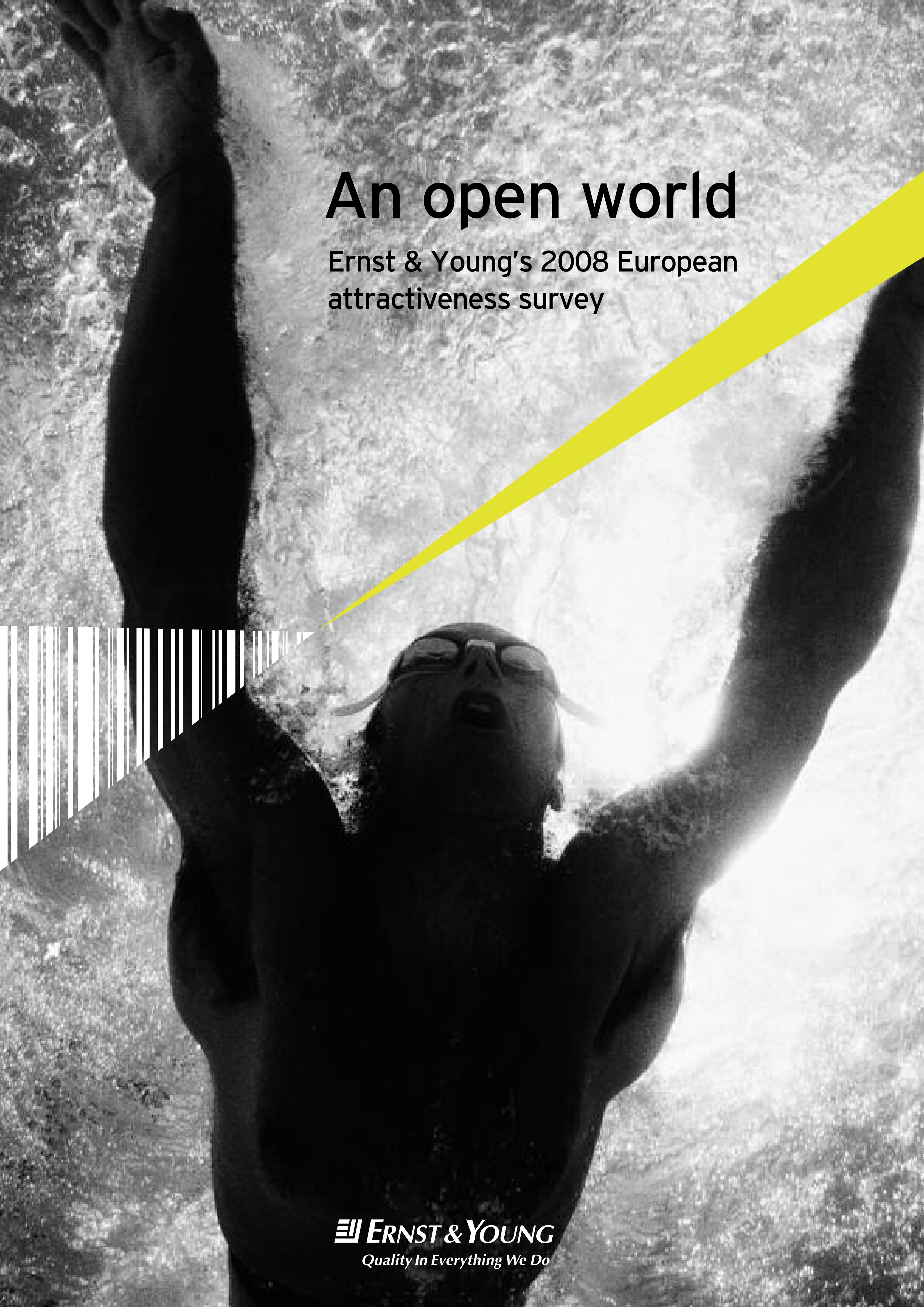

An open world

Ernst & Young's 2008 European attractiveness survey

Ernst & Young
Quality In Everything We Do

An open world

As the Ernst & Young european attractiveness survey enters its sixth year, we would like to warmly thank the thousands of decision-makers around the world who, over the years, have taken the time to share their thoughts with us.

This year, we also asked the opinions of a selected panel of global observers, from the business, political, institutional and arts communities, to whom we would like to extend our gratitude for expressing their views on the future of Europe: Danuta Hubner, European Commissioner for Regional Policy; Habiba Bouhamed Chaabouni, Professor of Genetics, University of Tunis; Yanquing Yang, Chairman Lenovo; Pascal Cagni, General Manager and Vice President Apple Europe, Middle East and Africa; Lakshmi Mittal, President and CEO ArcelorMittal; Gigi Wang, Chair & President, MIT/Stanford Venture Lab; Olivier Quillet, Maketing Director, Nespresso; Gérard Mortier, Director General, Opéra National de Paris.

The success of this unique survey is directly attributable to their participation and commitment.

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Global Managing Partner
EMEIA Integration

Marc Lhermitte
Partner
Ernst & Young Advisory

Editorial

As 2007 turned into 2008, investors saw decisive moves and unexpected shifts, a result of tension between the last five years' bullish growth and the delicate balance of our planet. The subprime crisis cast its consequences across the world's financial markets. Political instability in perennial growth markets in Asia, the Middle East and Latin America, was joined by persistently rising oil prices, soaring food and commodity prices, and resurgent inflation.

In the open world of foreign direct investment, Europe may be seen as a quiet giant. Protected by 50 years of prudent political construction, having succeeded in integrating new countries in its system, **the European Union now enters an era of slower, possibly deeper transformation.** Can it retain its 40% share of the world's FDI (down from 51% in 2005), implement a new migration policy, and resolve its energy gaps? And can it put in place the revised, simpler, more focused version of the Lisbon Agenda to become the most competitive knowledge-based economy into the world?

The world is now an open playing field. **The developed markets of Western Europe and the US are being challenged by competing equals.** There is no denying that, as they look ahead, businesses are chasing growth in Asian consumers' pockets. Europe and the US have to accept that these eastern competitors are pushing into their half. By the year 2050, the 'emerging seven' (Brazil, Russia, India and China, - the 'BRIC' economies - plus Turkey, Mexico and Indonesia) will have outgrown the 'G7' powers. By then, China will have become the world's largest economy.

In this multi-polar scene, critical questions arise: is China heating up? What prospects for jobs in Western Europe? What will be the effects of the suprime crisis on the US, still the most powerful economic engine? Is the Euro-Mediterranean area the right extension of Europe's slower playing field? How is Europe faring in these uncertain times? **Can Europe meet the challenge?**

These issues form the core of Ernst & Young's 2008 European attractiveness survey, based on a two-fold, original methodology that reflects, first, the 'perceived' attractiveness of Europe and its competitors by a representative panel of 834 international decision-makers and, second, Europe's real attractiveness for foreign direct investors, based on Ernst & Young's European Investment Monitor.

As Ernst & Young's European attractiveness survey enters its sixth year, we would like to extend our gratitude to the thousands of decision-makers around the world who, over the years, have taken the time to share their thoughts with us.

My Guggenheim Europe

Danuta Hübner
European Commissioner
for Regional Policy

If I had to choose one place that epitomises creative innovation in Europe, it would be Bilbao, for the 'Guggenheim Effect'. The museum is magnificent. But it has come to stand for much more than a spectacular building, a magnet for art-lovers. The city, blighted by the decline of heavy industry, chose an emblematic project thought impossible by the faint-hearted at the time. On the very place where a major shipbuilding company was closed down in social unrest in the eighties, they built a flagship of titanium for a knowledge-based economy of the 21st century. Bilbao has achieved not just impressive regeneration, but a re-branding of its image that is an inspiration worldwide.

If Europe is to compete in a globalized world, it needs to restructure its economy on knowledge-intensive lines, in a sustainable way. And it needs to do this not just in a few high-tech hubs, in the hope that the growth effect eventually trickles down to other regions, but everywhere. We need territorially-balanced, sustainable development, building on regional diversity, from Lapland to the Azores.To achieve this, we need innovation, creativity and entrepreneurship in abundance, throughout the territory.

More, better innovation in Europe is key to improving our competitiveness, increasing growth, and promoting jobs. It is at the heart of the new European Cohesion Policy for the current programing period, 2007-13.

I welcome the fact that research, development and innovation accounts for over a quarter of the investment we are backing, a total of over € 99 billion.

The policy for which I am responsible is committed to promoting innovation through strong public-private partnerships. Yes, this will involve putting in place classic infrastructure, such as roads, airports and ICT networks, where these are needed. But it is as important to activate a region's latent competitiveness, the unexploited potential of intelligence, talent and creativity. We can do this in many ways, for instance, by strengthening clusters of businesses that team up to their mutual advantage; industrial districts; promoting co-operation between universities and business; facilitating technology transfer, creating business incubators; or providing venture capital to new entrepreneurs. New technologies make action possible even in the remotest regions.

Our policy is about helping regions to help themselves. We contribute to creating an innovation-friendly environment, not just by investing in the regions, but by enabling them to co-operate, to learn from one another. At our Open Days, held in Brussels from 6-9 October, we expect about 5,000 people to join in building momentum – a creative hothouse.

Europe’s regions have a wealth of experience on which to draw. Sharing it is one of the most effective ways of helping us to understand how innovation works, and to apply it elsewhere. It is a way of multiplying the 'Guggenheim Effect'.

Ernst & Young's 2008 European attractiveness survey indicates a redrawing of the global business map. New regions, countries and locations are ready to compete on a level playing field with the long-established developed economies. China joins the first division, Russia and others seek promotion. India fares better for large services operations, as does Eastern Europe. The US remains a top five area, despite a decline in its attractiveness, in line with that of Western Europe.

1. UNCTAD (United Nations Commission for Trade and Development) – FDI inflows 2007 – China and Hong Kong
2. Western Europe's figure is based on EU 15 performance, UNCTAD 2007 estimates

The scorecard

Global location strategies

In this new FDI competitive field, Europe is still an active player, but less a dominant power. For the first time in 2008, the zone loses its historical, exclusive "attractiveness" leadership. Booted down to third place in the league table, the region is discovering that faster growth elsewhere is becoming a tempting lure for investors' FDI projects.

Investor perceptions are not yet backed up by the reality of investment flows. In practice, regions that traditionally head the charts for inward investment still receive the lion's share of FDI inflows. China heads our 2008 attractiveness scorecard with a 41% rating, yet receives 7.9% of all FDI inflows[1] while Western Europe (whose attractiveness score falls to 33%) is host to 37%[2] of the world's FDI.

The "how to" invest becomes more important than "how much" for investors seeking sustainable location options. New options bring new location strategies and a sharpening focus on the balance of risk and reward in economies everywhere. Cross-border investors pay more attention to political and legal stability (54%, + 7 points) and infrastructure (51% for telecommunications, +3 points).

FDI in Europe

Despite advances in the new global growth markets, Europe is armed with the steady confidence of its clients. Europe's diversity and economic size explain why it is both holding up, and changing. The zone registers a record year for global FDI inflows and a 5% increase in the number of FDI projects – but the nature of those projects is changing.

FDI job creation in Europe falls by 18%. Moreover, industrial investment in Western Europe is collapsing: fewer than half as many industrial jobs were created by FDI in Western Europe in 2007, compared with 2006. Add the impact of a weak dollar, and slower growth in Western markets and the result was a sharp slowdown in overall FDI job creation. Only 176,551 jobs were created in 2007, down from a record 214,987 in 2006.

Europe's dynamism comes from its Eastern borders…and beyond. Central and Eastern Europe, including Russia and its satellites, attracts 28% of the projects and a heavyweight 58% of FDI job creation. But patterns are changing fast. The main growth is going to Russia, whilst Turkey and the Ukraine are proving increasingly successful in attracting investment, In a slow year, last year's stars - Poland and Romania - are catching fewer labor intensive investments.

Who, where and what

Europe's own companies are the biggest single source of foreign direct investment – especially into Central and Eastern Europe. Overall, 46% of cross border investment announcements in Western Europe come from neighboring countries or near-neighbors. Europe's companies are still harvesting the opportunities created by the single market, especially Eastern enlargement of the European Union. Western European companies create 87% of FDI jobs in Central and Eastern Europe.

The shift towards a knowledge economy in Western Europe is slower than the relocation of traditional industries from Europe. However, as Europe's long-established inward investment champion, the United Kingdom (number one in FDI jobs - 24,416 - and projects – 713) is more resilient than its main Western competition - France, Germany and Spain. Though active in global markets, these economies are not yet snaring the large high-tech, high value-added services projects needed as they seek to replace the declining weight of the automotive, industrial equipment and electrical industries in their economies.

Industry and services divide Europe. In Western Europe business services, software and financial intermediation together account for 34% of all FDI jobs. Job generation through investments in headquarters and R&D centers grew by 70% and 21% respectively. But in Central and Eastern Europe, most of the jobs created were in industry (87%), largely in the automotive, electronics and electrical sectors.

Investors' perceptions and projects

Asked how to make Europe more attractive and competitive, business leaders clearly call for "flexicurity". A combination of increased flexibility in European labor markets (42%) with simplified regulations (39%) is required to make possible the transformation of Europe's innovative power. Almost two out of every five European companies say this is the most pressing reform to promote cross-border investment in Europe. For American companies, more than half make it their top policy recommendation.

European innovation will boost gray and green growth. While European countries do not rank as the most innovative in the minds of potential investors, 76% of respondents estimate that the zone's capacity to innovate is encouraging. Business leaders, particularly those based in Western Europe, believe that the greatest source of innovation that will boost European growth over the next five years will come from green technologies and the environment (45%), with energy and utilities-related issues also highly rated (38%).

Back to basics: investors call for innovation through education and the supply chain. Alongside high technology, clustering and research and development, corporations also seek high-performance communication channels (48%) and creative education (34%) that will also allow them to prosper in mature economies.

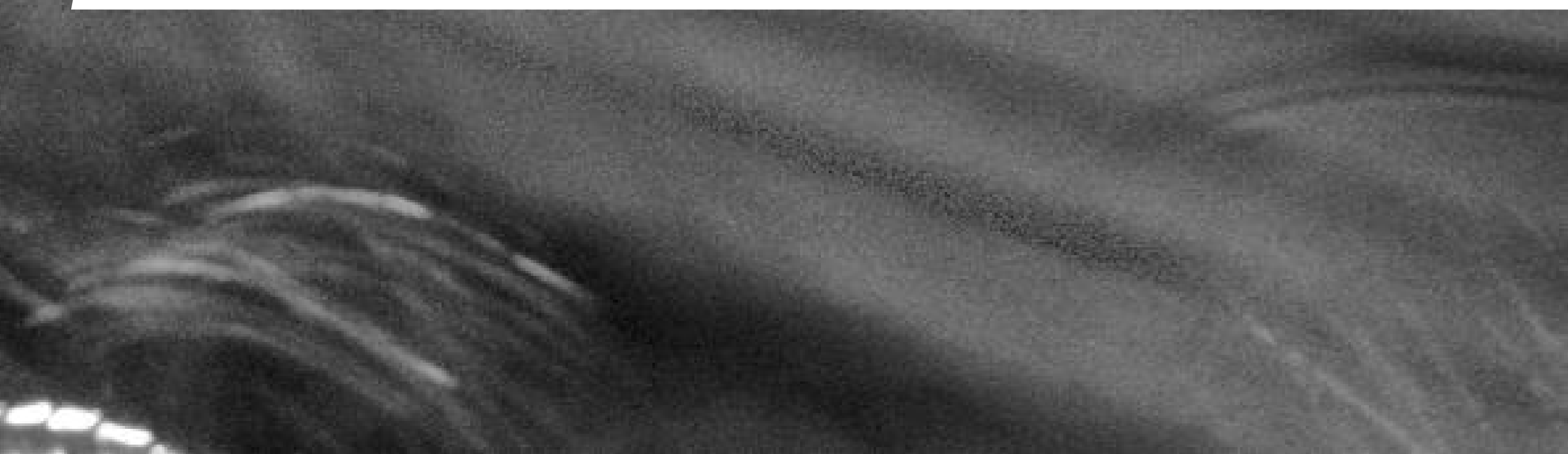
What business leaders said:
competition hots up

Ernst & Young's 2008 European attractiveness survey questioned 834 decision-makers about how they see the attractions of alternative business locations, and the criteria that drive their perceptions.

