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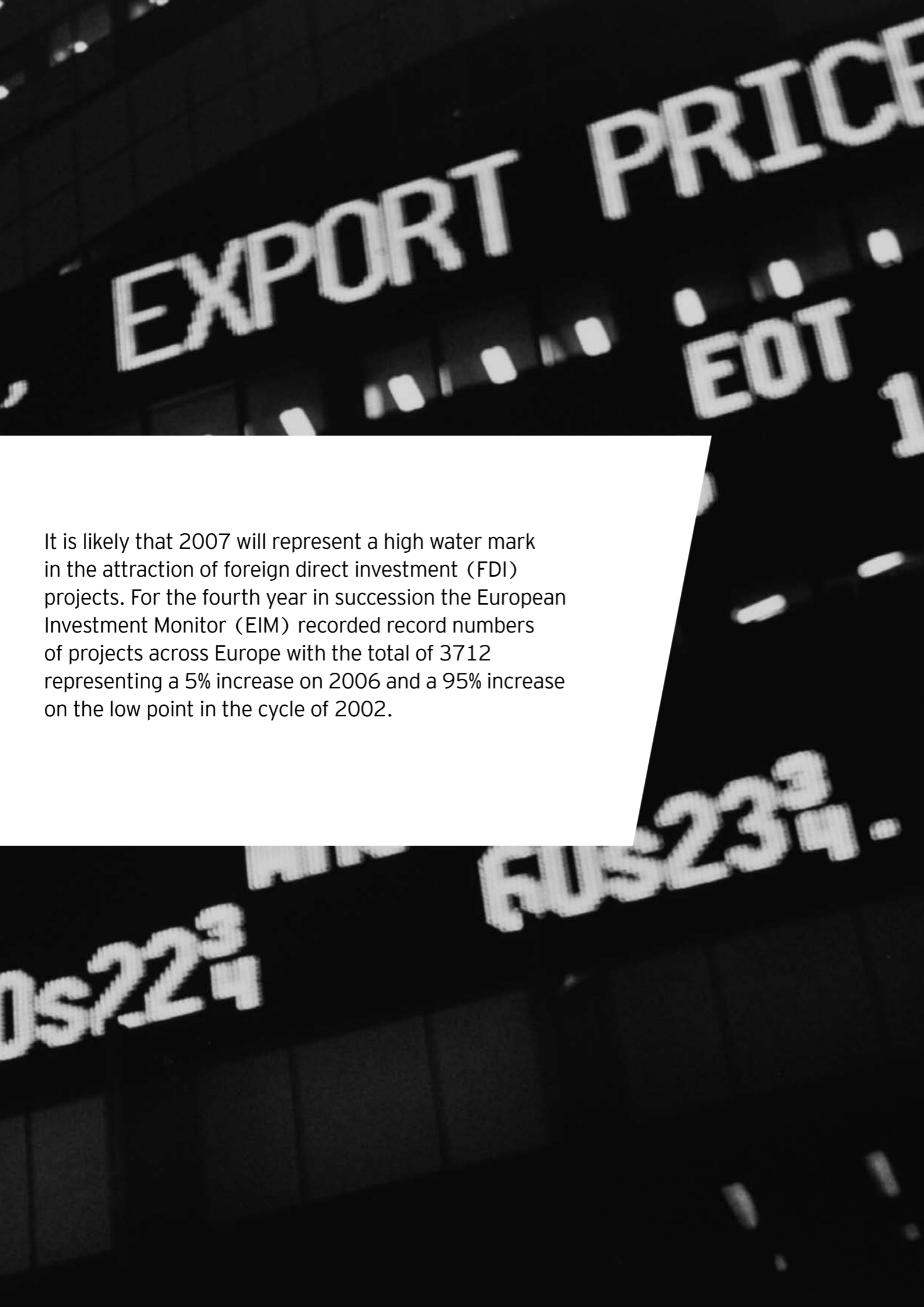
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European Investment Monitor

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It is likely that 2007 will represent a high water mark in the attraction of foreign direct investment (FDI) projects. For the fourth year in succession the European Investment Monitor (EIM) recorded record numbers of projects across Europe with the total of 3712 representing a 5% increase on 2006 and a 95% increase on the low point in the cycle of 2002.

