report entitled Skills for Jobs reveals that it is increasingly more important for companies to find people with high-level cognitive and non-routine skills, capable of coping with unpredictable and noncodifiable tasks while also being able to clearly communicate and understand new ideas and concepts.

However, this shift is placing an enormous strain in the labor market, creating shortages in some specialist skills and surpluses in others. On average, across the OECD countries analyzed in the Skills for Jobs database, more than five out of ten jobs that are hard to fill are found in high-skill occupations, with the most acute shortages observed in the “knowledge of computers and electronics” category.

As it stands today, a positive outlook for the future of businesses, in Portugal and elsewhere, is underscored by the need to carefully manage this workforce shift at the intersection of talent and technology.

Portugal is already tackling these issues. The Government is reorienting education and training to create a pool of highly skilled labor and lessen the digital divide. Policy reforms, investment and new partnerships between employers, social partners, learning institutions and the Government are promoting the development of both talent and technology.

In Portugal, Indústria 4.0 is the cornerstone of the Government’s digital strategy. Launched in 2017, its key aim is to put Portugal at the forefront of the fourth industrial revolution by focusing on three pillars: digitalization, innovation and training.

Changing people agenda
Evolving economic sentiment
Redefined industries
Urban revolution
Smart future
Enhanced competition
Skills imbalances and labor gaps
Changing customer expectations
Changing people agenda
Collaboration and international exposure were key success factors in enabling innovation in recent years

Portugal is nurturing a culture of innovation that enables the country's digital transformation. With a flourishing start-up sector and an entrepreneur-friendly environment, Portugal grew to become an innovation leader in Consumer Technology Association's 2019 International Innovation Scorecard. Turning to the survey findings, investors' perceptions substantiate Portugal’s scorecard result: one in four investors believe Portugal is a strong source of innovation within Europe and that the Portuguese start-up ecosystem is competitive.

These favorable perceptions are strengthening R&D investment and fostering partnerships with local institutions. Of those investors who stated their intention to invest in Portugal in the coming year, 12% will launch investment projects in R&D (versus 2% in 2018). Moreover, several multinationals are signing R&D protocols with the Universities of Minho and Porto for the development of mobility, smart and safe cities, and connected industry solutions.

There are numerous examples of innovation collaborations between businesses and academia in Portugal. For example, Bosch has just signed new R&D protocols with the Universities of Minho and Porto for the development of mobility, smart and safe cities, and connected industry solutions.

The collaboration between academia, R&D centers and businesses is competitive. The start-up ecosystem in Portugal is one of the most competitive in Europe and that Portugal as a source of innovation is above average within the EU. 29% of investors think that Portugal is a strong source of innovation within Europe and that the Portuguese start-up ecosystem is competitive.

Innovative connected solutions in industries enabled by the digital transformation of Portugal

Collaborative innovation

The Bosch's unit in Braga and the University of Minho were pioneers in bringing industry and academia closer together in Portugal. Since 2013, Bosch has significantly expanded its presence in the country. Between 2015 and 2017, it spent over €200 million strengthening its activities there in the field of connected and automated mobility.

Amyris, the industrial bioscience giant, entered a €50 million consortium project with the Catholic University of Portugal and Asego to launch the Alchemy Project, which started mid 2018.

The MIT Portugal Program is yet another initiative designed to develop synergies in joint arrangements. The partnership between the Massachusetts Institute of Technology (MIT), Portuguese universities and research centers, the Portuguese Government, as well as partners from industry and other nonacademic institutions, has targeted collaborative research in emerging areas of science and technology, including bioengineering, sustainable energy and transportation, engineering design and advanced manufacturing.

The Interface Program was launched in 2017 by the Portuguese Government for that purpose. The program encompasses 28 certified technology centers. It is to these centers that EU funds are channeled to support collaboration in key domains, such as digitalization, circular economy or energy efficiency. Moreover, 20 sector clusters were identified to promote knowledge-sharing among companies, higher education and research institutions. Finally, 21 collaborative laboratories (CoLabs) were established to define and implement R&D agendas in selected topics, such as food and smart farming, construction sustainability, healthcare, and cybersecurity.

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Collaboration with leading international institutions is boosting Portugal's involvement in innovation matters of global consequence. Early this year, the Portuguese Government approved the creation of Portugal Space, the national space agency. The Atlantic International Satellite Launch Program – Atlantic ISLPA is in motion for installing satellite launching services in Azores. It is also in the process of launching a laboratory, the STARLAB, for the development of small satellites, which will be co-managed by the Chinese Sciences Academy.