The results show a remarkable shift. For the first time, Europe is no longer the most appealing location. The most important driving force for foreign direct investors is to access new markets.

And as Europe's economy slows, they are increasingly looking to thriving economies and competitiveness elsewhere.

Today, business leaders see the investment world as multi-polar, with destinations such as China, India, Russia, and the Middle East, which enters the top ten ranking for the first time, now strong rivals to the traditional dominance of Europe and the US.



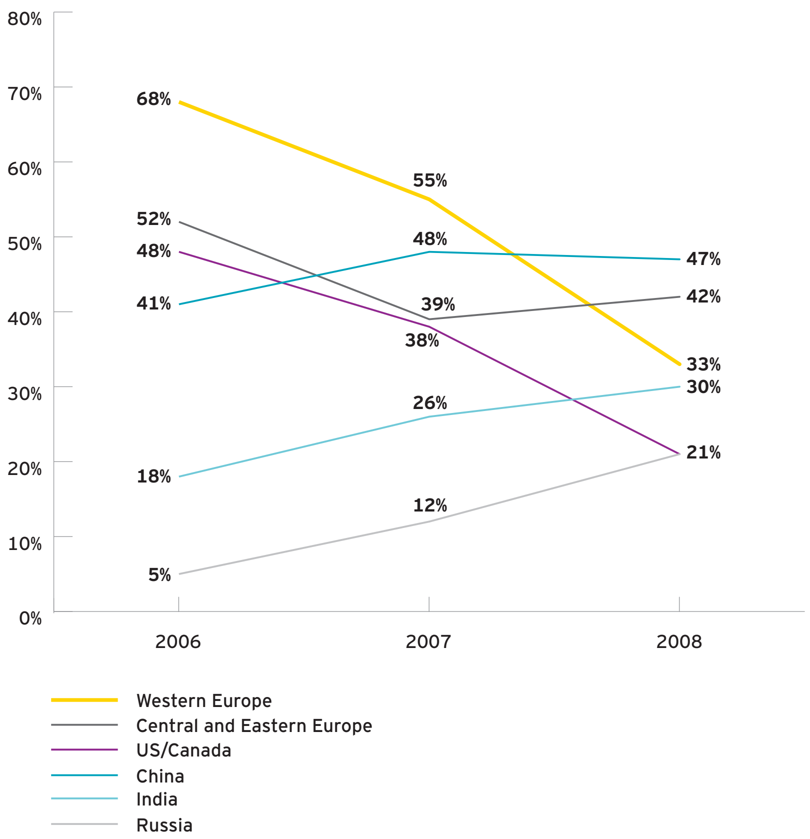
Competition for global FDI:

from two established leaders to five vigorous competitors

Ernst & Young New regions, countries and locations are ready to compete on a level playing field with the traditional long-established locations of developed economies.

A level playing field

Attractiveness by region (2006-08)



Source: Ernst & Young's 2008 European attractiveness survey

China has moved into first position as the most attractive business location (47% of votes), while Western Europe and the US/Canada fall back to third and fifth place respectively, with 33% and 21% of votes. Of the six most attractive regions to potential investors, the shift of investor interest to the new economies is now evident. While Europe retains a respectable third place, more remarkable is the fall in the rating of the US to fifth place. In addition, Russia is now clearly seen as a credible competitor to both developed economies and other high-growth economies.

Europe: still an active player, but less a dominant power

For the first time, Europe loses its historical, exclusive attractiveness leadership in our 2008 survey. Traditional FDI heavyweights (Europe and the US account for 58% of global GDP) now share the field with fast-growing global challengers. However, Europe is still showing two faces to global investors, and this makes it resilient. While Western Europe's potential attractiveness declines, Central European countries including new European Union members, and frontier countries, such as Russia and the Ukraine, continue to gain interest. Viewed in its entirety, the new

Europe retains a considerable power of attraction and is ranked among the top three business locations by 75% of respondents. But investors seem also to be sending a strong message that their main interest lies in younger, more dynamic and competitive markets. This eastward transition, while evident in our attractiveness surveys since 2004, has become particularly marked over the past two years.

Russia joins the global attractiveness club

Still an outsider FDI destination in our previous surveys, Russia scores this year's sharpest climb up the attractiveness ladder (up nine points, to achieve a 21% rating). Russia has made notable progress in attracting investor interest over the last two years; rising from a 5% rating in 2006 to gain the confidence of one-fifth of our global panel. Its near neighbor, Poland has also benefited from the eastward transition of investor interest, gaining a 14% score in 2008.

China and India: from emerging challengers to future global leaders

China takes the lead in the popularity stakes, with 47% of votes in our attractiveness rating from global decision-makers. China's rise in the eyes of potential investors has been somewhat fitful – a period of sharply increased interest in 2005 was followed by a retreat the following year. The country's image has stabilized over the last two years though, as the advantages and limitations of the region become more widely apparent and investors are able to make more informed judgments.

India, by contrast, never experienced the hype of China. Its growth has been built brick by brick, with the region slowly and steadily gaining investor confidence. From a mere 11% of votes in 2004, the region has climbed the popularity ladder to be cited among the top three location preferences by 30% of respondents in 2008.

China and India, in past ratings, raised their status from that of emerging economies to challenging economies. The latest perception survey elevates them to potential leading economies in the future. These relatively recent global players now present really viable competition to the developed world in the eyes of potential investors in search of investment locations. The world is becoming multi-polar, with old and new world locations being considered on a par. Investor interest in China and India appears driven by their recent strong growth and development potential (9.8% and 7% p.a. since 2000 respectively). Continued investor interest in Western Europe and the US is assured by their weight in the global economy (30% and 28% of global GDP respectively).

Lastly, the Middle East has entered the ranking of the top 10 regions for the first time (up four points, with 10% of respondents rating it among their top three location preferences).

Europe and the Mediterranean region: an opportunity to recover a global leadership?

According to Ernst & Young's 2008 Baromed study regarding the attractiveness of the Euro-Mediterranean region[3], a further extension of the European economic area as far as the Mediterranean's south rim could be to the mutual benefit of these regions.

In terms of market potential, the southern rim of the Mediterranean is deemed attractive primarily because of its domestic market (58% of citation rate). In addition, the enlarged European economic area and the southern rim of the Mediterranean together represent the third most populated region globally (behind China and India), with 977m people[4].

Some southern Mediterranean countries

3. The Euromediterranean region is comprised of the following countries: France, Portugal, Spain, Italy, Greece, Turkey, Cyprus, Malta, Morocco, Algeria, Tunisia, Libya, Egypt, Jordan, Israel, Lebanon and Syria.
4. Source: INED 2005.

are now challenging their northern neighbors for service operations and, increasingly, research and development: Turkey and Morocco are already cited among the top five Euro-Mediterranean locations for R&D activities (4% and 3% respectively), behind France (24%), Spain (10%) and Italy (8%).
A combination of European initiatives and local specific assets could also provide the area with innovation leadership in technology, notably those related to energy and the environment.
Some companies have already taken a Euro-Mediterranean initiative by integrating the region within their Europe, Middle-East and African zone for organizational and management purposes, further indicating the future economic growth potential of the area.

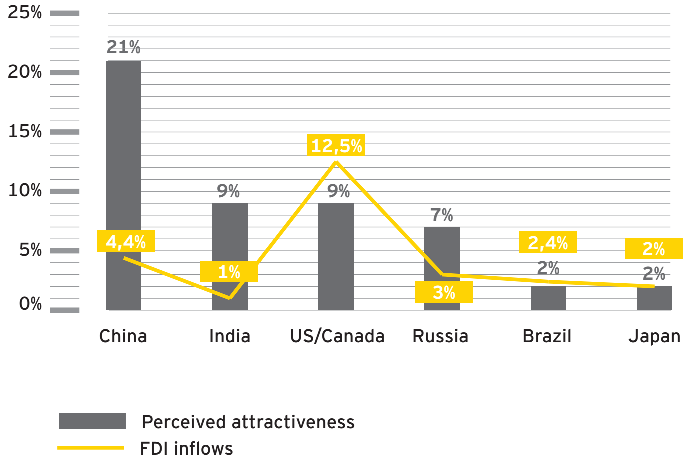
Perception and reality

Even once the attractions of a new region are widely recognized, it takes years for that enthusiasm to translate into substantial investment. While China is in first position among investors' preferred locations today, its positive image has yet to be backed up by a matching transfer of foreign capital.
A preliminary analysis of FDI inflows for 2007[5] indicates that the developed economies of the US and the UK remain the principal targets, by value, for foreign investment (12.5% and 11.1% of total FDI respectively). Western Europe's share of total foreign-invested funds actually increased during 2007, to represent 37%[6] of the total at the period end, the largest share of any individual zone.
While China ranks as the peferred investment destination among our panel of potential investors (21% of votes), actual FDI flows for 2007 place it fifth, with 4% of global FDI funds.

5. UNCTAD 2007 estimates
6. EU 15 countries, UNCTAD 2007 estimates

Drawing powers: perception and reality

Top image countries versus their actual attractiveness (Country selection based on perceived attractiveness)



Source: Ernst & Young's 2008 European attractiveness survey ; UNCTAD inward FDI statistics 2006 and estimates 2007.

My Mediterranean Europe

Habiba Bouhamed Chaabouni
Professor of Genetics, University of Tunis

When I was studying medicine, I realized there was a population of people here who carried genetic illnesses, so I decided to specialize in genetics. Back in 1976, it was not easy to convince people that this was important, though some of my professors encouraged me. In life, there are people who focus on urgent issues and others who take a long-term view.

Today, there are many Tunisian researchers studying genetic disorders. You have to be open to work with others. It is through my collaboration with French researchers that I was able to start what we have achieved in Tunisia. Since then, my collaborative network has extended further, to Italy, the Czech Republic and Switzerland. Today, I am involved in a research project called MedGenNet, funded by the European Union, which also involves researchers in Morocco, Egypt, the Lebanon, Syria and Turkey, working with EU researchers to study genetic disorders common to both shores of the Mediterranean basin. This is a good model for the way forward.

Europe remains a reference for us, both for training in research and for its networks. The trend is towards equalization. We are at the same level of skills, but there is still a difference in organization, and administration, and all that flows from it. In Europe, research is seen as a priority within the economy. Here, that is starting, but the infrastructure that goes with it is not yet there. It takes us four times longer to achieve results.

The idea of a Euromed economic region can only be good. We are becoming a big market. But it is about people too. In my field, it is just as important to send people into European laboratories to understand how things happen there, and for Europeans to come into our laboratories to understand how we work, and to share their experience.

I hope Euromed is possible. But it may be difficult to bring about. The European Union is still under construction. It seems to me a challenge for European leaders to think simultaneously about the future of Euromed while they are still building Europe.

But if Europe closes in on itself, that would be very bad for us, as well as very sad. We need a dialogue of openness and acceptance of the other, and an understanding of how the southern countries can do things that are good for themselves and good for Europe - good for everyone.

A year for investing dangerously

In the new world order, countries and regions are obliged to compete for corporate investments, not only through the purchasing power of their people, but on their merits as a place to do business.

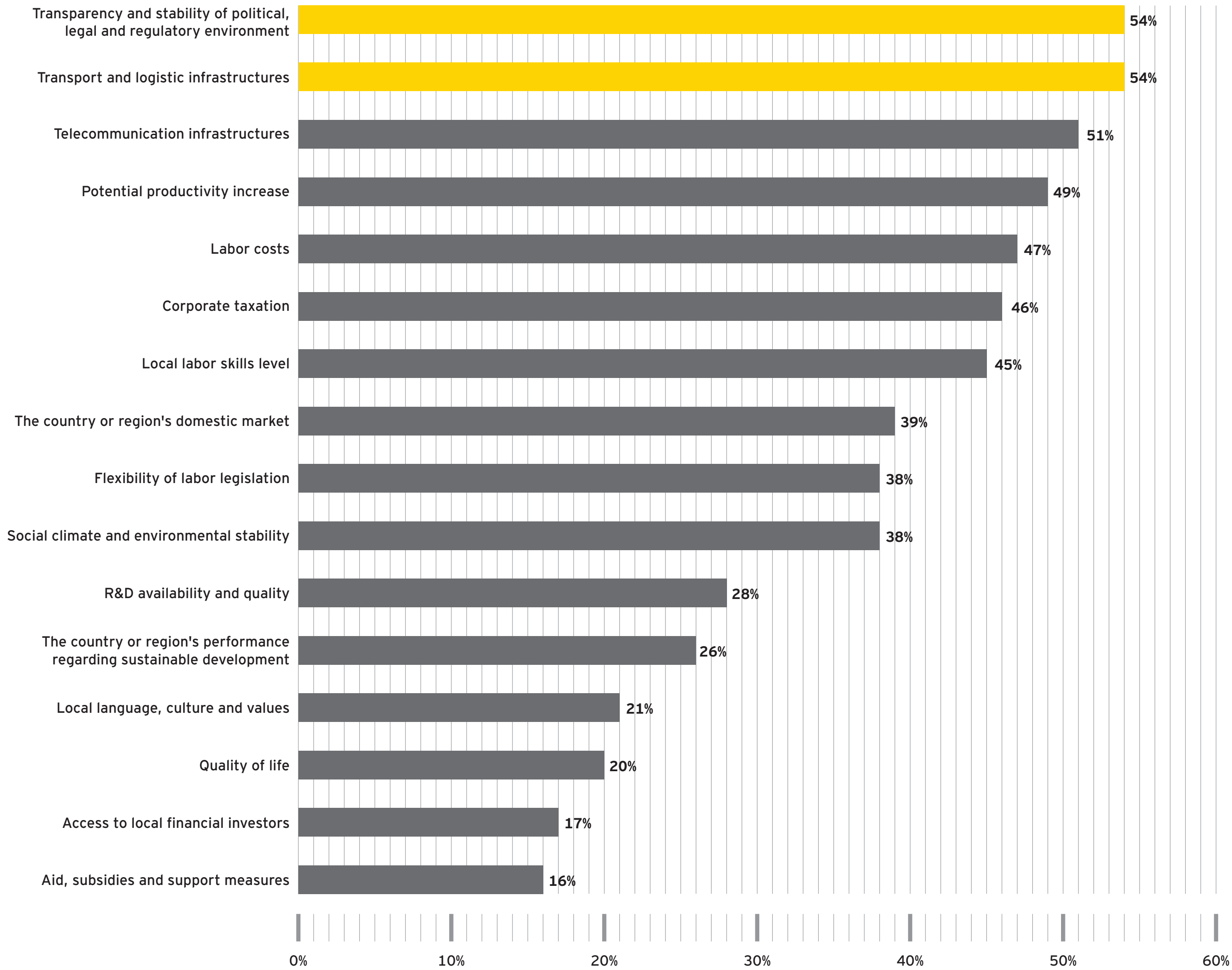
Why here, why there?
This section provides a view of the most attractive global regions and their respective attractiveness profiles, as seen by our global panel of business executives. It ranks key economic zones against the factors considered by companies when making location decisions.
Analysis of the criteria used by international corporate executives in selecting locations for investment projects confirms that their decisions are dominated by four sets of factors:

- **getting to market:** the main reason companies change or add locations is in response to a change in their market – its scale, place, nature or diversity. What rivals do, and issues of quality and price, also matter. So location decisions depend on infrastructure, proximity to markets, and the quality of telecommunications.
- **labor and productivity:** companies also need resources, and people. They may arbitrate between different labor profiles. So skills, labor availability and costs will be measured against productivity for the best mix.
- **taxes and laws:** these can shape – directly or indirectly – the flexibility and profitability of an investment. Tax burdens and incentives, legal and regulatory factors and public incentives all matter.
- **environment and region:** the operating environment, and the extent to which it offers a company the means to develop, is important. Companies weigh the availability of capital and financial markets, specific expertise in a given region, the wealth of innovation and research and even the quality of life.