European Investment Monitor

In this report we review the major trends in foreign direct investment during 2007 but also examine some important questions in more detail. These questions, based on our experience of more than ten years examining foreign direct investment are:

1. What will be the impact of the credit crunch?
2. Which sectors are emerging as the most important for generating FDI?
3. What has happened to the Eastern and Central European economies?
4. How important are the BRIC economies in generating investment?
5. What is the importance of the major European urban centres?

About EIM

The Ernst & Young European Investment Monitor (EIM), powered by Oxford Intelligence, is the leading database of direct company investment across Europe. The product has now been maintained for over ten years and as a result provides an unrivalled view of investment trends both from a corporate and government economic development perspective.

Linked to the firms' 'European Attractiveness Survey' which interviews CEOs from across the continent, the EIM focuses on investment announcements by companies. The result is a product which can provide actual data on foreign direct investment - where investment comes from, which regions are the most successful in attracting investment and the sectors which generate investment projects.

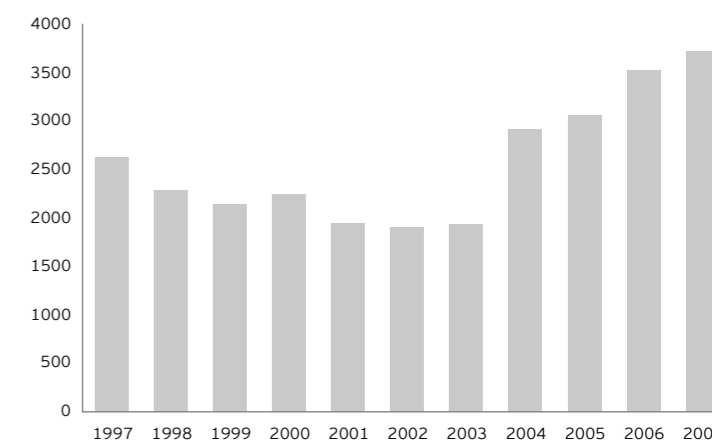
As such, EIM is a vital resource to those companies considering overseas expansion, as well as European Development Agencies seeking detailed market research and competitor information on investment trends.

Review of 2007

Destination

FDI projects into Europe increased by 5% in 2007 and in common with every other year since the statistics were collected (1997) the major beneficiary of FDI projects across Europe was the UK. The UK secured 713 projects which represented a share of 19% of all FDI project announcements. This level of investment in the UK demonstrated an increase in projects from 685 in 2006 and represents virtually the same market share.

Total FDI projects recorded 1997-2007





Since 1997 the five most important countries in the attraction of FDI projects within Europe have been the UK, France, Germany, Spain and Belgium. The market share of these leading recipients and the numbers of projects registered is illustrated in the graph below.

The graph illustrates that over the recent years past recipients of foreign direct investment have maintained a reasonably even market share and that after a period when France and the UK were securing almost identical numbers of projects, the UK has once again gained a slight lead over the other European countries.

The big winners in 2007 were:

Countries with largest percentage increase in the number of FDI projects

	Number of FDI projects		% age growth
	2006	2007	
Serbia	23	64	178%
Ukraine	26	44	69%
Russia	87	139	60%
Turkey	28	40	43%
Netherlands	95	123	29%

(Countries limited to those securing >25 projects in 2007)

In common with previous years the winners are those locations at the edge of Europe offering a combination of lower costs, increased certainty in providing economic and political stability as well as large markets in their own right. With the exception of the Netherlands, these countries offer a route into the EU for products but without the costs of an EU location. The Netherlands appears to have had a very strong year in 2007 on the back of renewed interest in the chemical sector and a clearer proposition for business services investment.

