EY's Attractiveness Survey

UK

May 2017

Time to act

Building a better working world

Contents

Foreword

Steve Varley
UK&I Chairman and Regional Managing Partner, UK and Ireland, EY

Mark Gregory
Chief Economist, UK and Ireland, EY

We are delighted to welcome you to EY's 2017 UK Attractiveness Survey, which – as in previous years – examines the evolving performance and perceptions of the UK as a destination for foreign direct investment (FDI). This report continues EY's long history of sponsorship of research into UK trade, including FDI, reflecting our desire to encourage an open dialogue between business leaders, investors and policymakers on how to maximize the UK's economic performance.

FDI remains a vital source of capability, economic activity and jobs for the UK, and the UK's continued ability to attract it will be under close scrutiny in the run-up to Brexit in 2019. This background means the findings of this year's attractiveness report have particular significance. What it reveals is a mixed picture, with the UK's FDI performance in 2016 and the outlook for 2017 remaining robust, but with a range of evidence pointing to significant concerns starting to emerge in the UK's medium to long-term attractiveness. The situation is finely balanced.

On the positive front, the UK saw its number of FDI projects secured in 2016 rise once again to the highest level on record, maintaining its position as Europe's leading country for FDI ahead of Germany. The UK also remained the number one recipient of FDI jobs. At a regional level, London remained the leading destination within the UK by a wide margin, with Scotland now firmly established in second place. And our perception study finds that investors' short-term intention to invest in the UK is holding up well, with 24% planning to establish or expand operations here in the coming year, in line with the long-term average.

However, other findings give cause for concern over the longer-term outlook. While the UK still leads Europe in FDI projects overall, its European market share fell back in 2016 to only marginally ahead of Germany, which remains ahead of the UK in attracting first-time investors and projects from growth markets such as China. And our perception study shows that almost one-third (31%) of investors globally expect the UK's attractiveness to deteriorate over the coming three years – a figure well above previous norms, suggesting Brexit may be starting to colour investors' views of the UK.

That said, the UK remains hugely successful in attracting FDI, and has clear potential and opportunities to sustain that success in a post-Brexit world. In this report, we suggest a number of policy steps that we believe can help to achieve this. And as our findings make clear, the UK still has remarkable strengths that it can build on as it shapes its new economic identity on the world stage. We at EY look forward to supporting and helping in that process.

> ... UK remains hugely successful in attracting FDI, and has clear potential and opportunities to sustain that success in a post-Brexit world.

Executive summary

A mixed year ...

Assessing the UK's performance in attracting FDI and maintaining its appeal to investors since our 2016 report is extremely difficult. For every positive indicator there is an equivalent negative development to take into account and so it is hard to draw definitive overall conclusions.

... with solid growth ...

The UK performance in securing FDI in 2016 was solid. The UK retained its place as Europe's number one recipient of FDI projects ahead of Germany, with a 7% rise in total projects to 1,144 – the highest number on record. The UK was also the leading recipient of FDI jobs in Europe, recording a rise of 2% in FDI-generated employment to 44,665, over 20,000 more than second-placed Poland.

... but a reduced market share, as the gap with Germany narrows especially in growth areas ...

However, the UK's 7% rise in project numbers was far outpaced by the increase across Europe as a whole, with FDI projects into Europe rising by 15% to 5,845. As a result, the UK's market share of all FDI projects secured in Europe fell from 21% to 19%. Projects into Germany rose by 12% – faster than the UK but slower than projects into Europe as a whole. Employment created by FDI across Europe grew by 19% to 260,000 jobs, significantly faster than the UK's growth rate.

The UK slipped back in areas typically seen as good indicators of future growth. Germany further extended its lead in attracting new (as opposed to expansion) investments, a position it has held since 2012. And while Chinese investment into Europe is increasing, the UK is securing only half as many projects as Germany. The UK also lost to Germany the leadership position it achieved for the first time last year in attracting FDI from the group of 24 target high-growth markets.

... with some gains ...

In terms of the types of FDI project activity in 2016, the UK gained its largest number of projects from sales and marketing activities, with investments rising by 32%. The UK also had a successful year in attracting logistics in 2016, with the number of projects increasing by 44%. And although UK manufacturing plant projects fell, overall number of projects by manufacturers across the value chain increased from 355 to 374 projects. Financial services and business services posted strong growth with the UK continuing to lead Europe in these two sectors.