Managing strategic risk
Risk management appears central to our global panel in 2008. Companies are prepared to locate their operations in previously un-tested territories on condition that the external political environment does not weigh on their activities. Over half (54%) of respondents say transparency and stability of the political, legal and regulatory environment is very important. These findings are backed by a recent Ernst & Young survey[7] which showed that the principal concern for investors in emerging markets was political risk (40%). Emerging market businesses, meantime, focused on more immediate risks such as market and competitive concerns (41%).
The ‘how to’ conduct business is considered as fundamental as the ‘how much or where’: transport and logistics infrastructure are ranked very high (54% of those surveyed), while 51% rate telecommunications as very important.
As frontiers are broken down and trade becomes more fluid, the local business market is declining in its importance to potential investors (39% response rate). The importance given to transport infrastructure suggests that location matters more in the context of its ability to facilitate cross-border trade rather than that within states or regions.
Despite considerable efforts by regional authorities to attract investment through financial incentives, these have a limited draw. Access to local financial investors, and aid subsidies and support measures, are at the bottom of the list of selection criteria for an investment location. These factors have seen a significant decline since we last polled investors on the subject in 2006. They were rated as ‘very important’ by 17% and 16% of respondents respectively in 2008.

7. Risk in Emerging Markets, Ernst & Young, October 2007

What matters? Ranking of the selection criteria



Source: Ernst & Young's 2008 European attractiveness survey

New frontiers, new doubts

Deciding what kind of operations to set up where is difficult. Head offices don't often move, but research and development is becoming footloose and cheap labor doesn't automatically attract manufacturing

Support services boost Central and Eastern Europe

Our 2008 survey identifies Europe as the preferred location for administrative and back-office functions for 53% of respondents. That doesn't contradict headlines about relocation of large back-offices, but only reflects the economic weight of Europe and its companies, which account for 40% of the world economy. However, the lead held by Europe since the start of our monitoring in 2004 is narrowing. Initially, the continent was a hefty 45 points above its nearest rival, North America; by 2008 however, this lead has closed to 21 points. Despite spectacular announcements of large investments in India or the Mediterranean areas, Europe's multinationals still rely on proximity and take advantage of competitive, modern locations in Eastern Europe's renovated cities such as Prague, Budapest, Warsaw, Bucharest or Lodz. India, often thought of as a direct competitor, or even a threat to the future viability of back-office operations in developed economies, is struggling to gain ground, falling back to third place in our 2008 ranking.

Brain-strain on R&D

While a third of respondents identified a preference for Western Europe, a similar proportion was unable to cite a preferred location for R&D activities. Struggling to find the right balance between enormous technology needs in emerging economies and the world-class research laboratories in Europe and the US, foreign direct investors seem undecided about where to put their future centers of R&D excellence. Our survey shows that Western Europe and North America have witnessed a significant decline in their perceived advantages as locations for R&D activities over the last five years. Yet India and China have failed to gain ground.

Made in China? Maybe not

Business leaders are also having difficulty evaluating China's status as a manufacturing location. With its enormous market and low business costs, China is still very popular among investors operating in traditional labor-intensive industries (automotive, energy, heavy industry, etc), with 53% of them citing China as the most attractive location, against 47% overall.

Looking back over five years of analysis, each year that China featured strongly has been followed by a marked cooling-off the subsequent year. 2008 is no exception to this trend: China's 24% approval rating as a manufacturing location in 2007 has been followed by a sharp decline to just 16% in 2008. This investor uncertainty is reinforced by the high level of respondents (30%) who feel unable to make a pronouncement on their preferred manufacturing location.

Aside from China, Central and Eastern Europe are frequently cited as manufacturing location favorites (17%), and Western Europe wins a surprising third place.

My global Europe

Yanquing Yang
Chairman, Lenovo

* Lenovo acquired IBM's PC business in 2005, thus Lenovo has double roots, both Chinese and American.

Optimism about new growth markets, confidence in Europe

Investors monitor the world at a crucial time of change and business leaders maintain their confidence in the region.

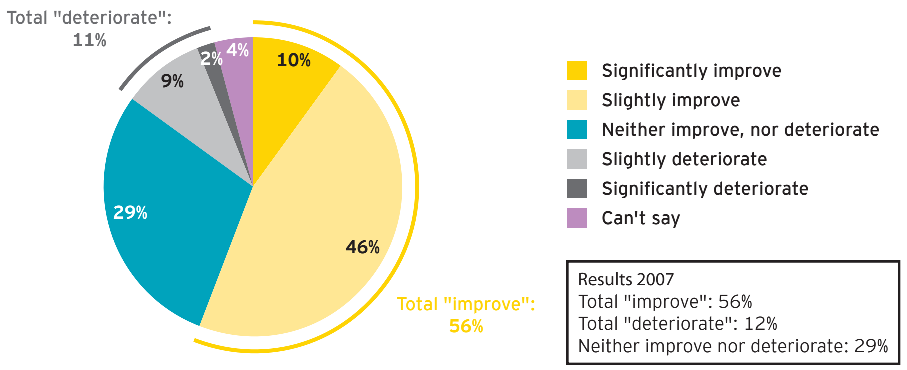
The attractiveness credit given to the world's growth markets reveals a great enthusiasm for new competing locations. Top executives are expressing a very high level of confidence in the short-term attractiveness of these new competitors, betting on their unrivalled growth rates (forecasts of 8% pa growth for the BRIC economies to 2012[8]). No less than 71% of international investors believe that Asia's attractiveness will improve during the next three years[9].

Yet 56% of respondents believe Europe will become a better potential location for their business activities over the next three years, and 10% anticipate a significant improvement. This is countered though, by 29% who expect no short-term change in their evaluation of the zone. This relatively bullish image of Europe's future investment environment has shown remarkable stability throughout our five years of analysis.

8. Building BRICs - Is the rapid rise of Brazil, Russia, India and China sustainable? Business Monitor International, 2007
9. Ernst & Young's 2008 Japanese attractiveness survey

Prospects for the European Union:
how bosses see the outlook

Source: Ernst & Young's 2008 European attractiveness survey



Results 2007
Total "improve": 56%
Total "deteriorate": 12%
Neither improve nor deteriorate: 29%

As a global company, Lenovo is heavily investing in Europe. Today, Europe represents over 20% of Lenovo total revenue and is the fastest growing geography in terms of revenue growth. It is also the second most profitable after Greater China. Europe is an important IT market for Lenovo, in large accounts where we have a strong presence, in the small and medium business, a fast growing market for us and in the consumer arena where we are starting a new line of business.

I am proud to say that Lenovo has a strong dedication to its customers wherever they are based. To enhance our competitiveness and to better serve our growing base of customers in Europe, we have decided to bring some of our operations closer to them. In 2007 and 2008, Lenovo has invested in a customer operations centre in Slovakia and consolidated its position in Scotland. In Poland, we are building a manufacturing plant that will also facilitate our supply chain. We chose Slovakia, Poland and Scotland because they offer competitive employment costs and highly skilled people. We also have 35 sales offices across Europe, Middle East and Africa.

Lenovo is a leading PC company with 2006/07 fiscal year revenue of $14.6 billion, 23,500 employees in more than 60 countries of which 1,600 in Europe. Our management team definitely reflects Lenovo's international composition and scope, with executives from America, Asia and Europe. One of Lenovo's innovative business strategies is 'Worldsourcing' – which means sourcing materials, innovation, talent, logistics, infrastructure and production wherever they are best available. Another innovation is our unique, end-to-end integrated business model, which is an important factor that contributes to Lenovo's growing strength in the European market. Lenovo's commitment to innovation is very important: we offer leading-edge products and our R&D expense is approximately 2% of revenue, approximately 50% higher than the industry average in the PC market. Our products, like the ThinkPad and IdeaPad lines of mobile PCs are synonymous with innovation, performance and style.

I would like to conclude by saying that Lenovo is a world citizen with direction emanating from where the talent resides, not where the HQ is located. We are committed to be a good corporate citizen in every country where we do business. We embrace our diversity and combine the best from the East and the West*. As a 'New World' company, we believe can contribute to facilitating communication between the world's peoples by helping them overcome cultural and language barriers.

Investment into Europe: reality check

How do perceptions of Europe's attractiveness today stack up against the investment decisions cross-border investors actually made last year? Ernst & Young maintains a unique database that tracks foreign direct investment projects which result in new facilities, and the creation of new jobs, the European Investment Monitor (EIM).

Though Europe still has a leading share of soaring global foreign direct investment flows, the share captured by growth markets is growing strongly overall. Evidence from the EIM shows the nature of investments in Europe is changing too, in tune with underlying trends in Europe's economies. Investments in services are taking over the relay from manufacturing, but bring fewer jobs.

A wave of investment change is sweeping across Europe from west to east. What is left in its wake?

A record year for FDI worldwide

Global FDI flows grew by 17.8% in 2007, breaking the previous record in 2000 and reaching an estimated US$1.5 trillion[10] globally.

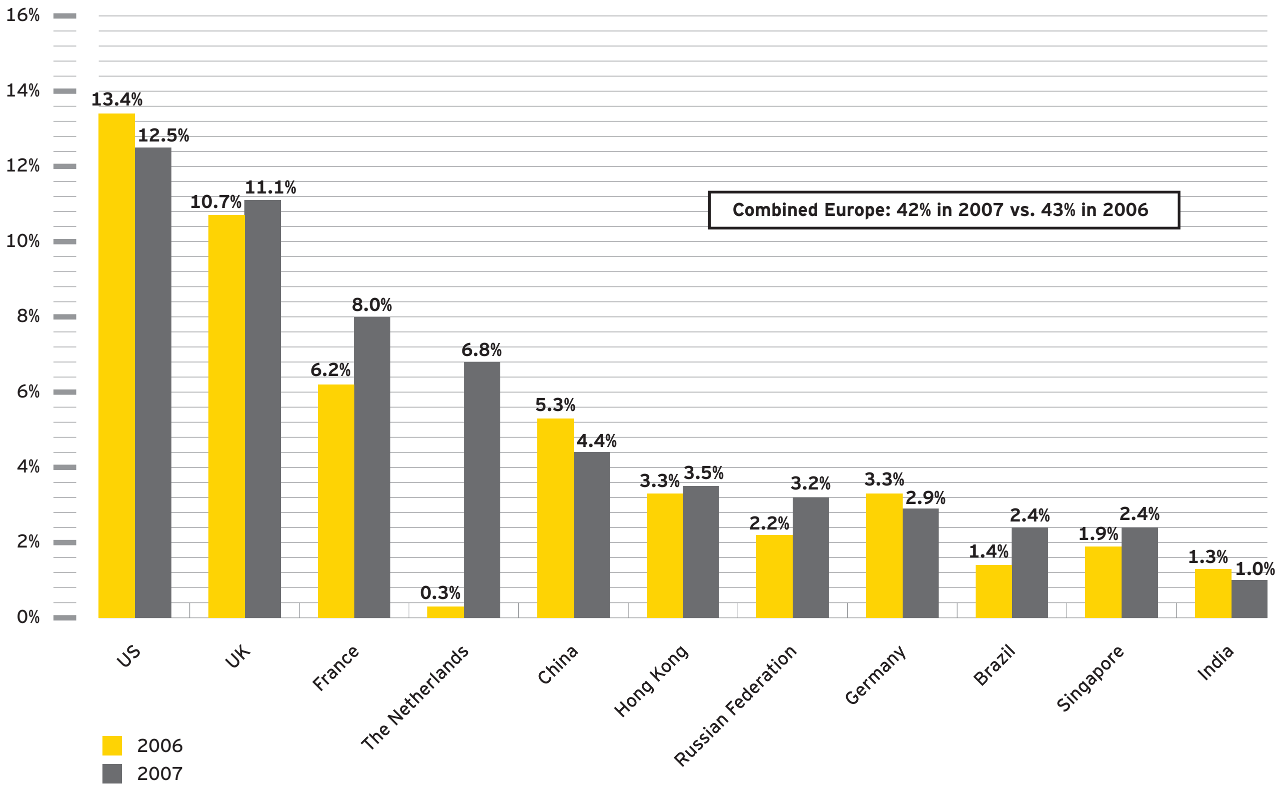
Europe is the clear regional FDI destination leader, attracting 42% of global FDI inflows (US$651b of FDI inflows), far ahead of high-growth markets[11] (US$169b or 11% of global inflows). Europe is, and remains, the largest FDI market and the leading region for large mergers and acquisitions. Despite the subprime mortgage turmoil, the US remains the leading destination country, with 12.5% of global FDI inflows (US$193b), followed by the UK and France (11.1% and 8% of FDI inflows respectively).

High-growth economies are increasingly active in the global FDI market and account for a growing share of outbound FDI: BRIC outbound FDI flows have multiplied by six between 2002 and 2006, from US$10.2b to US$72b.

10. UNCTAD estimates.
11. Emerging destinations: Brazil, Russia, India and China.

Where the money goes

Evolution of FDI shares (%) top 10 countries (2006-07)



Source: UNCTAD inward FDI statistics 2006 and estimates 2007

Europe:
more projects, fewer jobs

FDI into Europe generated 18% fewer jobs in 2007. There were 176,551 jobs created last year, down from 214,987 in 2006.

The number of FDI projects in Europe grew by 5% between 2006 and 2007, to 3,712 announcements. Although a new record, FDI growth slowed compared with 2005/2006, when 15.2% more projects were recorded.

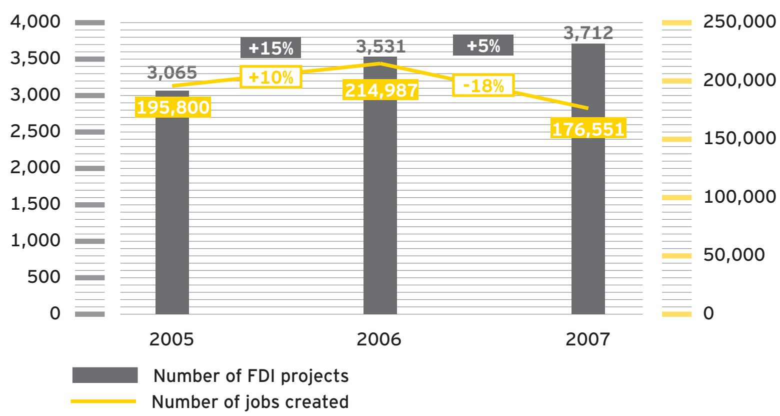
This year's European attractiveness survey marks a critical turning point. Europe still attracts attention, deals and investments, but these projects clearly have less traction as far as employment is concerned. On average, a new FDI project in Europe created 87 jobs in 2007, compared with 101 in 2006 and 93 in 2005. This marked shift is even more dramatic in Western European countries[12], where the average employment per project has fallen to 49 jobs, from 65 in 2006.

A similar trend is seen in Central and Eastern Europe[13], where the average employment per project has fallen from 217 jobs in 2006 to 198 in 2007.

FDI projects and jobs creation in Europe (2005-07).

12. Western Europe include the following countries: UK, France, Germany, Spain, Belgium, Sweden, Switzerland, The netherlands, Ireland, Denmark, Italy, Austria, Portugal, Finland, Greece, Luxembourg, Norway, Malta, Iceland, Monaco, Liechtenstein.
13. Central and Eastern Europe include the following countries: Poland, Hungary, Russia, Czech Republic, Romania, Slovakia, Bulgaria, Turkey, Serbia, Ukraine, Lithuania, Estonia, Latvia, Croatia, Slovenia, Bosnia and Herzegovina, FYRO Macedonia, Albania, Belarus, Moldova, Cyprus, Montenegro.

FDI projects and job creation in Europe*
(2005-07)



Source: Ernst & Young European Investment Monitor 2008

** Job creation figures are based on projects for which the information is available. For more information, please refer to methodology section.*

Investment within Europe is still the driver

The origin of investment in Western European remains stable. Intra-European investment kept its lead with a 46% market share, while North America provides 34% of investment projects received by Western countries.