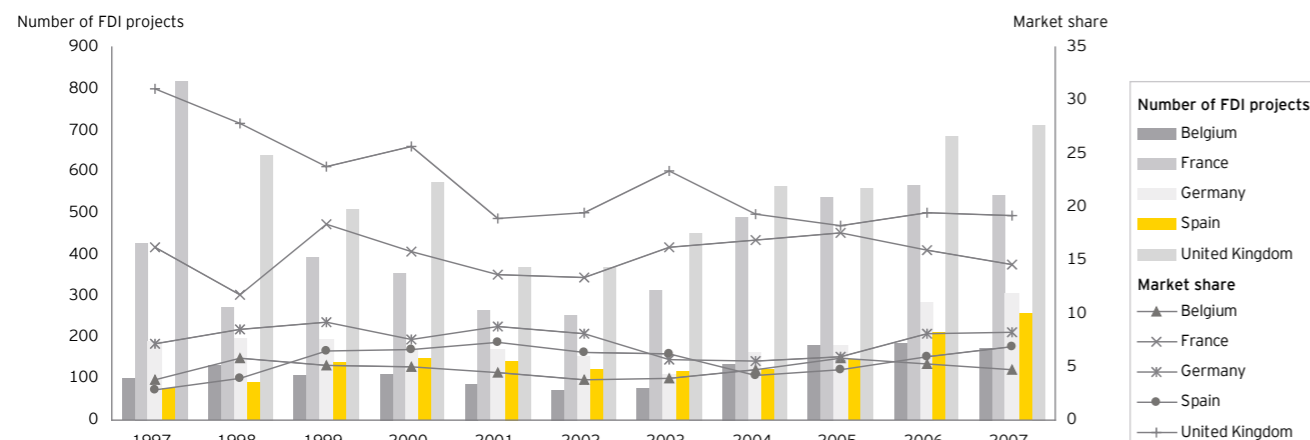
The big losers in 2007 were:

	Number of FDI projects		% age growth
	2006	2007	
Sweden	113	81	-28%
Czech Republic	114	83	-27%
Austria	56	45	-20%
Switzerland	136	124	-9%
Bulgaria	68	63	-7%

(Countries limited to those securing >25 projects in 2007)

In comparison to the winners in 2007, the losers have only declined by a modest amount and in each case, the countries showing the significant decline are generally coming off a particularly strong result in 2006 though the Czech Republic suffered a particularly poor year in the attraction of projects, and has declined to the fifth most successful economy in attracting FDI across Central and Eastern Europe.

Leading recipients of FDI by Country 1997-2007



Origin

If the countries attracting foreign direct investment retain a market share which remains relatively stable over time, the origin of foreign direct investment has remained even more consistent. In 2007, in common with every other year, the US has been the largest source of investment projects into Europe. In 2007 the US provided 941 projects (25% of all FDI projects into Europe) and whilst this did represent a small absolute reduction in projects, the next nearest source was Germany with 454 projects, illustrating the scale of importance of the US.

In 2007, those countries generating more than 100 projects into European countries were as follows.

	Number of FDI projects recorded in 2006
US	941
Germany	454
France	238
UK	236
Japan	161
Switzerland	130
Netherlands	108
Sweden	101

This league table has important implications for those public sector agencies who continue to explore emerging markets for foreign direct investment. The exploration of new markets may result in investment success in the future but this is a business where long term trends change slowly and policy makers ignore the well established economies of other Western European countries in addition to the US and Japan at their peril. The emerging economies of China and India are not locations in which to secure major short term success.

Sectors

The leading sectors in 2007 were also similar to the leading sectors in 2006 with software the leading single sector in generating investment with 474 projects, but this does not tell the whole story. In 2007 the gradual shift in the importance of business services and financial services continued and so, for the first time, the main three sectors generating FDI were all service sector related. The shift over the period since EIM commenced is illustrated by the tables below.