The Atlantic International Research Centre (AIR Centre) also established its headquarters in Azores. This network organization was created to advance science and technology for the preservation of marine and coastal ecosystems, through an integrative approach to knowledge creation and sharing regarding space, atmosphere, oceans, climate change, energy and data science.

Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).
Innovation in numbers

307
R&D Centers
Covering a wide array of scientific fields, from life sciences and healthcare to social sciences, engineering and natural sciences

9.2
researchers per 1,000 employed

over 27%
increase of the budget allocated to Fundação para a Ciência e Tecnologia between 2016 and 2019

Fundação para a Ciência e Tecnologia is the central governmental institution responsible for evaluating and financing science, technology and innovation projects.

9.2
researchers per 1,000 employed

Top corporate R&D spenders

1 Altice Portugal Group
Telecom
€86 thousand R&D expenditure in 2017

2 Sonae Group
Retail
€47 thousand R&D expenditure in 2017

3 NOS SGPS
Telecom

4 Bial
Pharma

5 Banco Comercial
Português
Banking

Talent, infrastructure and incentives are the foundations to unlock innovation leadership

With Lisbon trending in the start-up chatter and Porto being distinguished as Europe’s third fastest-growing tech hub in Atomico’s The State of European Tech report, Portugal is on the brink of becoming a favored digital destination in Europe and across the world.

The country’s success is partly explained by factors which are extremely hard (if not impossible) to replicate: mild winters and sunny summer weather, good food, welcoming locals, a good level of spoken English, and a generalized sense of security and peacefulness.

These ignited international interest and structural factors followed suit. Infrastructure and local labor have fueled Portugal’s appeal to investors globally, underpinning the country’s resilience and innovative potential.

Nonetheless, there is room for improvement and the priorities are clear. Improving education and training in new technologies was cited by 51% of those surveyed as a key area of reform to make Portugal a leader in innovation. Investing in digital infrastructure (32%) and enhancing tax incentives for innovation (31%) followed.

Main areas of reform to make Portugal a leader in innovation

Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).
Enabling competences in new technologies is a top priority in the eyes of global business leaders

Improve education and training in new technologies

At a time when digital transformation is unravelling new opportunities for companies, it is becoming increasingly difficult to recruit and retain people with the skills that will enable them to fully grasp the benefits this transformation brings.

When prompted to rate the overall talent availability and quality in Portugal, 28% of investors describe it as competitive, availability and quality in Portugal, 28% of investors describe it as competitive, 29% as difficult to recruit and retain people with specialist skills, 46% as difficult to find people specialized in R&D.

While Portugal clearly stands out in its command of foreign languages, a particularly unsettling aspect is that competition in engineering, IT and R&D still top the list of the least easy to find. These results seem to corroborate a trend that is working its way across Europe. The OECD report Skills for Jobs reveals that, on average across EU countries, occupational shortages are stronger in the ICT sector (as well as in the education sector), where these specialist skills are more relevant. These are the sectors facing the most intense shortages of skilled labor in Portugal too. Full stack developers, DevOps and maintenance engineers top the list of the skills in highest demand in the Portuguese market, according to the Hays Global Skills Index.

In the Portuguese case, this is primarily a question of skills availability rather than lack thereof. While demand for specialist skills is increasing, supply is not growing fast enough to meet demand. The number of higher education sciences, technology, engineering and mathematics (STEM) courses and the number of students enrolled in them is growing. Of the 372,753 students enrolled in higher education institutions in Portugal in 2018, approximately one-third will graduate in STEM fields. However, it takes between three to five years at least to complete these courses. Given the short timespan to tackle current skills imbalances, waiting is not a viable solution.

For that reason, active policies to foster highly skilled migration have been enacted. A simplified regime for students who wish to study in Portugal and foreign highly-qualified entrepreneurs was introduced, and the approval of residence permits for highly skilled migrants and researchers was streamlined. Moreover, the Portuguese Minister of Finance has recently announced that the special tax regime for non-habitual tax residents is under review to become a more effective tool for attracting qualified professionals to Portugal.

How is Portugal addressing this concern?