France is a lively external investor: the country was responsible for 8% of FDI jobs created in Western Europe (4% in 2006) with the UK as first destination, especially in knowledge-intensive sectors (business services and financial intermediation).

Intra-European investment into Central and Eastern Europe grew by 21% (responsible for up to 57% of jobs created in the subregion) whereas North American investments in the region fell by 39% (11% market share against 17% in 2006). Western European countries were responsible for more than 87% of FDI jobs created in Central and Eastern Europe.

France tripled its investments in Central and Eastern Europe. An expansion by car-maker Renault of a manufacturing plant to assemble its Twingo model in Slovenia promised 2,300 jobs.

My campaigning Europe

Pascal Cagni
General Manager and Vice President
Apple Europe, Middle East and Africa

Though our products are designed in California and most of them assembled in China, European genius is at the very heart of our products: Apple's senior vice-president of Industrial Design is British, and the senior vice-president of Software Engineering, the man behind our Operating Systems, is French. Our R&D centre in Cupertino, the middle of the Silicon Valley, attracts an amazing pool of talent from multiple countries.

Europe has unique strengths. It offers a diverse and wide range of talent sourced from a long-standing established education system. Its 500 million inhabitants form a large solvent market that has an insatiable appetite for state of the art technology with the best possible design. Europe also has a very specific depth of infrastructure that is unparalleled on a worldwide basis, illustrated by the advanced deployment of broadband connection (DSL, cable...) and 3G Technology.

But Europe by its very nature also creates unique challenges due to the immense fragmentation of its territory. Thus, dealing with Europe requires a high level of creativity and a more elaborate and fine-tuned handling than a 'one size fits all' approach.

This complexity sometimes hampers investors or leads companies' management not to view Europe as a continent on a par with US today, and possibly China tomorrow.

In the 21st Century, it seems anachronistic to have on the one hand Internet and globalization and on the other hand not to have a single work contract or a single VAT regime throughout Europe for instance.

By consequence, and opposing the common wisdom, I call for a more integrated Europe. I do not see Brussels as a black hole run by bureaucrats, but an entity that, if properly leveraged, can harmonize legal frameworks thus offering direct access to a large, wealthy and well-educated consumer pool.

To create a new Europe and a Europe that really works, we also need a massive extension of the Erasmus program, a swift implementation of common directives and goals, and a streamlining of the Tax and Employment laws.

If some Europeans are afraid of Europe, it is because leaders of both the Private and Public sectors have largely failed to explain the advantages that could be reaped based upon the vision set by founders of Europe over 50 years ago. The responsibility weighs heavily upon our collective shoulders for each of us to explain to the next generation of Europeans how Europe could be a better place to live than ever before.

We must campaign for Europe.

Western Europe: a painful shift to services

Industrial job creation slumps 51% in 2007

While project announcements increased by 5% in Europe as a whole, deeper analysis reveals a 17% decline in the number of industrial projects in Western Europe. Fewer project announcements in industrial activities, which used to drive job creation, caused the number of new FDI industrial jobs in Western Europe to halve in a single year, to just 29,174, from 59,701 industrial jobs created in 2006.

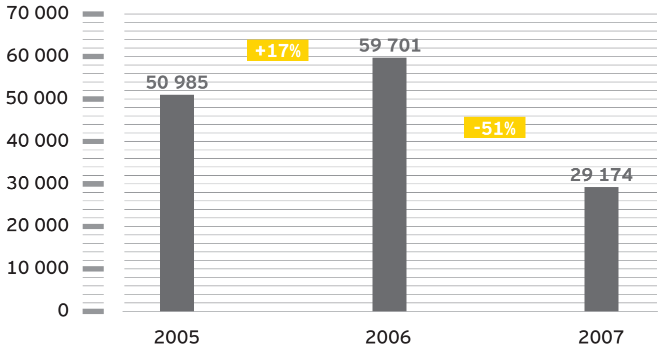
Farewell to traditional industries?

In 2007, 30,527 industrial job creations were 'missing.' Four sectors are responsible for 60% of them: logistics, automotive, pharmaceuticals and industrial equipment. Together, these four sectors provided 31% of total FDI job creation in Western Europe in 2006. Their share dropped to 23% in 2007.

New jobs in the logistics sector, the top industrial job contributor in Western Europe in 2006, fell by 84%, from 11,292 jobs to just 1,792 in 2007.

The automotive sector, which used to rank second in industrial job creation, provided 2,865 fewer jobs, a 35% fall. Industrial equipment jobs were down 60% (2,730 fewer jobs), while pharmaceuticals industry hires decreased by 66% (3,413 fewer jobs).

Job creations in industrial activities in Western Europe*
(2005-07)



Source: Ernst & Young European Investment Monitor 2008

** Job creation figures are based on projects for which the information is available. For more information, please refer to methodology section.*

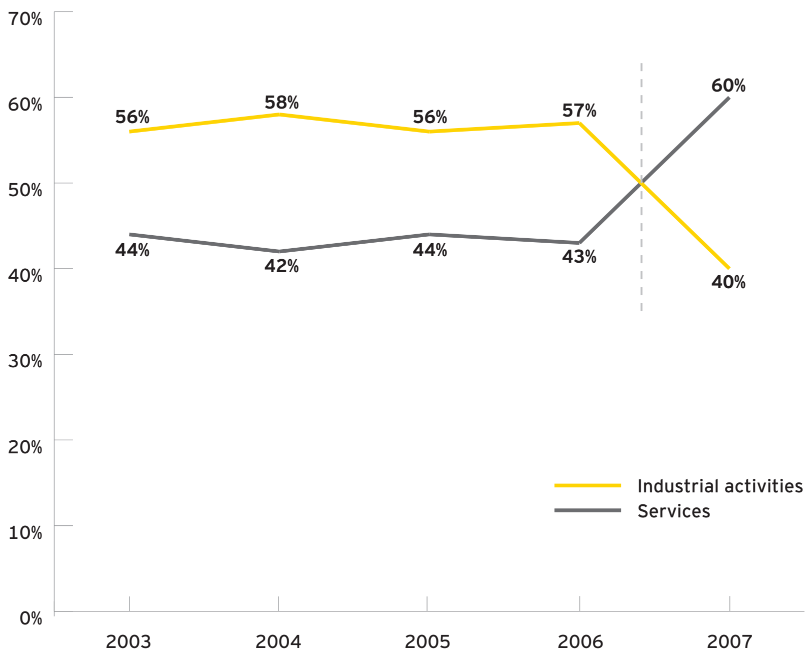
Shifting to knowledge and services

In Western Europe, services are clearly becoming the largest jobs reservoir. They now provide 60% of new FDI jobs, against 40% for industrial activities (a change from 43% and 57% respectively, a year ago). High-value sectors have taken over as the largest FDI employment source in Western Europe, although job creation remained at 25,080 jobs announced (against a 29% fall in jobs across all sectors in Western Europe). Business services[14], software and financial intermediation together account for 34% of all FDI jobs created in Western Europe.

In terms of activities, job generation through headquarters' investments and R&D centers grew by 70% and 21% respectively. They now provide as many jobs as manufacturing projects.

14. Business services refers to audit, legal, human resources and other consulting services

Distribution of job creation in Western Europe*
(2003-07)



Source: Ernst & Young European Investment Monitor 2008

** Job creation figures are based on projects for which the information is available. For more information, please refer to methodology section.*

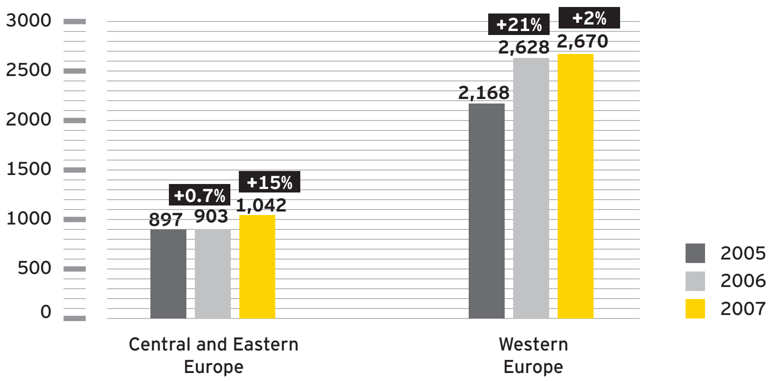
Central and Eastern Europe: resilience

Central and Eastern Europe attracts 28% of the projects and captures 58% of all jobs created

In 2007, investment projects into Central and Eastern Europe grew by 15%, despite a 7% fall in job creation (against 29% fewer jobs in Western Europe and 18% fewer across the continent).

FDI projects in Central and Eastern Europe and Western Europe

Source: Ernst & Young European Investment Monitor 2008

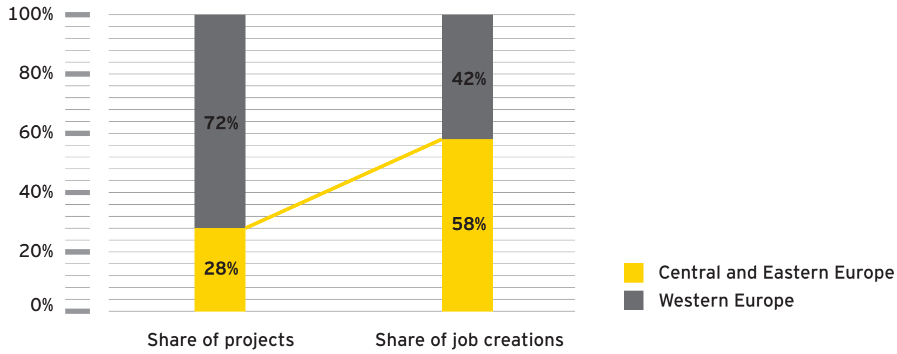


While Western Europe continues to attract new FDI projects (72% of total European inward investment projects), more new jobs were created in Central and Eastern Europe. Indeed, 58% of jobs created in Europe were directed to Central and Eastern Europe.

Intra-European distribution of FDI projects and job creation in 2007

Source: Ernst & Young European Investment Monitor 2008

* Job creation figures are based on projects for which the information is available. For more information, please refer to methodology section.



Still heavy on manufacturing and industrial logistics
Most of the jobs created in Central and Eastern Europe were in industry (87%). While industrial investments fell in Western Europe by 51%, in Central and Eastern Europe they held up well, with a fall of only 2.5% in new industrial jobs.
The automotive, electronics and electrical sectors still account for 50,2% of total job creation in Central and Eastern Europe. The automotive sector remains a source of large-scale projects: new hires from FDI grew by 28% in 2007, as 6,680 jobs were created. Romania, Slovenia and the Czech Republic were the main beneficiaries from automotive sector dynamism, with projects such as Ford's purchase of the Craiova assembly plant in Romania and a pledge to invest €675m there, creating 3,100 new jobs.

Central and Eastern Europe: missing out on business outsourcing
Investments in services in Central and Eastern Europe however, created 30% fewer jobs in 2007 than the previous year, and the subregion's market share of services projects remains low (13% against 60% in Western Europe).
The region failed to repeat its previous high level of job creation in business support services; the number of new jobs created fell 50%, or 6,533, from a total of 13,243 created in 2006.
Within the region, country preferences for job creation in business support services are unchanged; Poland remains the favorite destination in Central and Eastern Europe and the second in Europe as a whole. It accounted for 17% (2,557 jobs) of job creations in the sector at an European level: Hungary, with 2,536 jobs created, proved almost as attractive.
Russia has yet to become an attractive FDI destination for business support services.

Top sectors in Europe, Western Europe and Central and Eastern Europe
(in number of jobs created in 2007*)

Sectors	Europe		Western Europe		Central and Eastern Europe	
	Ranking 2007	Job creation market share in 2007	Ranking 2007	Job creation market share in 2007	Ranking 2007	Job creation market share in 2007
Automotive	1	21.1%	3	9.0%	1	29.7%
Electronics	2	10.8%	7	4.9%	2	15.0%
Business Services	3	7.5%	1	14.7%	11	2.3%
Software	4	7.2	2	12.7%	7	3.3%
Electrical	5	4.5%	10	3.3%	4	5.5%
Financial Intermediation	6	4.2%	4	6.7%	10	2.3%
Machinery & Equipment	7	4.1%	6	5.1%	6	3.4%
Food	8	3.7%	11	2.6%	5	4.5%
Computers	9	3.6%	29	0.6%	3	5.7%
Retail	10	2.7%	8	4.4%	18	1.4%
Pharmaceuticals	11	2.6%	5	5.3%	25	0.6%
Non-metallic mineral products	12	2.3%	17	1.8%	8	2.6%
Fabricated Metals	13	2.0%	16	1.8%	12	2.2%
Plastic & Rubber	14	1.9%	13	2.2%	15	1.8%
Other Transport Services	15	1.9%	9	3.3%	23	0.8%
Other		19.9%		21.6%		18.7%
Total		**100.0%**		**100.0%**		**100.0%**

Source: Ernst & Young European Investment Monitor 2008

** Job creation figures are based on projects for which the information is available.*
For more information, please refer to methodology section.

The country league table

The UK: Europe's star player in the FDI league
The UK is the undisputed leader of the European FDI competition. The country tops our 2007 ranking both in number of projects and jobs created. FDI projects into the UK grew by 4%. Although its market share was slightly down, the UK holds the largest-ever lead over its European competitors (19.2% market share in number of projects, ahead of France in second place with 14.6%).
The country's performance is mainly due to its commanding share of service activities (24% of total service investment into Europe), especially in Greater London (52% of UK service investment). The UK dominates Europe's inward FDI in software (30%), business services (26%), and financial services (28%). However, the UK figures reflect a potential risk. The country's performance is very dependent on US investors (providing 38% of FDI, against 23% for France), and may be hit by a US economic slowdown.

Russia's spectacular performance and the new eastern frontier
Europe doesn't end at the borders of the European Union. **Russia** has reached the number four position on our job creation leader board and has enjoyed the highest job creation growth in Europe (up 85%). It attracted some large-scale industrial projects in 2007. These manufacturing and logistics projects created 13,480 jobs. However, the Russian FDI ranking looks vulnerable. Of the 13,480 industrial jobs created, 8,000 jobs were provided by just four projects. These were in manufacturing computer components (5,000 jobs), an automotive plant (1,000) and two food manufacturing plants (1,000 each). Other Central and East European countries registered significant successes. FDI in **Slovenia** was multiplied by five (from only 632 to 3,480 jobs), helping limit the decline of industrial jobs created in the region. While the **Ukraine** is not ranked in the top 20 for number of projects, the country did well on job creation (2,383

Top 20 countries for job creation in 2007*

Rank in 2007	Countries	Number of jobs created 2007	Market share 2007	Evolution 2006-2007
1	UK	24,186	13.7%	-13%
2	Poland	18,399	10.4%	-41%
3	Czech Republic	15,102	8.6%	-14%
4	Russia	14,934	8.5%	85%
5	France	14,488	8.2%	-29%
6	Romania	12,464	7.1%	-12%
7	Hungary	11,104	6.3%	-1%
8	Slovakia	8,479	4.8%	-37%
9	Spain	7,335	4.2%	-31%
10	Germany	5,972	3.4%	-40%
11	Serbia	5,484	3.1%	4%
12	Belgium	4,379	2.5%	-21%
13	Ireland	4,052	2.3%	-44%
14	Portugal	4,045	2.3%	-59%
15	Slovenia	3,480	2.0%	451%
16	Bulgaria	3,096	1.8%	-25%
17	Turkey	3,015	1.7%	200%
18	The Netherlands	2,775	1.6%	131%
19	Ukraine	2,383	1.3%	202%
20	Switzerland	2,244	1.3%	-13%
	Others	9,135	5.2%	-24%
Total		176,551	100.0%	-18%

Source: Ernst & Young European Investment Monitor 2008

** Job creation figures are based on projects for which the information is available. For more information, please refer to methodology section.*

jobs in 2007, against only 790 the previous year) and a 69% rise in number of projects. In **Serbia**, FDI created 5,484 jobs and helped the country gain three places in the ranking. Meantime, the number of investment projects tripled from only 23 projects recorded in 2006 to 64 in 2007, of which two-thirds were industrial.
Turkey also made notable progress. Job creations tripled, lifting the country to 17th place in the jobs ranking. The number of projects surged 43% from 2006 (from 28 to 40 investment projects) with both industry and services benefiting, though industrial activities generated 88% of the new jobs. Among the 3,015 new jobs created in 2006, two-thirds were in basic metals, thanks to a new plant set up by a Russian/Turkish steel producer.