Top 5 sectors in 1997	Number of FDI projects	Top 5 sectors in 2007	Number of FDI projects
Chemicals	316	Software	474
Electronics	217	Business Services	467
Software	209	Financial Services	235
Automotive Components	168	Machinery and Equipment	205
Food	152	Electronics	203
Percentage market share of 'big 5'	40%	Percentage market share of 'big 5'	43%

The tables illustrate the increased concentration of service sector investment and this shift alone has started to determine how the major economic regions of Europe have emerged over the last ten years as economic success has been determined by the ability of economies to support service sector investment both from foreign owned companies and indigenous companies.

These trends are important in examining the five major questions addressed in the remainder of this report.

What will be the impact of the credit crunch?

It is almost inconceivable that the credit crunch and subsequent impact on global economic confidence will not have a material impact on foreign direct investment. Companies making decisions on their international strategy do so on the basis of confidence in markets as much as any other factor. Economic factors such as interest rates or exchange rates in recipient countries have historically had a limited impact whereas more general economic slowdowns and events such as September 11 have resulted in a marked difference in levels of investment.

The credit crunch made little difference to levels of foreign direct investment in 2007 although this was not a complete surprise. Companies making a foreign investment do so after months of analysis and delivery of the investment itself to legal completion can take many weeks. As the genuine and far reaching impact of the credit crunch became apparent in the autumn of 2007 the company investments which have been recorded by EIM in the later part of the year were already largely committed prior to the emergence of financial difficulties.

The credit crunch will however have caused the potential investors for 2008 and 2009 to reassess their investment plans and the likelihood is that many will have delayed their investment.

The impact of the credit crunch may be particularly acute on European FDI. Loss of confidence will influence investment levels and the recent focus of FDI on service sector projects and the importance of the US economy to European FDI projects means that the phenomena will have a disproportionate impact on FDI across Europe.

The last major decline in FDI within Europe was recorded in 2001 as a result of a slowdown in the US economy. Uncertainty following September 11th 2001 meant that the downward trend continued into 2002. FDI into Europe declined by 15% between 2000 and 2002 with economies such as the UK, which was disproportionately reliant on US service sector investment, recording a reduction of 36% in FDI projects over the same two year period.





In 1999 European FDI had the following characteristics:

Percentage of projects made by US investors	42%
Percentage of projects arising from business services/financial services	11%

In 2007 the same metrics for European FDI were as follows:

Percentage of projects made by US investors	25%
Percentage of projects arising from business services/financial services	19%

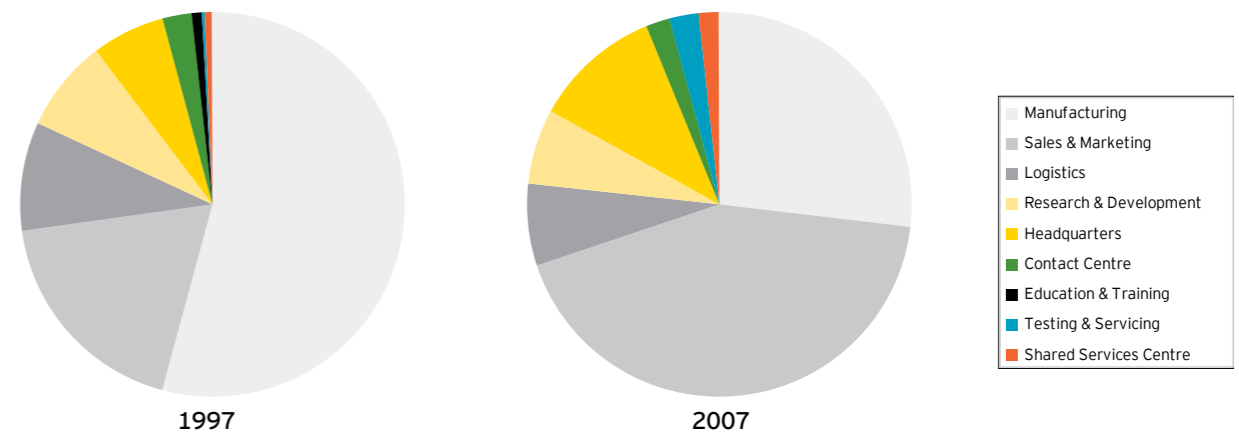
It can be seen that whilst Europe is less exposed in 2007 to US projects as a percentage of the total, the importance on those sectors most affected by the credit crunch to date has increased. It should also be noted that the credit crunch is not a uniquely US based issue. The total impact of any slowdown will depend on how widely the impact is felt across other sectors but is reasonable to expect an impact at least on a par with 2000-2002. This would result in absolute decline in European projects with a disproportionate effect on Western Europe.