... but also concerns across the value chain ...

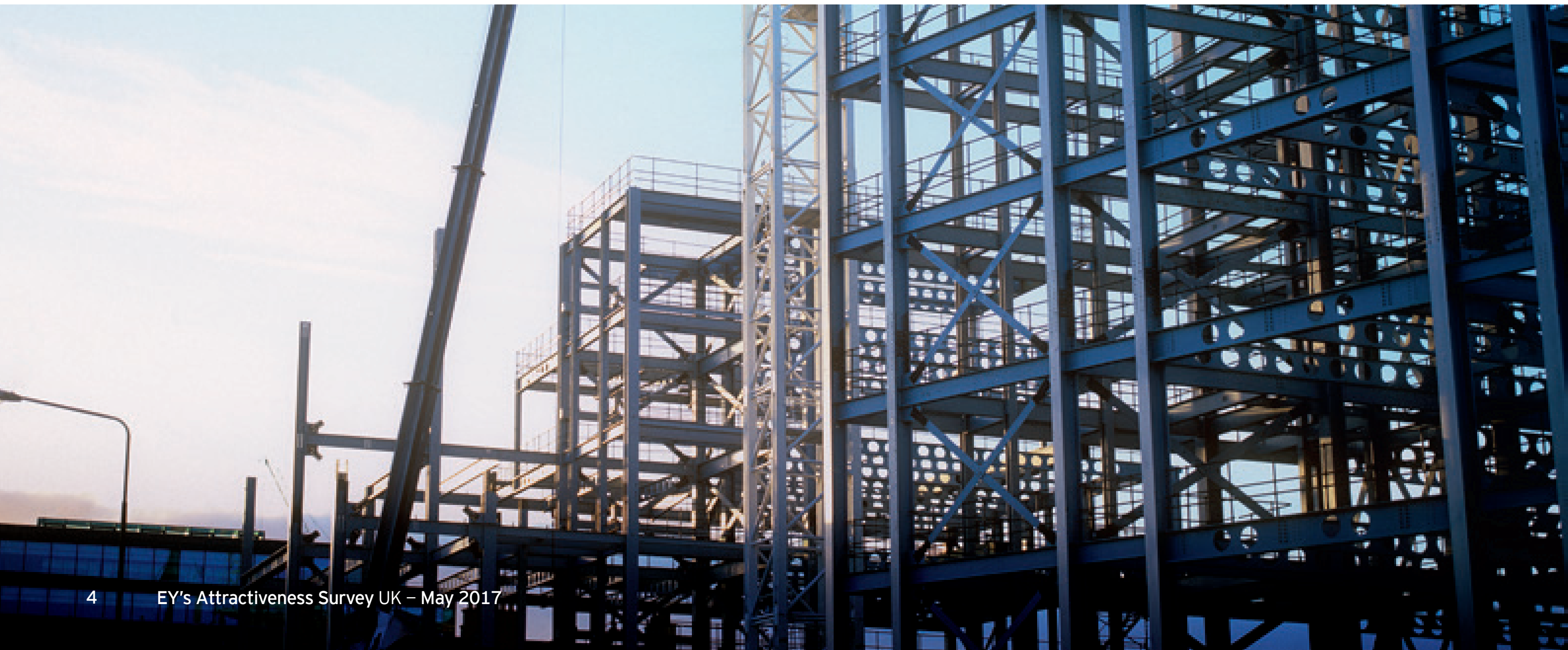
However, the UK's share of European R&D projects also fell sharply, from 26% to 16%, meaning the UK's share was its smallest since 2011. With UK FDI projects from software also slipping slightly despite an increase in the sector across Europe, these results do raise concerns over the UK's future appeal to investors in key future growth sectors.

... and geographies ...

Europe was the leading origin for projects into the UK with the USA as the largest single country. 2016 saw cross-border investment by European investors grow and Central and Eastern Europe is now an important location for projects in higher value-added areas such as R&D as European value chains become increasingly integrated. Investors appear concerned about the UK having reduced access to these value chains in future, limiting the ability of their UK-based operations to realize the benefits from Europe-wide activity.

... and while investor perceptions point to short-term stability ...