The mid-field

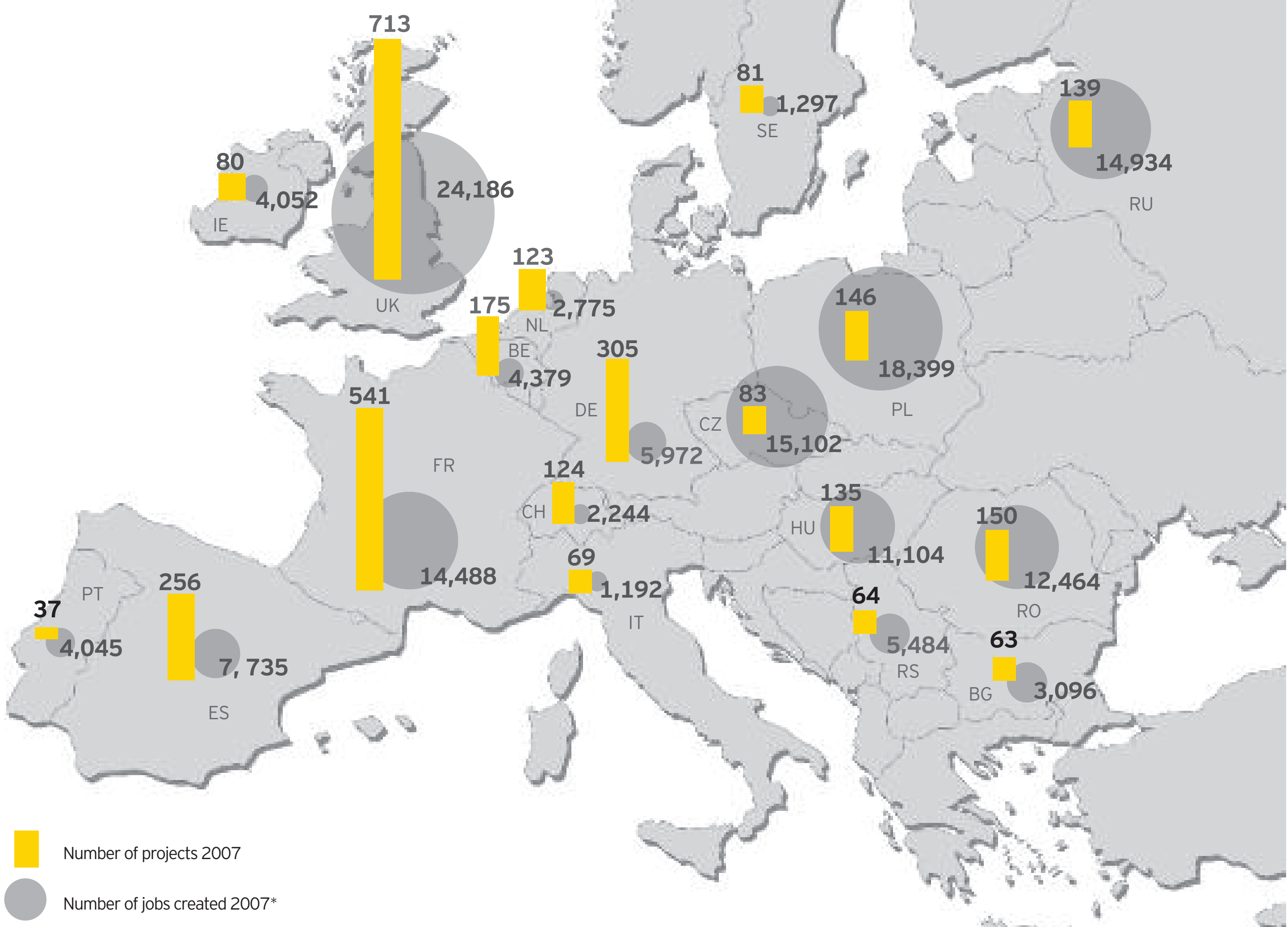
Poland loses its lead in European job creation in 2007. The country achieved 18,399 new jobs created through FDI, fewer than half the 31,235 created in 2006. The slump in job creation was concentrated in industrial activities.
The electronics sector failed to repeat its spectacular performance of 2006. In 2007, this sector created only 3,978 new FDI jobs, compared with 12,460 announced in 2006, when the number was bolstered by Indian Videocon Industries Ltd, which opened an LCD screen plant for videoconference systems in Warsaw, claiming 3,000 jobs.
The **Czech Republic** maintains a steady job creation performance (15,102 jobs recorded against 17,569 in 2006). In 2007, it eased to 12th place in the ranking for FDI projects, down three places. Though still an attractive destination for European investors, the number of projects fell by 27%. For job creation though, the Czech Republic ranks third in 2007, up one place despite 14% fewer FDI jobs, due to a greater slowdown in job creation elsewhere. The decrease in number of jobs created is particularly visible in services where job creation announcements fell by 68% compared with a 2.5% fall in new industrial jobs.
Romania, number 1 in Central and Eastern Europe in number of FDI projects, shows steady progress since 2005 and remains among the top 10 European countries by number of projects and jobs created. In 2007, the country was ranked sixth among investment destinations by number of projects, with 150 project announcements recorded. With 12,464 jobs created during the year, Romania captured 7% of FDI jobs created in Europe. Romania's profile remains mainly industrial: 91% of jobs created were in industrial activities. Of those, more than 60% were in the automotive sector. In recent years, the vehicle industry in Romania has become a magnet for foreign investment such as large-scale projects by Ford (which bought a Romanian carmaker and is investing €675m more in its plant, creating 3,100 new jobs) and Renault.
Hungary is still ranked seventh for FDI jobs created, notching up 11,104 new jobs.
In terms of projects, Hungary gains four

Top 20 countries for number of projects in 2007

Rank in 2007	Countries	Number of projects 2007	Market share 2007	Evolution 2006-2007
1	UK	713	19.2%	4%
2	France	541	14.6%	-4%
3	Germany	305	8.2%	7%
4	Spain	256	6.9%	21%
5	Belgium	175	4.7%	-5%
6	Romania	150	4.0%	7%
7	Poland	146	3.9%	-4%
8	Russia	139	3.7%	60%
9	Hungary	135	3.6%	25%
10	Switzerland	124	3.3%	-9%
11	The Netherlands	123	3.3%	29%
12	Czech Republic	83	2.2%	-27%
13	Sweden	81	2.2%	-28%
14	Ireland	80	2.2%	8%
15	Italy	69	1.9%	-7%
16	Serbia	64	1.7%	178%
17	Bulgaria	63	1.7%	-7%
18	Denmark	59	1.6%	-2%
19	Slovakia	58	1.6%	26%
20	Austria	45	1.2%	-20%
	Others	303	8.0%	20%
Total		**3,712**	**100.0%**	**5%**

Source: Ernst & Young European Investment Monitor 2008

Foreign investment in key countries
2007



Source: Ernst & Young European Investment Monitor 2008

** Job creation figures are based on projects for which the information is available. For more information, please refer to methodology section.*

places to reach seventh place, up from 11th place in 2006. With 135 projects in 2007, against 108 a year ago, Hungary attracted 25% more projects, notably in manufacturing and logistics (a combined total of 25 new projects). Investment in services projects, at 30% of inward projects, remained stable.

Western European defenders

Although **France** manages to maintain its second place, its FDI trend is negative in 2007. The number of projects received slipped by 4% despite an average rise across Europe of 5%. At the same time job creation fell by 29% on 2006. France remains the leading European country for the number of industrial projects received, but this number dropped significantly in 2007 (176 industrial projects, against 236 in 2006, a 25% fall). Job creation fell by 47% in industrial activities, from 11,195 industrial jobs recorded in 2006 to 5,985 in 2007.

Germany reinforced its third place ranking in 2007, with a 6% increase in the number of FDI projects (from 286 to 305 projects) and a steady 8% market share. In terms of number of jobs however, Germany follows the European trend with a strong decrease in new FDI jobs announced (down 40% in 2007). The decline in job creation arose in industrial sectors, where the number of new jobs announced fell by 63% (the electronics, electrical, and machinery and equipment sectors were particularly affected), while services generated 32% more jobs. However, the country remains Europe's champion cross-border investor. It provided 25% of Europe's FDI and generated 23,389 jobs elsewhere in Europe, although the number of jobs created abroad, at 30,180, was sharply down on 2006.

Spain saw a 31% fall in FDI job creation, despite a 21% growth in the number of FDI projects in 2007. The number of new jobs announced in relation to industrial activities fell by 55%, and the number of industrial projects grew by just 2%, compared with 34% for services. Spain attracted 63% fewer automotive projects in 2007, resulting in a slump in related jobs from 2,749 in 2006 to 590 in 2007, a 76% fall. FDI in Spain is in a period of marked transition towards the service sector. Together, business services and the software sector accounted for 36% of all jobs created in 2007 (only 17% in 2006).

Belgium, with 175 project announcements and almost 5% market share, retains its fifth place ranking in 2007. However, Belgium saw the number of FDI jobs created fall 21%, slightly above the average European decline. The fall in job creation was mainly in industrial activities, where numbers fell 40%, while services recorded a 16% rise in FDI jobs created. Business services, automotive, and other transport services sectors - which accounted for more than 42% of total jobs created in 2006 - all saw falls in jobs created, from 2,352 jobs in 2006 to 1,071 a year later.

Other Western European countries, including Ireland, Italy, The Netherlands, and the Nordic countries, failed to attract a significant increase in the number of projects and generated relatively few jobs. They remain excluded from the top 10 countries by project numbers and jobs created.

Ireland's ranking by number of projects and jobs created remained steady compared with 2006, even though job creation decreased by 44% from 7,213 jobs to 4,052 jobs. 17% of its new FDI jobs were in research and development activities, far above the 6% European average for this activity.

The **Netherlands** attracted 123 projects in 2007, of which 67% were in services. However, it was the investments in industrial activities that created more than 82% of jobs. The automotive industry was the leading provider of new jobs, accounting for 49% of total job creation.

Italy fell one place in terms of both investment projects and jobs created, ranking 15th on projects and 23rd on new jobs. Yet interestingly, half of jobs created in Italy were in high added-value activities such as R&D (300 new jobs, 25% of new jobs created) and headquarters functions (290 new jobs, 24% of new jobs created).

Finally, among the Nordic countries, Sweden emerges as the best performer, despite declines in both jobs created and the number of projects. In 2007, Sweden fell from ninth place to 13th by project numbers (from 113 to 81 projects), while its ranking in jobs created was down from 18th place to 22nd (just 1,297 jobs in 2007, following 1,770 in 2006).

My innovative Europe

Lakshmi Mittal
President and CEO ArcelorMittal

Innovation is one of the most important components of succeeding in today's world. Indeed I would go as far as to say successful entrepreneurship in the 21st century is all about a dedication to innovation.

It is innovation that challenges traditional thinking, drives progress and ultimately delivers long-term positive change. It is innovation that enables us to maintain our competitive edge, satisfy our stakeholders and ensure long-term sustainability.

At ArcelorMittal, we have always had a keen devotion to innovation. By innovation I don't simply mean Research & Development: for me real innovation starts with management approach.

For ArcelorMittal, that has meant driving a new, consolidated business model that has enabled the steel industry to rediscover its long-term sustainability. The benefits of this new global model are substantial for European steel producers: following the merger between Arcelor and Mittal Steel, the new company, now the world's largest steel-maker, was able retain some European facilities that had previously been targeted for closure.

Product innovation is also critical and we are driven here not only by our own desire to improve, but also by our customers, who are constantly and rightly pushing us to perform better. In some industries like automotive there is a very close loop between changing client demand, our R&D response, and delivery of improved product.

Europe's steelmaking traditions are a great boon in this regard; so is the general level of education and the cluster effect of apparently-unrelated high-tech industries in the same location inspiring each other.

One recent ArcelorMittal innovation is the Angelina beam, used in construction. It has a cellular profile which gives it strength, but also allows many of the building's services to pass through it rather than through separate ducts, saving lots of useful space.

We're also coordinating ULCOS (Ultra Low CO2 Steelmaking), a breakthrough EU program that aims to halve the amount of CO2 emitted in steel production.

These and other development programs are all well and good, but Europe must also now compete in innovation with other highly-developed economies and new kids on the block from emerging markets. These new players don't just have a growing pool of highly motivated talent, they have access to the long history of innovation elsewhere.

Globalization is a phenomenon with many facets and I am known to be a great supporter of the benefits that it offers. However traditional economies must recognize that they need to adapt if they want to continue to prosper in this new dynamic.

Europe has great advantages in terms of its traditions, knowledge base and customers.

It must not squander these advantages by letting educational standards, especially in science and technology, slip back.

National governments and EU bodies also have a role to play. Over-regulation can stifle innovation very easily. Imagination and creativity need to be encouraged and rewarded: they are vital to the wellbeing of everyone in Europe.

Not that Europeans should feel down-hearted – beautiful and effective examples of innovation are all around us. One that particularly inspires me is the Bodegas Ysios winery in northern Spain, a soaring, extraordinary building made partly of ArcelorMittal steel.

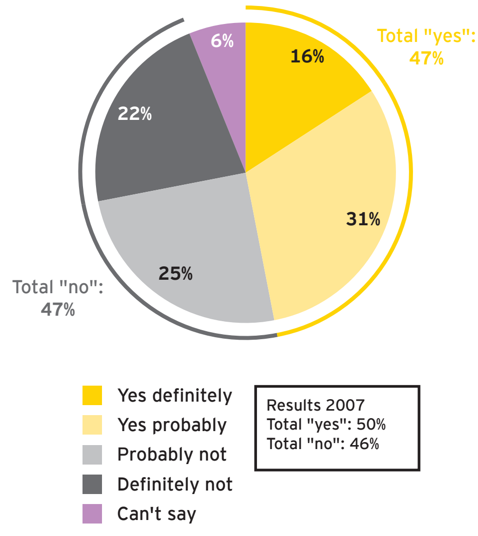
If Europe's steel industry needs a symbol of faith in its future, this is it.