Which sectors are emerging as the most important in generating FDI?

The report has already highlighted the importance of the service sector economy in generating foreign direct investment. This dramatic shift is illustrated by the following charts which show the split of investment projects by activity type.

The charts illustrate the shift from manufacturing investment to service sector investment which has taken place over the last ten years and this is illustrated further by those sectors which have shown the most dramatic rise in scale of recorded investment projects. These are identified in the table below:

Projects by proportion of activity 1997 and 2007



	Number of FDI projects		% age growth
	1997	2007	
Business Services	93	467	402
Publishing	15	69	360
Other Transport Services	60	177	195
Software	209	474	127
Financial Services	123	235	91

The growth in outsourcing, IT based solutions, consulting, assurance activity, centralisation of services and e-commerce have revolutionised business over the last ten years and led to investments in the type of activities which did not even exist in 1997. This shift has resulted in massive investment in business services and software and this, in turn has resulted in a transformation in the type and level of FDI. Similar changes in technology have resulted in investments in publishing. Other transport services include freight facilities and logistics and the increase in investment largely reflects the growth and increased sophistication within this sector.

Public agencies across Europe need to ensure that their economies and their offers are more attuned to the changing structure of investment and the changing dynamics in the business services sector. Another public agency trend is that there is an increasing reference to creative industries as an umbrella team to capture investment in software, publishing, media and other cultural industries. This categorisation appears to miss the key business driver behind much of the investment in software and publishing. This is the dramatic rise in business services and business information requirements rather than creative activity for its own sake.



What has happened to the Eastern and Central European economies?

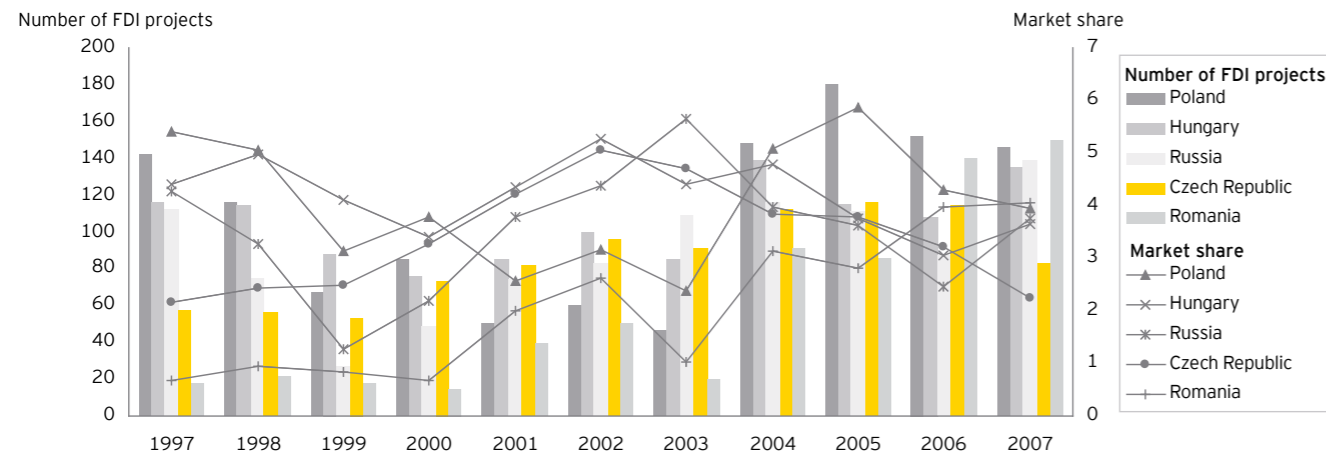
The growth in the importance of Eastern and Central Europe in the attraction of FDI continued to stall in 2007. Of the leading locations of Poland, Hungary and the Czech Republic, only Hungary recorded an increase in 2007. The numbers of projects and market share recorded by the Eastern and Central European economies is illustrated in the chart below.