Against the background of the UK's solid FDI performance, our survey of perceptions among investors globally reveals a split



between their current plans and future expectations. On the positive front, the proportion of investors planning to establish or expand operations in the UK over the coming year is 24% in our 2017 study, in line with the results over the past seven years. The UK has also regained second place behind Germany in investors' ranking of Europe's top three FDI destinations – a position it briefly lost to France in our post-referendum study in autumn 2016.

... longer-term perceptions are increasingly negative.

However, the perception findings also contain some worrying indicators for the future attractiveness of the UK for FDI. Our study shows that 31% of investors expect the UK's attractiveness to FDI to decline over the coming three years, while 32% expect it to improve. While these figures are a marginal improvement from October 2016, they are significantly worse than both the long-term average and the high point of 2013 when 65% of investors had a positive three-year view of the UK. Further analysis confirms that investors are worried about future trade and migration policy with the risk of complex customs processes, the risk of tariffs on European trade and gaps in skills availability all raised as significant worries.

Among investors based in Western Europe, 50% expect the UK to become less attractive for FDI over the next three years.

Even more concerning is the sharp fall in how global investors rank the UK on key attractiveness criteria, such as education, transport infrastructure, local labor skills, political stability and access to the European market. The decline in favorability on some of these criteria since last year of up to 30% is unprecedented in the decade we have been undertaking this research. It appears that as investors worry about changes to the current arrangements for trade and migration, they then become concerned that the UK's capability in other areas may not be sufficiently strong to offset any negative impacts from these changes.

Regions: London continues to dominate as 'peripheral' regions struggle

There are mixed messages from the performance of the UK's regions in 2016. London's pre-eminence as the UK's dominant FDI location continued in 2016, with the UK capital securing 39% of all projects recorded, ahead of Scotland in second place. Looking across the English regional groupings, the Northern Powerhouse and the Midlands Engine are now attracting roughly double the number of projects they secured at the beginning of the last decade, whereas the rest of England is attracting roughly the same number. There is a risk that the strong regions are getting stronger and policy needs to be alive to this.

Time to act

Our research has identified mixed messages. On one hand, the short-term outlook for the UK in respect of FDI is positive, but there are clear risks to future performance in the medium- to long-term. Our survey identified that 9% of investors could leave the UK in the next three years, but the UK still has the time to act to secure its future attractiveness in a post-Brexit world provided it moves quickly.

Both the FDI performance and perception findings underline the renowned strengths that the UK can build on, in sectors like software, financial services, business services and some areas of manufacturing. Our perception research among investors identifies clear policy priorities for new trade agreements with EU, USA, China and India; clear plans for skills and migration; and improved infrastructure and skills. A clear plan of action is required

A plan for success

1 Engage with investors on the post-Brexit environment

Investors tend to dislike uncertainty and, therefore, the UK will have to commit to keeping close to investors through the Brexit process. The UK will not be able to dispel uncertainty but it can articulate its vision for the post-Brexit economy; investors appear more concerned about the medium- to long-term than the immediate outlook.

2 Develop a UK trade strategy

Brexit will be a major change to the UK's trade position and as such requires a clearly defined strategy setting out the UK's trade strategy and how this will be realised. The UK should move from separate approaches on FDI, exports and ODI to an integrated approach which aims to benefit from synergies across the whole of trade including the "soft power" advantages that ODI offers. Value should be given more prominence than volume – UK resources may well be stretched and so more prioritisation will be required.

Investors will be keen to understand:

- Plans to remain competitive in high growth markets such as software and technology;
- The potential for support from the industrial strategy for sectors such as manufacturing which investors see as exposed to Brexit, especially changes in customs and tariff arrangements
- How linkages between trade, and universities and research institutions will be further strengthened
- Future plans for trade agreements, with the USA, China and India as the priorities
- Plans to ensure future trade with the EU is possible on terms and with processes that are as close as possible to the current arrangements

Once the strategy has been defined, it is vital that this is communicated to investors alongside the more general discussions on the UK's future discussed above.

3 Deliver improved infrastructure

Our survey results suggest that as the UK leaves the European Union it will need to move to boost its appeal across the board with investment in infrastructure at both the national and regional level a key area. There have been a range of attempts to improve the UK's capabilities but there are now increasing concerns among investors over the UK's future competitiveness. A detailed plan for delivery of road, rail, air, port, energy and communications infrastructure consistent with the UK's trade strategy is now a priority.