Future projects: watch the flank

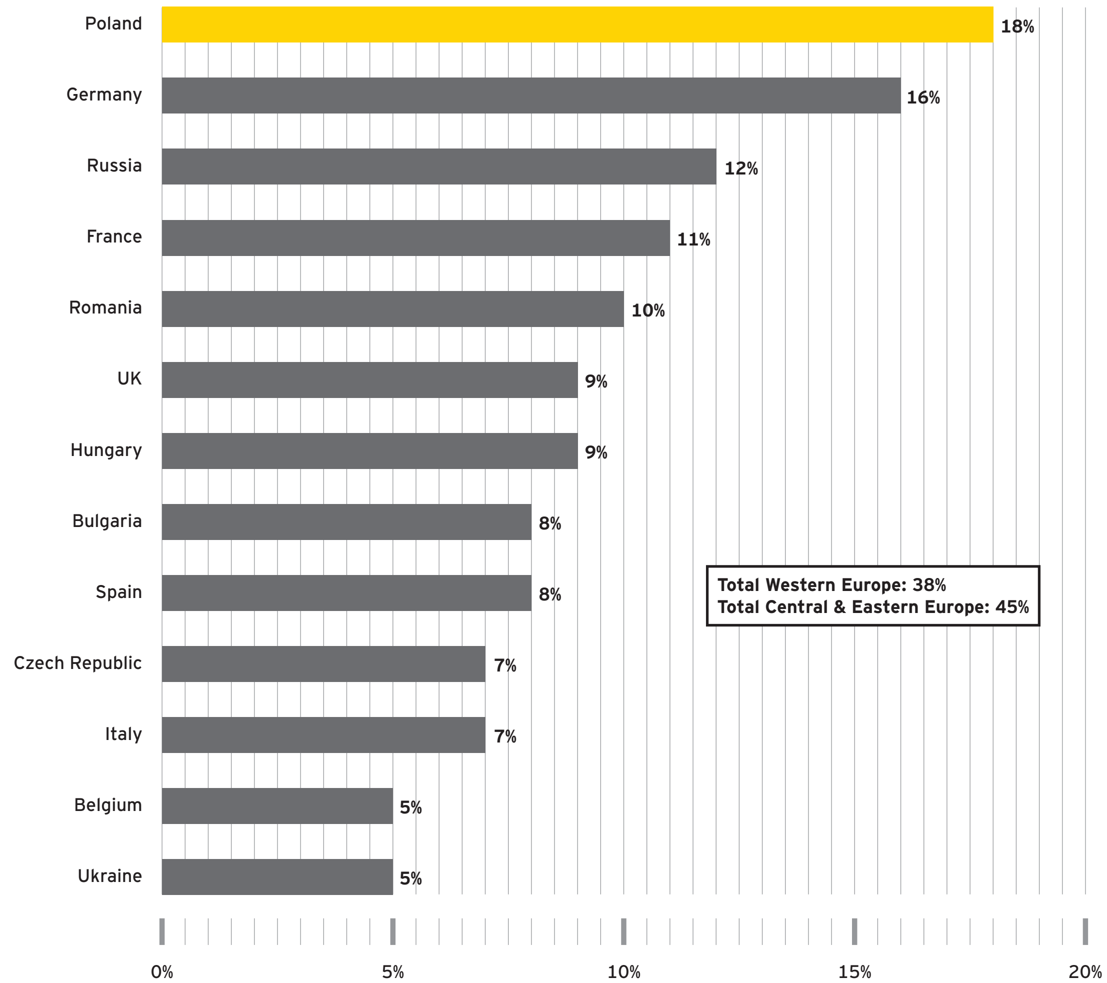
Nearly half of European businesses are still developing their activities across European borders. But the lure of low costs and large markets further east is strong.

Location intentions
Investors confirm that they will continue to consider projects in Europe in the near future, while also developing complex, longer-term investment projects in Asia and other emerging locations. Overall, 47% of business leaders plan to develop activities in Europe, though 16% say they will relocate all or part of their activities outside the region. Investment intentions show a slight decline compared with those recorded in last year's survey, confirming the trend of a slowdown in all FDI relocation plans.

Intentions to create investment or development projects in Europe

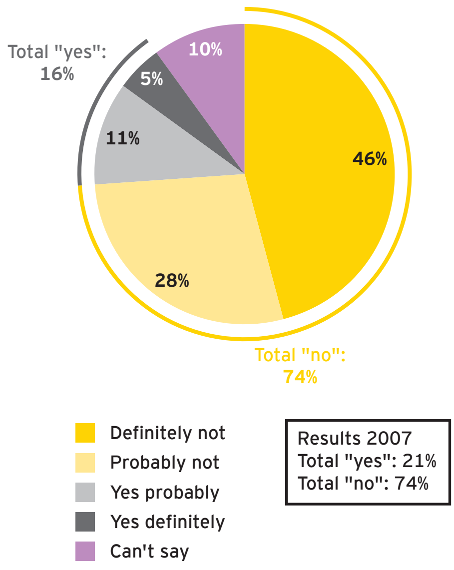


The European locations considered for new investment or expansion projects
(total>100, more than 1 response possible)



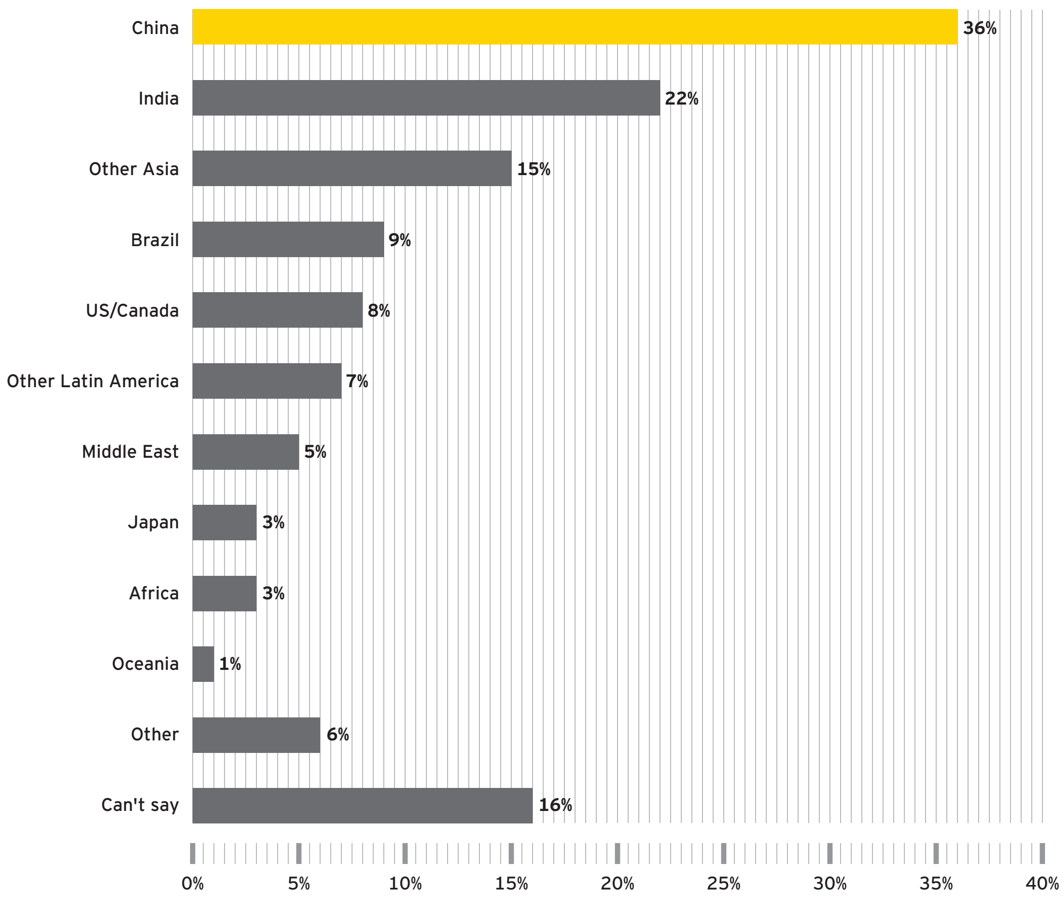
Source: Ernst & Young's 2008 European attractiveness survey

Intentions to relocate outside Europe



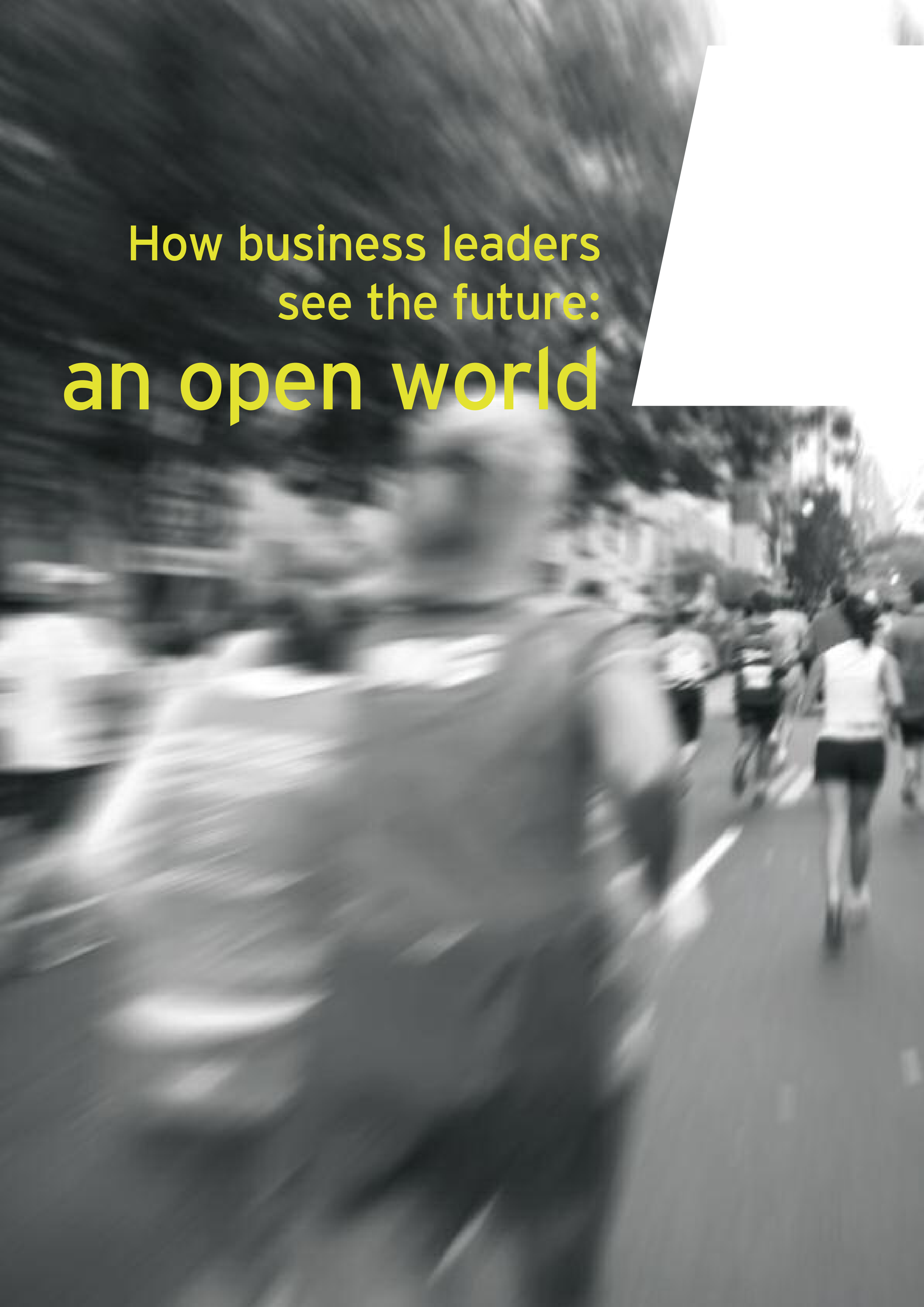
In Europe, growth hopes head east...
Once again our survey demonstrates the role of Poland and Germany as greater Europe's FDI center of gravity. Russia and Romania are also gaining significant ground (from seventh and eighth place respectively, to the number three and five spots in 2008), possibly at the expense of Hungary and the Czech Republic. France, the UK and Spain hold their ground.

The global locations considered for relocation projects
(total>100, more than 1 response possible)



Source: Ernst & Young's 2008 European attractiveness survey

How business leaders see the future: an open world



Ernst & Young's 2008 European attractiveness survey interviewed 834 decision-makers on their **needs, expectations and projects for the future.** In their opinion, how is Europe faring in these uncertain times and what prospects do they foresee for the region?

Undoubtedly, despite its apparent attractiveness, Europe has a lower productivity growth rate than the US and slower growth and fewer market opportunities than emerging economies. Predicted productivity growth of 1.5% falls below what is needed to sustain European economic growth in the next five years. Also, the strength of the euro against the dollar is a major concern for Europe's competitiveness and attractiveness to inward investment.

The revised Lisbon Agenda[15], produced in 2005, aims to give new impetus to the development plan for the European Union. This strategy for growth and jobs will enter a new phase - implementation. The strategy is there, based on a limited, more targeted set of goals. The focus is now on execution, particularly on measures to stimulate small and medium-sized companies, innovation and skills.

15 The Lisbon Agenda is an action and development plan for the European Union. It was set out by the European Council in Lisbon in March 2000 and revised in March 2005.

Investors seek 'flexicurity'

Increased flexibility in European labor markets is at the forefront of investors' minds when questioned about necessary European reforms.

The revised Lisbon agenda identified that 'the promotion of growth and employment in Europe is the next great European project.' A large part of the reforms required center around creating more dynamism in markets.

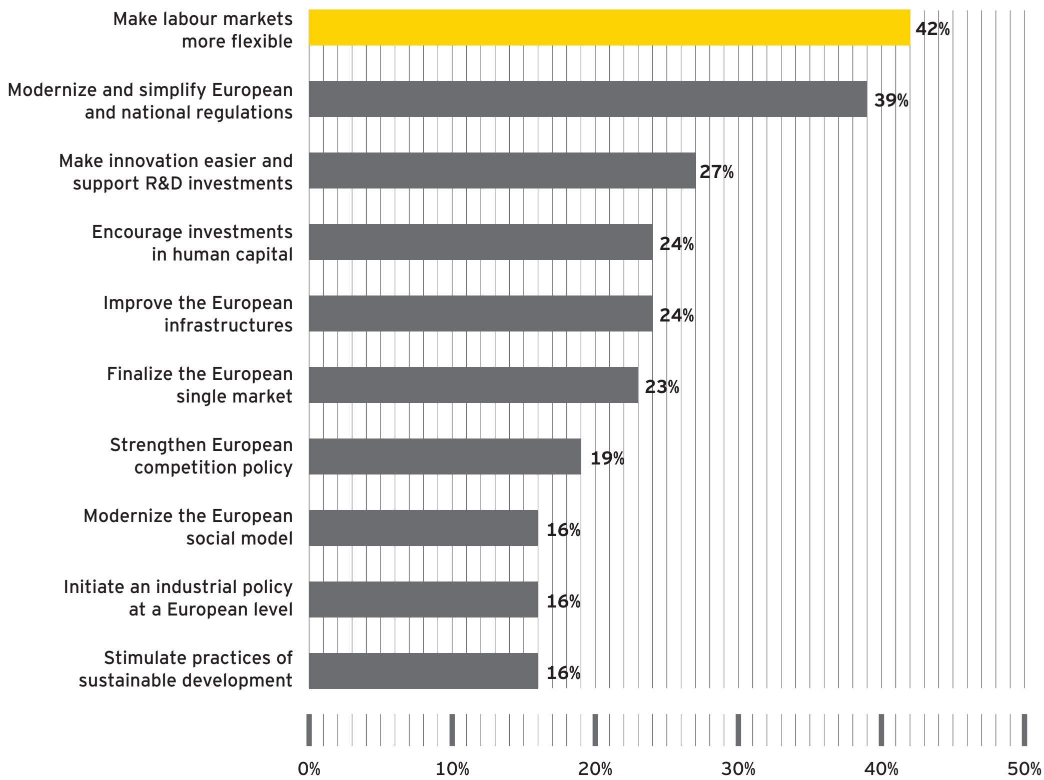
Overall, 38% of Western European companies demand increased labor market flexibility. This figure rises to 51% for companies based in North America.

Some business decision-makers seem to be learning to live with these frustrations. While almost half (47%) of respondents cited too much rigidity in labor markets in 2007, in 2008 this has fallen to 42%. Indigenous companies are more accepting of inflexibility than overseas-based companies, but the issue remains paramount.

An economic model combining a supportive social security system with flexibility in employment markets, such as that adopted in Denmark, would appear to satisfy the requirements of a large number of business leaders. Currently, people with the necessary skills are often not available in the geographical area where they are required and immigration regulations prevent their recruitment.

In other instances, a lack of flexibility in employment laws discourages the hiring of staff because companies fear they

To do:
most important reforms in order to develop Europe's attractiveness (total>100, 3 first choices)



Source: Ernst & Young's 2008 European attractiveness survey

will be unable to shed staff should market conditions change.
Additional key areas of reform cited to encourage business investment in the region include a modernization and simplification of the regulatory environment on a national and European level, and steps to encourage innovation and investment in research and development. Ernst & Young considers this need to encourage innovation in Europe, by governments and companies alike, so important that in this year's report we have dedicated this section to the topic.