The chart demonstrates that no Eastern or Central European economy has exceeded a market share of 6% in any year and the 'big 5' locations in the region generally each average about 4% of investment projects. The emerging economy in the region in the attraction of FDI has been Romania with no significant investment in 1997 to a point in 2007 when it was the most successful Eastern/Central European economy, mainly on the back of securing electronics and automotive component investment. This suggests that lower cost Romania is now displacing investment from other Eastern and Central European economies. There is little evidence that the leading central Eastern European economies are challenging or displacing investment from the Western European economies.

The conclusion can be drawn that there is a category of investment into Europe that will select between Central and Eastern European economies creating a distinct market. The Czech Republic and Poland appear to be increasingly losing out to lower cost economies without challenging significantly for the business services investment which is driving investment in Western Europe.

This conclusion is not to suggest, however, that investment into Central and Eastern Europe is not economically significant. Whilst

Investment in Eastern and central Europe



the numbers of projects do not match those recorded in Western Europe, the scale of the investment in Eastern and Central Europe is highly significant. The following tables show the largest investments recorded in 2007 by employment and capital spend.

Investment	Location	Jobs
1. Foxconn	Czech Republic	5000
2. Foxconn	Russia	5000
3. Ford	Romania	3100
4. Hyundai Motor Manufacturing	Czech Republic	3000
5. Videoconferencing Systems	Poland	3000

Investment	Location	Capital Spend \$000s
1. Micron Technology	Italy	4416
2. Magna Automotive	Russia	1700
3. Hyundai Motor Manufacturing	Czech Republic	1500
4. Ford	Romania	942
5. Renault	Slovenia	942

Clearly the only leading employers/capital spend categories outside of Central and Eastern Europe was the Micron Technology semiconductor facility in Italy. This continues to demonstrate that the lower cost European economies can secure large scale investments but have failed to gain a wide breadth and significant scale of investment projects on a European wide basis.

How important are the BRIC economies?

During 2007 there has been extensive media coverage about the emerging BRIC economies - Brazil, Russia, India and China. These locations have undoubtedly recorded rapid economic growth over the last decade, are major recipients of FDI and are in a position to become leading global economies. In terms of generating investment projects, however, these economies are not yet major generators of FDI projects for Europe.

The scale of projects generated by those economies is illustrated in the table below.

	Number of FDI projects 2005	Rank 2005	Number of FDI projects 2006	Rank 2006	Number of FDI projects 2007	Rank 2007
Brazil	4	47	5	44	9	38
Russia	17	23	22	23	29	21
India	49	15	78	10	67	14
China	42	18	58	14	51	17

The table demonstrates that the position of these economies relative to other providers of FDI has not changed significantly over the last three years. To put this in context, the 78 projects emerging from India in 2006 was surpassed by the Netherlands, Switzerland and Sweden which are rarely considered as candidate countries for FDI promotion by investment promotional agencies.