The Portuguese Ministry of Education has sought to promote technological proficiency from an early age. National curriculum reforms have emphasized key competences in ICT, such as logical reasoning and computational thinking. In 2018, the Directorate-General for Education partnered with Microsoft to launch the initiative Probólica - Programming and Robotics in Elementary Education, adopted by over 400 schools across the country. Other initiatives outside the scope of compulsory schooling are encouraging further involvement. One such example is that of the Olympiad in Informatics, a prestigious global computer science competition for secondary school students. In 2018, a Portuguese student, Kevin Pucci, won the silver medal. The national qualifying round is organized within the scope of INCoDe.2030, a broader digital skills initiative launched to enhance digital literacy and promote employability. Coding bootcamps, such as Academia de Código, Le Wagon and SheCodes, are also popping and gaining popularity. The Government has also taken additional steps to raise the skills of adults and promote digital literacy through initiatives such as the Qualifica Program and INCoDe.2030.

A close-up on INCoDe.2030

€23 million

Announced budget until 2021

How is Portugal addressing this concern?

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Invest in digital infrastructure

Digital infrastructure is a critical enabler of a growth trajectory in innovation. Investment must keep pace with transformation if infrastructure is to adequately support businesses and governments in their transition toward innovation leadership.

Policy makers around the world are investing in next-generation digital infrastructure to anticipate and respond to the needs of innovators. 5G, specifically, is expected to play a key role in the development of the IoT, AI and cloud solutions.

Turning to the survey results, 32% of investors believe Portugal must continue investing in digital infrastructure to secure its place at the forefront of innovation.

How is Portugal addressing this concern?

In 2018, the Government partnered with Cisco to overhaul the country’s digital infrastructure and accelerate digitalization. Besides improving connectivity, the Digital Agenda for Portugal focuses on delivering better public services, promoting smart mobility, employment and the digital economy, and reducing the digital gap between urban and periphery regions.

Moreover, according to the Global Connectivity Index, there was also more investment in data centers and cloud computing over the year, boosting the country’s IoT and big data potentiality. Telecom leaders are taking the lead in this matter. In 2018, Altice invested €4 million in the expansion of its data center in Covilhã. This facility, which is the largest of its kind in Portugal and one of the ten largest in the world, was distinguished with a Data Center and Cloud Leadership Award in the category of “Excellence in Data Centers Architecture and Design Award”. NOS also opened a new data center in Riba de Ave, and Rede Energética Nacional (REN) inaugurated another in Riba de Ave. The latter will significantly strengthen the security of the National Transmissions Grid managed by the electricity network operator.

Even though several countries plan to launch 5G by 2020, high network deployment costs and setbacks in the release of the 5G-suitable spectrum are expected to cause delays, according to Fitch Solutions’ Business Monitor International. Still, earlier this year, Vodafone successfully tested 5G technology in Lisbon, and it seeks to deploy other 5G antennas from Lisbon to Porto by year-end, ahead of its scheduled commercial launch in 2020.

Increase tax incentives for innovative companies

R&D tax incentives have been extensively relied upon by European countries and partner economies to promote innovation. OECD research provides evidence that these tax relief programs not only spur innovation by the firms that are its direct beneficiaries, but they also have positive spillover effects on technologically related firms.

From the standpoint of businesses, these instruments alleviate the burden of investing in knowledge and technology. Given that underinvestment in innovation is often explained by difficulty in finding finance and in appropriating the returns on investments in R&D, lessening the tax burden provides further encouragement to invest.

The survey findings reveal that 31% of investors point out increasing tax incentives for innovative companies is a key area of policy reform to make Portugal a leader in innovation.

How is Portugal addressing this concern?

Portugal is providing tax relief to innovative companies through a tax credit system designed to stimulate R&D in business firms. Start-ups benefit from an enhanced credit rate on R&D volumes as long as they have not yet made use of the incremental tax offset. This regime – System of Tax Incentives in Research and Business Development II (SIFIDE II) – allows for the recovery of the R&D expenditure which is not co-financed by the Government.

There is also a tax regime that exempts earnings from personal income tax, as defined in Ordinance 195-2018 issued by the Ministry of Finance and Economy. This regime is applicable where the people are employed by micro or small enterprises that have been incorporated for less than six years and are operating in the technological sector.
The “real” attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), EY proprietary database, produced in collaboration with OCO. This database tracks those FDI projects that have resulted in the creation of new facilities and new jobs. By excluding portfolio investments and M&A, this database shows the reality of investment in manufacturing and services by foreign companies across the continent. Data is widely available on FDI, but an investment in a company is normally included in FDI data only if the foreign investor acquires more than 10% of the company’s equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

But our figures also include investments in physical assets, such as plant and equipment. This data provides valuable insights into:

- How FDI projects are undertaken
- What activities are invested in
- Where projects are located
- Who is carrying out these projects

The EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool from EY is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources. To confirm the accuracy of the data collected, the research team aims to directly contact more than 70% of the companies undertaking these investments.