My start-up Europe

Gigi Wang
Chair & President,
MIT/Stanford Venture Lab

I was born in Taiwan, grew up in Michigan and studied engineering at Stanford and business at UC Berkeley. My career started in big companies like EXXON and Pacific Bell, which I joined right before the commercialization of the Internet. I left corporate America for a start-up Internet service provider (ISP).
In 1995 my family was posted to Singapore, which then had one ISP, SingNet/Singapore Telecom. I was invited to head up a new rival, Pacific Internet, where we promoted the Internet as an enhancement to different aspects of life. A big part of the challenge in doing global business is understanding the nuances of the local culture, but also keeping in mind that people are the same underneath.
After returning to the US, I joined Ascend Communications where the CEO really knew how to motivate the employees with stock options. People stayed through the hard times and most became millionaires when it was taken over by Lucent for $21 billion in 1999.
How do I get into promising start-ups? It's partly who I am – I love meeting new people and learning about emerging businesses, and then joining in new ventures. If all your friends are talking about green tech, you realize – hey!
I impulsively talk to all types of people and get exposure to opportunities, though there are often social barriers of wealth, class, and education, especially in Asia and Europe.
If you wanted to make it more like Silicon Valley, one should be open to people across all segments of society. You need to access and maximise the value of everyone in the society.
Flexible labor laws give workers the chance to be more flexible and productive. In the US, very few people in high-tech work 8-5. People who have kids often start late to drop their kids off, stop early, then work again after 9 pm at home. Laws need to protect people, but give them the flexibility to be more productive.
In the US, things tend to be created fast and disposable. Europe focuses more on quality and attention to detail, as opposed to speed. Look at a BMW or a Mercedes. You don't see that kind of detail in American cars.
It's not just Germany, not just quality cars. I absolutely love French food and wine. In France, when you take a sip of soup you get 10 different flavours, all balanced. It is like a symphony in the mouth. Craftsmanship is a great European strength.

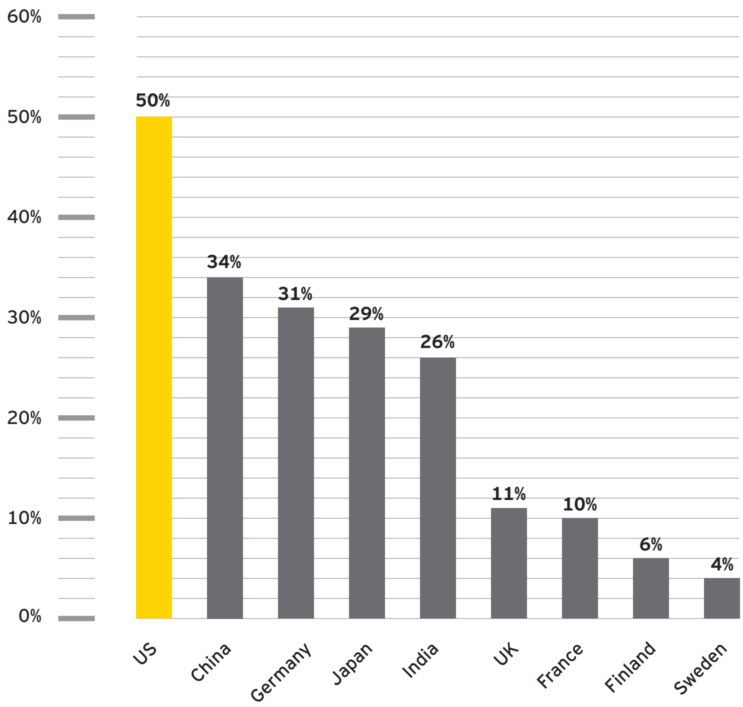
Mixed thinking on innovation

Collectively, European nations are strong innovators. Individually, many are weak.

In an increasingly competitive global environment where information exchanges takes place ever faster and competitive advantage is less a factor of geographical location, a company's ability to differentiate itself and stay ahead of the game will be largely based on its capacity to innovate. While the US and China stand out in investors' minds as the most innovative (50% and 34% ratings respectively), the combined weight of Europe's top innovative countries presents a formidable force.

The high ranking of China, along with its neighbors Japan and India, places Asia at the top of the main geographical zones for its level of innovation. Collectively, Western Europe achieves second place, due largely to the relatively strong positioning of Germany, while North America lies third. Aside from Germany, other European countries are relatively poorly positioned. The UK ranks sixth, with 11% of respondents citing it as one of the top three most innovative countries. Central and Eastern European countries are notably absent from the top 10 ranking. Despite their strong recent growth and favorable image as potential investment locations, this poor image for innovation may put their future international competitiveness at risk.

Brightest sparks: current most innovative countries
(total>100, 3 first choices)



Source: Ernst & Young's 2008 European attractiveness survey

The strong position of the US in terms of innovation is well supported by market evidence. The World International Property Organization registers the number of patent applications each year. In a 2007 ranking of the top 15 countries submitting applications, 33% originated from the US. Europe however, fares very favorably, falling a close second with 30% of patent applications, while Asia lies third (26%).

European innovation clusters: gray and green growth

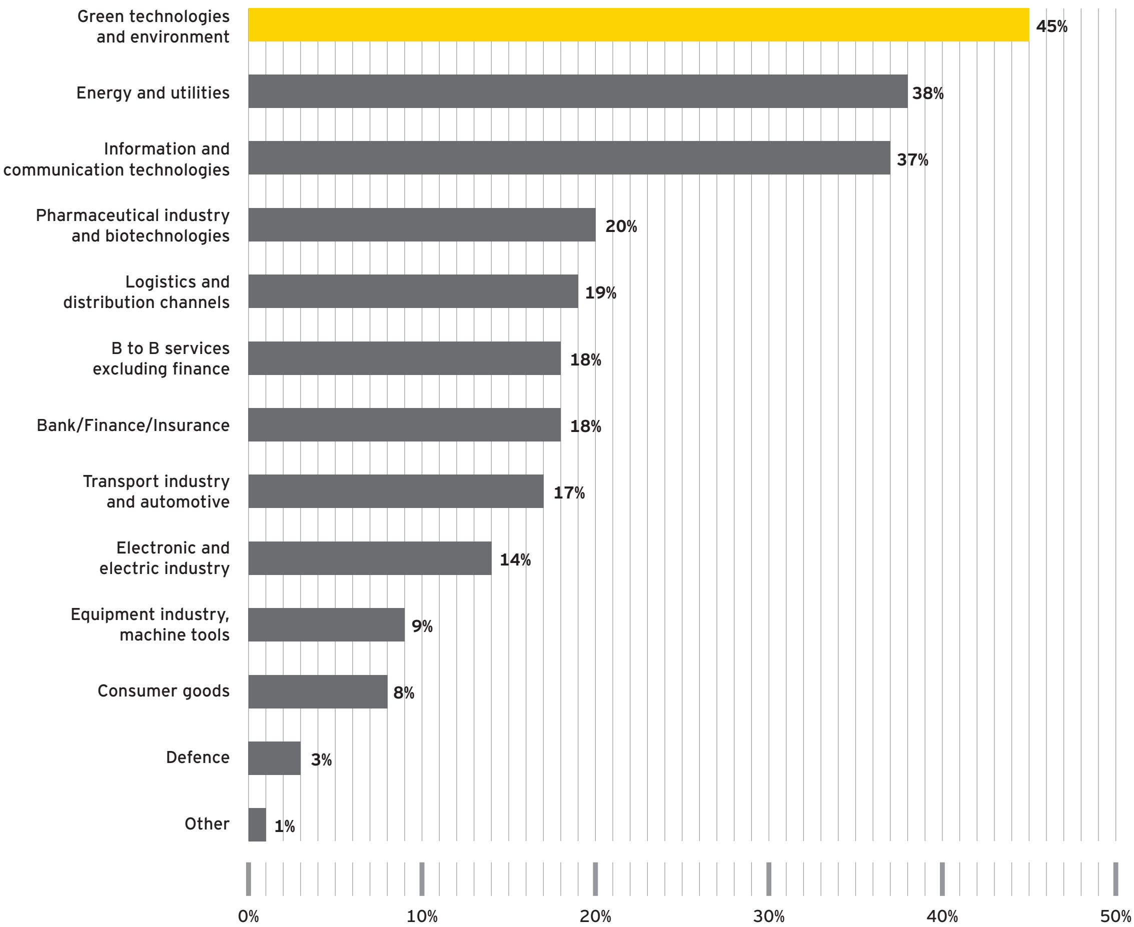
While European countries do not rank as the most innovative in the minds of potential investors, 76% of respondents estimate that the zone's capacity to innovate is encouraging.

Business leaders, particularly those based in Western Europe, believe that the greatest source of innovation that will boost European growth over the next five years will come from green technologies and the environment (45%), with energy- and utilities-related issues also highly rated (38%). Information and communication technologies are also identified as important seedbeds for innovation-led growth.

In green technologies Europe has the clear ability to make a difference globally and has already carved out a niche for itself. It has led the world in initiating carbon trading, green energy support measures, and the necessary legislation for promoting environmental issues. In terms of expertise, the forefront of diesel technology is in Europe and many diesels have consumption rates to rival hybrids. To these green economic advantages can be added Europe's strong green culture. By and large, its consumers are far more environmentally-aware than those in the US.

Ernst & Young's report Cleantech Matters, published in November 2007, identified the importance of linking green issues into core company strategy and appointing a 'Chief Green Officer' alongside other key corporate executives. Europe is well placed in terms of its access to leading technologies to exploit fully the market possibilities of the greening corporate culture. In addition, its key position in the eyes of investors as a location for headquarters activities should mean that, at a company level, key green corporate decisions will be taken in Europe.

Gray and green:
sources of innovation that will boost European growth over the next five years (total>100, 3 first choices)



Source: Ernst & Young's 2008 European attractiveness survey

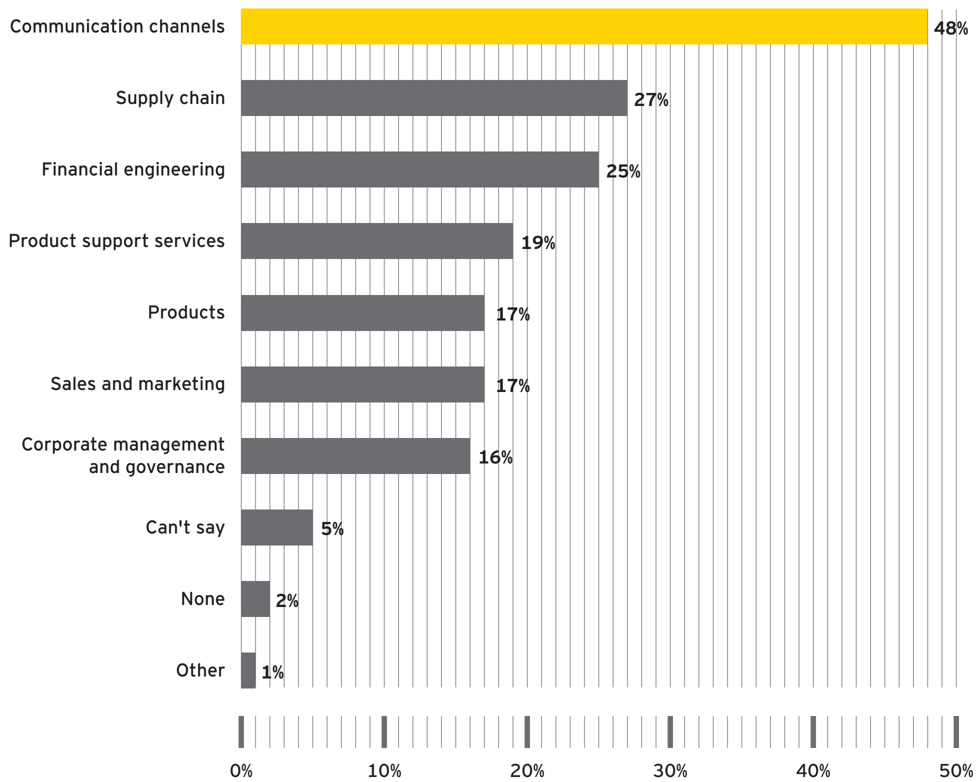
Innovation: look inside

Good ideas in laboratories don't guarantee successful businesses.

Innovation is anticipated to be strongest within communications (48%) and a company's supply chain (27%). Surprisingly, fewer companies are expected to differentiate themselves significantly through product innovation (17%) or product support services (19%). This result reflects business leaders' opinion that Europe is the source of some excellent innovative thinking and has world-class universities, but has difficulty transforming its ideas into business successes.

Quick fixes?

Sources of innovation within companies over the short term (2 first choices)



Source: Ernst & Young's 2008 European attractiveness survey

My audacious Europe

Olivier Quillet
Marketing Director,
Nespresso

I firmly believe that if there was a recipe for success in creative innovation, it would have been written long ago.

There are however a few prerequisites. You need imagination and you need to understand consumers very well. I think, in this regard, Europe is very well placed.

Europe is not short of creativity. I would almost say that there might be more creativity in Europe than anywhere else. Europe is very diverse in terms of people and cultures. This sparks a lot of creativity, even in a country like Switzerland, which is sometimes seen by outsiders as staid, even boring.

However, once you have an innovative idea, it is very difficult to turn it into a business. There are a few things that make it more difficult to start an innovative business than other places. You need a willingness to take risks and the willingness to start with nothing and to put in the number of hours to build a success, and you need patience. It is rare to enjoy instant success.

What makes it difficult to take risks is the lack of acceptance for failure. The European environment of society is not yet mature enough to show understanding for failure. In the US for example, it is actually seen as something positive, you tried, you failed but, at least, you tried and you might succeed next time around.

Europe has also a tendency, especially amongst the younger generation, to lay back and let the state provide. There is a lot of talk about work-life balance. I believe you need to put in a lot of work first in order to get a life later on. I worked in Asia for a number of years and I found it hugely different there. In Asia, discipline and working long hours is still seen as a must.

Regulations are also part of the problem. The amount of regulations you have to overcome is way higher than in other places. As a consequence, your entry ticket becomes very expensive, you are unable to start small and to scale up later.

My guess is that you can succeed with a new idea in Europe but you have to start in the gray zone of regulations and hope you succeed.

This is changing, though. In Switzerland you can see that the ability to translate innovation into job creation is becoming recognized as important. The Ecole Polytechnique Fédérale de Lausanne is working extremely hard to help spin-offs, and also to get industry to work closely with the university and to put seed money into their projects. That is happening elsewhere in Europe too. Industry is realizing that open-source innovation is the way forward.

I guess the message is that progress is being made, but more needs to be done.

Looking ahead, I think the crucial issue has to be education. To make great businesses, you need great designers, good technicians, superb engineers or simply well educated entrepreneurs. We need to make sure these areas are given enough resources. The whole education system is not valued enough.

And we need to be giving the message early on to youngsters that you have to work hard, but you can make it happen.