In terms of the destination of BRIC Investment the following table shows the emerging trends.

BRIC investment into Europe 1997-2007 by leading location

	Leading location	% age investment	Second location	% age investment	Third location	% age investment
Brazil	Spain	20%	Portugal	20%	France/UK	11%
Russia	UK	17%	Germany	13%	Ukraine	10%
India	UK	56%	Germany	18%	France	6%
China	UK	41%	Germany	15%	France	10%

These tables demonstrate that BRIC economies continue to show growth in investment but are not yet leading contributors to FDI. The tables also show that the leading locations in securing investment, with the exception of Brazil, are largely following existing trends in the locations selected.

Importance of European super cities

The growth in service sector investment has resulted in the pre-eminence of major cities in securing investments. Despite ever greater improvements in remote communications, the trend in business services has been for increased concentration in those cities securing investment. The relative lack of business services investment in Eastern and Central Europe is reflected in the major cities across the region not being placed as the significant centres for investment. The concentration of investment in leading cities in 2007 is illustrated in the table below.

	Country	Projects	Leading city	Projects	% age in leading city
Increasing Concentration	Denmark	59	Copenhagen	39	66.10
	Sweden	81	Stockholm	43	53.09
	Austria	45	Vienna	23	51.11
	Bulgaria	63	Sofia	30	47.62
	Ireland	80	Dublin	34	42.5
	UK	716	London	301	42.03
	Italy	69	Milan	29	42.03
	Romania	150	Bucharest	63	42
	Hungary	135	Budapest	50	37.04
	Average				35.77
Decreasing Concentration	Netherlands	123	Amsterdam	43	34.96
	Czech Republic	83	Prague	29	34.94
	Russia	139	Moscow	48	34.94
	Spain	256	Madrid	81	31.64
	Serbia	64	Belgrade	16	25
	Slovakia	58	Bratislava	14	34.14
	Belgium	175	Brussels	42	24
	France	541	Paris	125	23.66
	Switzerland	124	Zurich	26	20.97
	Poland	146	Warsaw	30	20.55
Germany	305	Frankfurt	53	17.38	

The table shows the importance of leading cities to the attraction of FDI in each country. On average 35.77% of projects will locate in the leading city region in any given country (based on top 20 locations). The table also shows however, that many of the leading countries in securing FDI - Germany, France, Spain and Belgium achieve a more even distribution of projects than the UK for example. This result has an important implication for policy makers interested in regional economic policy as well as those planning capacity in Europe's largest cities.

The table also helps to demonstrate that the UK's position as a leading location for FDI is partly achieved through the importance on London - in 2007 the UK excluding London would have secured less projects than France excluding Paris.

Conclusions and trends to watch

There has been no measurable impact of the credit crunch affecting FDI in 2007 but this is not a surprise and we expect the economic environment to have a noticeable impact on FDI trends in 2008. Initially this is likely to impact on US service sector investment to the detriment of FDI into Western Europe and probably disproportionately in the UK.

Despite the decline in US investment, the US is almost certain to remain the most significant country generating enquiries in 2008 and the BRIC economies, though demonstrating strong indigenous economic growth, are unlikely to become leading locations for investment within the next three years. The origin of investment is therefore expected to remain reasonably stable.

The leading locations for investment in Europe are likely to remain the major economies of UK, France and Germany with Eastern European economies increasingly competing between themselves for a discrete category of investment projects and not challenging Western European economies for the majority of service sector projects.

2008 will be interesting in identifying whether India and China will become top ten investors into Europe, whether the disproportionate impact of the credit crunch on the UK will allow France to become the leading investment location of FDI into Europe and whether the emergence of Romania as the most significant Eastern European economy will continue.

2008 will also be the year in which business services investment out-performs software for the first time and a year when there will be a continued concentration of investment in leading urban locations.

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