The following categories of investment projects are excluded from the EIM:

- M&A and joint ventures (unless these result in new facilities or new jobs being created)
- License agreements
- Retail and leisure facilities, hotels and real estate
- Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)
- Extraction activities (ores, minerals and fuels)
- Portfolio investments (pensions, insurance and financial funds)
- Factory and other production replacement investments (e.g., replacing old machinery without creating 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 2019, via telephone interviews, based on a representative panel of 205 international decision-makers. This panel was made up of decision-makers of all origins, with clear views and experience of Europe:

- Western Europe: 71%
- Asia: 11%
- Northern America: 8%
- Northern Europe: 3%
- Brazil: 2%
- Central and Eastern Europe: 2%
- Australia: 2%
- Angola: 1%

Overall, 57% of the 205 investors surveyed have presence in Portugal.

*Investment projects by companies in these categories are included in certain instances e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by EY clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, removes 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.

The program has a 17-year legacy and has produced in-depth studies for Europe, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit ey.com/attractiveness #EYAttract.
How can EY help?

Services for investors and multipliers

With offices in Lisbon and Porto, EY offers a broad scope of EY services across its service lines: Assurance, Tax, Advisory and Transaction Advisory Services.

Our teams work closely with the financial system, private equities, venture capitalists and privately owned businesses. Alongside private and public clients, we provide support to the development of economic and commercial promotional strategies in Portugal and overseas. An in-depth knowledge of the local market enables us to offer a set of services that covers all stages of the investment process.

Identification of acquisition opportunities
- Support on the decision-making process concerning new investments either related to new geographies, products or markets
- Identification of potential targets, based on the investor’s requirements
- Preliminary contact (respecting non-disclosure agreements) leading to in-depth negotiations with selected targets

Acquisition and integration support
- Support in the development of growth and business diversification strategies, through both the identification and negotiation of acquisition opportunities and/or in finding additional funding (assisted funding or new investors), and the analysis of business restructuring strategies
- Assessment of existing compensation policies and design of compensation packages matching compliance with local regulations and the investor’s own policies

Financial, tax, commercial, environmental and regulatory due diligence
- Asset valuation and business model validation
- Assessment of tax implications
- Technical support to acquisition negotiations
- Operations assessment and identification of performance improvement opportunities

Assessment of greenfield opportunities
- Initial business model preparation reflecting investment, financial and operational costs based on local conditions
- Site selection based on location requirements for investment and business expansion
- Intermediation with local stakeholders, and identification of funding opportunities, including tax and EU-funded financial incentives
- Preparation and assistance to on-site visits, and formal contacts with national and local stakeholders
- Identification and selection of local suppliers, based on sourcing requirements

Services for the public sector

EY, building of EY legacy spread across the globe, has been developing a significant rapport with governments, investment promotion agencies, regions, municipalities, and public companies in the completion of market screening and economic impact assessments. Efforts have also been undertaken to improve attractiveness, reinforce competitiveness, attract, support and accompany FDI leads.

Assessments of attractiveness
- Identification of existing attractiveness factors, and areas of intervention to increase FDI and promote exports
- Creation of investment attractiveness dashboards to measure results

Reinforcement of regions and cities’ attractiveness
- Analysis of regional and local development factors and creation of touristic value
- Assessment of attractiveness, refunctionalization and impact of equipment and heritage
- Conceptualization of local and regional development strategies
- Conceptualization of governance models and partnerships

Investment promotion
- Identification and validation of targets for FDI promotion
- Compilation of the Doing Business report series with regional sector-specific investment brochures
- Initial setup and definition of procedures for the update of data sets typically required by investors
- Preparation of regional business model templates for specific sectors
- Setting up and facilitation of roadshows, and one-to-one meetings with potential investors, government authorities and business partners

Assessment of investment intentions
- Validation of business models
- Investor due diligence
- Assessment of regional impacts
- Assessment of the economic and commercial viability of investments – Investment sustainability

Efficiency of policies and public investments
- Macroeconomic analyses
- Evaluation and impact analysis of programs, public and sectorial policy
- Strategic plans for public goods and services
- Technical assistance and support to public management
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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