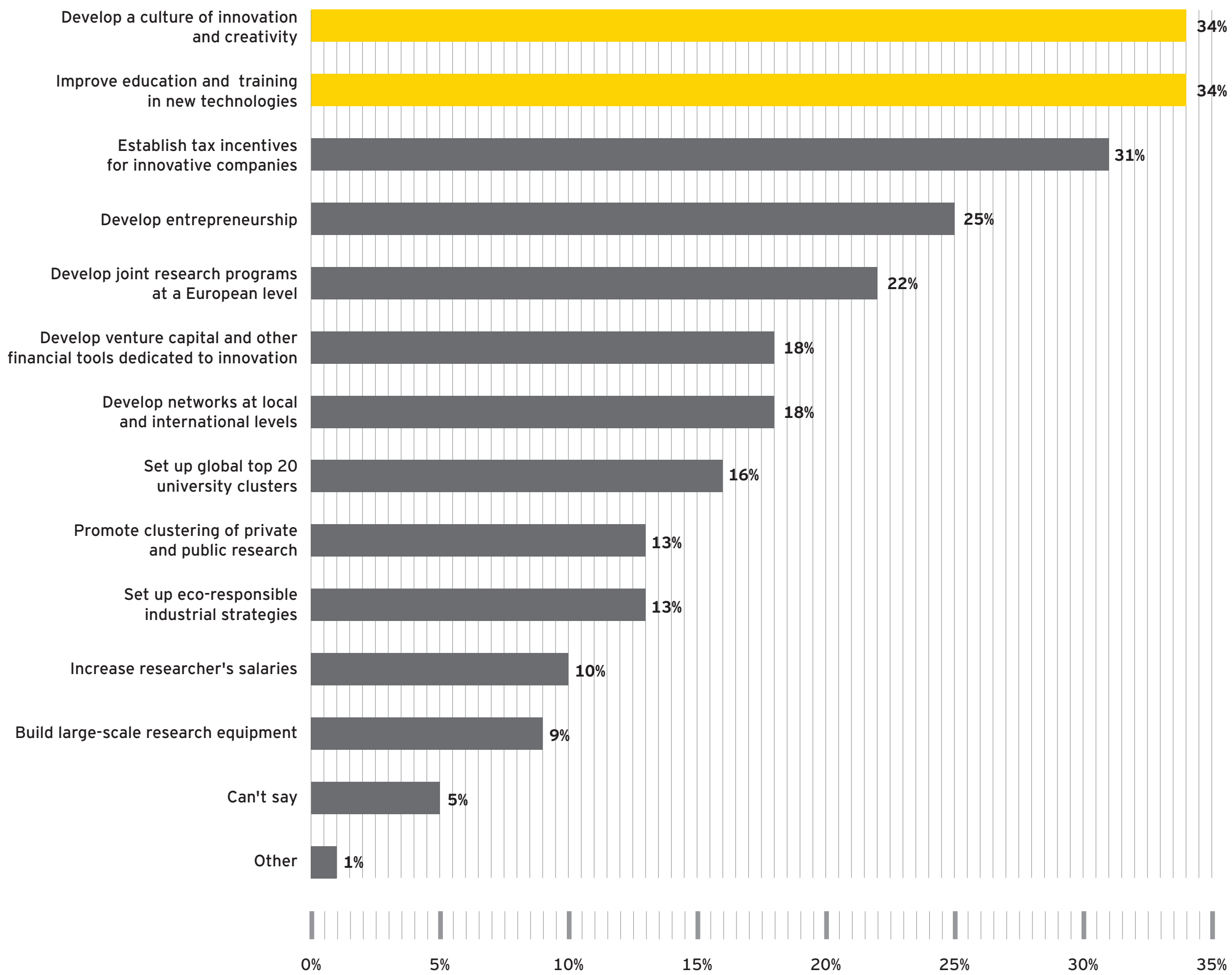
The education challenge

To enable Europe to maintain its strong image as an innovator, education and creativity are key (34% response rate).

Potential investors also believe the region must foster a culture of innovation and creativity, for which the grounds will be laid in secondary and higher education (34%). However, to help companies dedicate resources to such measures, they want tax incentives (31%). Investment in education and training by developing economies is raising skill levels among their workforces. Europe must continue to invest to keep ahead. There are now 33 million university-educated young professionals in the developing world, compared with 14 million in the developed world[16].

16. World Competitive Yearbook 2006, International Institute for Management Development (IMD)

Back to school:
main areas of reform to enable European lead in innovation (total>100, 3 first choices)

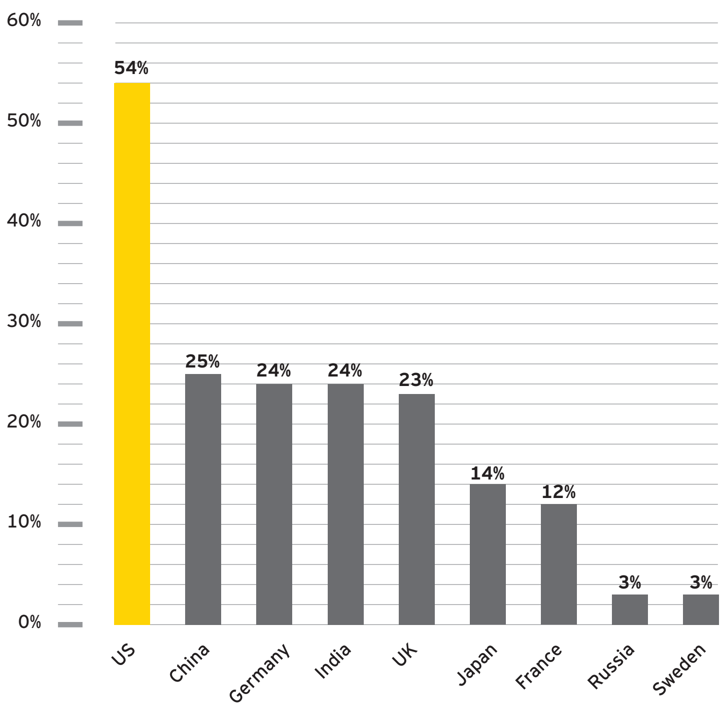


Source: Ernst & Young's 2008 European attractiveness survey

In line with its strong innovative image, business leaders consider that North America will provide the most dynamic educational establishments for innovation (54% response rate). Within Europe, universities in Germany and the UK have a favorable image for innovation, placing Europe in second position among the key zones. Asia lies a close third thanks to the strong positioning of China and India.
What is critical in Europe is not the need for fostering innovation within its universities, but for businesses to learn to harness that talent. Unfortunately in Europe, too often, the research of universities is not translated into profitable, marketable products.

Will this change as the result of renewed and more pronounced calls by European politicians and industry leaders eager to realize the promise of the Lisbon agenda and make innovation the motor for economic growth? European universities have finally begun to realize the importance of technology transfer.
Governments are providing assistance to ensure innovation doesn't remain within academic circles. Ireland, for instance, has funded a series of incubation centers at its leading universities and has prompted laboratories at different schools to cooperate. Researchers are made aware that funding could be cut if there is no economic benefit.

Innovation and education: most dynamic countries
(total>100, 3 first choices)



Source: Ernst & Young's 2008 European attractiveness survey

Open world, new attitudes

Europe has embarked on a race to meet the challenges of globalization. Much has changed and has been done. Euro: done. Enlargement: done. Integration of new entrants: in progress. Gradually, uncertainties are giving way to more confidence. Yet, the current transition period sees global players – including Europe - jostling to be tomorrow's front runners. Europe may play on its historic and established strengths - demographics, stability, productivity, consumption power. **But a new set of competitive attitudes must ultimately be found:** more innovative, more adaptable, more competitive and, finally, more attractive attitudes towards globalization. Here are some 'coaching tips' to compete in these open games.

Open world, new attitudes

Renew the fan base

To date the growth of emerging economies has been built largely on a proficiency in supplying low-cost goods anets in their own right and a lucrative target for multinational manufacturers, service providers, and retailers. By 2015, more than 800 million people across the four BRIC economies should have crossed the US$3,000 income threshold – exceeding the current population of the US, Western Europe and Japan combined. This will affect many industry sectors, including mobile-phone operators, computers and automobiles, all fast-growing markets for European companies. Tomorrow, frontier markets such as South Africa, Brazil, the Gulf States and Vietnam look set to be ranked among the top 15 global economies, opening the way for multinational and mid-size companies to tap fresher target markets.

Nurture your promising players

Talent has now become a global commodity, fought over by multiple competitors. Europe's future attractiveness goes well beyond ensuring that business conditions are favorable. It must develop, retain and attract the talent base it will need to reach its strategic goals. Companies involved in the knowledge economy will seek potential through encouraging local entrepreneurship, world-class researchers and high-level human resources with the right skills and attitudes.

Enjoy 'Team Europe's' diversity...

Europe's strength lies largely in its diversity. Its considerable variations guarantee an incomparable and somewhat surprising attractiveness, despite the considerable attention paid to emerging areas. Europe must maintain this unique selling point for investors who can find unique opportunities within the complexity. Even more, by encouraging initiatives promoting the distinctive virtues of individual member countries, the European Union may further promote its own attractiveness.

...while it lasts

Central and East European countries still enjoy a more competitive cost base than their Western counterparts. Average labor costs in these countries remain approximately 15 to 30% of the European average. However, wage costs have increased significantly faster (by 173% between 2000 and 2006 in the Czech Republic, 130% in Hungary, and 87% in Poland) than the European average increase of 60% over the same period. Some analysts predict that so-called 'labor convergence' will have happened by 2020 at the latest.

Yellow cards

One key issue is the development of private equity which, in some industries, has been taking over from traditional FDI. These new investors have different motives and different attitudes towards existing activities in historic labor pools. European stakeholders – communities, citizens, local businesses – must anticipate the impact of M&A-linked downsizing so that restructuring achieves mutual benefits.

Home and away

Near-shoring (relocating labor-intensive activities to lower-cost places close to the target markets) provides very attractive location options for European companies. For instance, the Euro-Mediterranean area (from Turkey to Morocco) is fast becoming an extension of the European playing field where companies can optimize their quality/cost trade-offs while keeping a shorter, more reactive supply chain.

Energy

Europe must embrace all environmental challenges as formidable levers for change, rather than a set of constraints. Of course, some industries' profitability rates will be hampered by regulations, energy shortages and rising costs. Yet these challenges open new markets by the hour. One can argue that they make European citizens, communities and companies more open and better prepared for the challenges of a balanced, sustainable and responsible European eco-system.

Intensify training

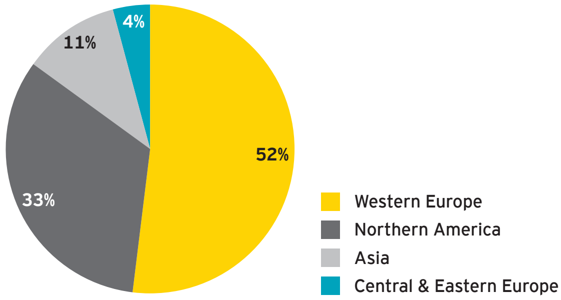
Europe is on a journey to become the most competitive knowledge economy in the world. Training will play a pivotal role because it is essential for small and medium-sized companies (SMEs) to be on board. Amid fierce price competition, SMEs must enter the competition for skills. This will require more connections with universities and more commitment to continuous education. The critical question is how fast European businesses can transform themselves so as not to be trapped in the transition, losing competitiveness while not adapting their skill sets to the new business environment.

My Faustian Europe

Gérard Mortier
Director General
Opéra National de Paris

In Opera, people often want nothing to change. But I tell my business friends: if you kept on producing the same thing for 30 years, you would go out of business. It is the same in Opera.
It is important to change because the world is changing the whole time, we are changing, even our bodies are changing.
Change is exciting. I have often said to myself that I could have an easier life by not pushing change, but I think I would be bored.
When I arrived at the Paris Opera, I decided to do 50 per cent of new productions in 20th Century music. Now they get 90 per cent attendances. Seven years ago, when I did Alban Berg's Wozzeck it was 55 per cent. It is like business. You have to make change happen.
The source of creativity is always to look at what is around you and then to start to think, to question. When I was a child, I remember going to the sea-shore and watching a ship leaving. First, you lose sight of the hull, then the bridge – and then you realise that the world could be round.
I really believe that creativity is one of the most beautiful things in human beings.
Europeans' communal creative mythology stems from the figure of Faust. He questions everything. He wants to keep discovering. But when he loses the appetite for discovery, everything ends.
Europeans, out of their mythology of Faust, want to discover. Flying to the moon is a typical Faustian idea. But the great problem in Europe at the moment is that people have become complacent. For many, maintaining a good living standard is the primary concern. They think that building a great wall around Europe will protect it.
That will not work. The wall will be destroyed. You have to change.
The greatest mistake in building up Europe is that politicians don't give enough priority to art, education, and science. If, instead of subsidising agriculture, we subsidised the arts and science, things would be very different. It is there that creativity arises.
We bring in people from the suburbs to the Opera. When they discover art, they start to feel again that they are not losers. For young people, the real question is: 'for what should I try harder?' Art is the world where you can awaken people from their slumber.

Methodology



Nationality of the companies surveyed

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

- **The 'perceived' attractiveness of Europe and its competitors by foreign investors:**
  the views and opinions of a representative panel of 834 international decision makers on Europe's attractiveness. These executives - from all origins, industries and business types - were interviewed by the Institut CSA between February and March 2008. The attractiveness of a location is a combination of image, investors' confidence and the perception of the country or area's ability to provide the most competitive benefits for foreign direct investments (FDI).
- **The 'real' attractiveness of Europe for foreign investors:**
  the reality of FDI, based on Ernst & Young's European Investment Monitor (EIM). This unique database tracks foreign direct investment projects that have resulted in new facilities and/or the creation of new jobs. By excluding portfolio investments, mergers and acquisitions, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent.

An international sample of decision-makers of all origins, but with a clear view and experience of Europe

The sample comprised:

- 56% European businesses
- 33% North American businesses
- 11% Asian businesses and other

Of the non-European companies, 45% have established operations in Europe. As a result an overall 730 of the 834 companies (88%) interviewed have a presence in Europe.

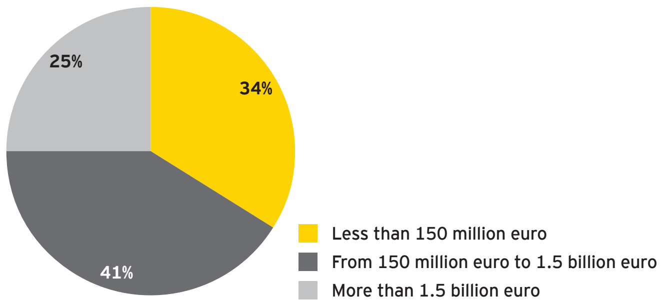
All business models and sectors

To further guarantee a representative sample with regard to the diversity of company types and international strategies, the survey ensured that it obtained the opinion of:

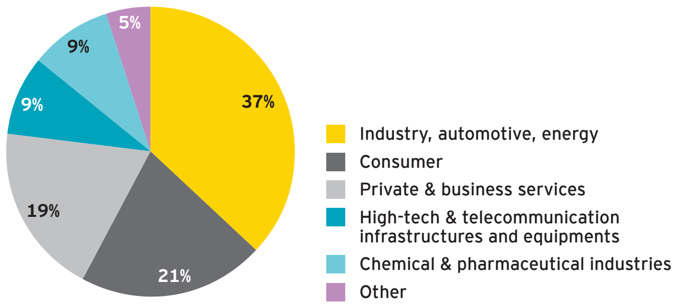
- SMEs (small and medium enterprises), as well as those of multinationals
- Industrial companies as well as service providers

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

- Industry/automotive/energy
- Business-to-business and business-to-consumer services
- Telecoms and hi-tech
- Consumer goods
- Real estate and construction



Size of companies surveyed
(turnover)



Company business sectors surveyed

FDI definitions and the Ernst & Young European Investment Monitor (EIM)

Data is widely available on FDI. An investment into a company is normally included if the foreign investor has more than 10% of its equity and a voice in its management. FDI includes equity capital, reinvested earnings and intracompany loans. But many analysts are more interested in evaluating investment in physical assets such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and - of course - where. To map these 'real' investments carried out in Europe, Ernst and Young created the Ernst & Young European Investment Monitor (EIM) in 1997. The EIM is a leading online information provider tracking inward investment across Europe. This flagship business information tool from Ernst & Young is the most comprehensive source of information on cross-border investment projects and trends throughout Europe. The EIM is a tool frequently used by government and private sector organizations/corporations wishing to identify trends, significant movements in jobs and industries, and business and investment.

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

The employment figures collected by the research team reflect the number of new jobs created at the start-up date of operations, as communicated by the companies during our follow-up interview. In some cases the only figures that a company can confirm are the total employment numbers over the life of the project. This is carefully noted so that any subsequent job creation from later phases of the project can be cross-checked and not double-counted in later years.

The following categories of investment projects are excluded from EIM:

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

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