4 Improve skills

Investors have consistently identified improved skills as a key factor in supporting FDI into the UK. This issue is even more critical now that investors are concerned that Brexit may limit the flow of workers into the UK. The priorities identified in the industrial and trade strategies must be reflected in a skills plan to provide investors with the reassurance they need as to the availability of skills in the UK in future. As we have mentioned in previous reports, digital skills applicable to all sectors are a critical requirement.

5 Empower and support the regions

If the UK is to succeed in future it needs to make the most of all its resources. This means that as a priority the UK's regions and cities have to be empowered to deliver the trade strategy. The signs are that without more support from the industrial strategy and a sufficient allocation of resources, especially infrastructure and skills, the more peripheral regions, cities and towns will miss out on the benefits FDI brings.

The UK's FDI performance in 2016

A steady but not spectacular year...

The UK turned in a solid performance in 2016 with growth of 7% in the number of FDI projects achieved and 2% more jobs attracted, retaining its position as the leading FDI country in Europe in 2016. However, the UK's FDI performance in 2016 was outpaced – and is somewhat put into perspective – by the substantially faster growth in FDI projects and jobs across Europe as a whole. In 2016, Europe enjoyed its best year for FDI since the Eurozone crisis, with the number of FDI projects recorded increasing for the fourth year in succession, rising by 15% to take the total across Europe to 5,845 projects. This is 77% more projects recorded than at the low point of the past decade – 3,303 projects in 2008.

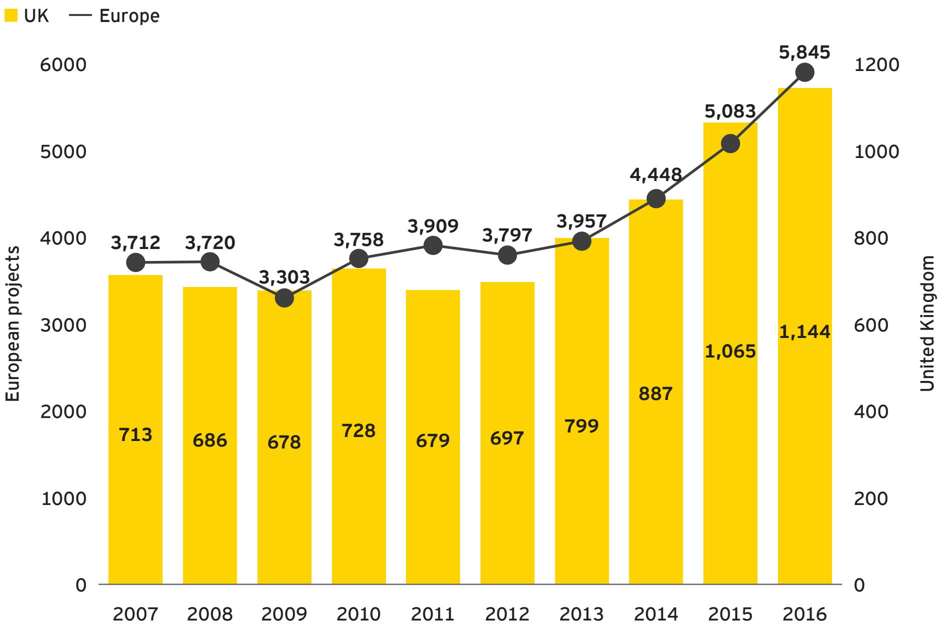
Employment generated by FDI projects in 2016 also rose faster across Europe than in the UK. Not all projects disclose the total employment that they create, so the employment generated by FDI is only an indicative estimate of the total number of jobs created. Based on the available data, the total employment generated by FDI across Europe increased by 19% to 260,000 jobs. By way of comparison, the UK's total FDI employment recorded during the year was 44,665, an increase of almost 6% on 2015, although this was still over 20,000 jobs more than the next most successful country, Poland.

...in the face of increasing competition...

With the UK retaining its position as the largest recipient of investment, the rankings of Europe's leading five recipients of FDI projects – UK, Germany, France, Spain and Poland – remained unchanged in 2016, as they have throughout the past decade.

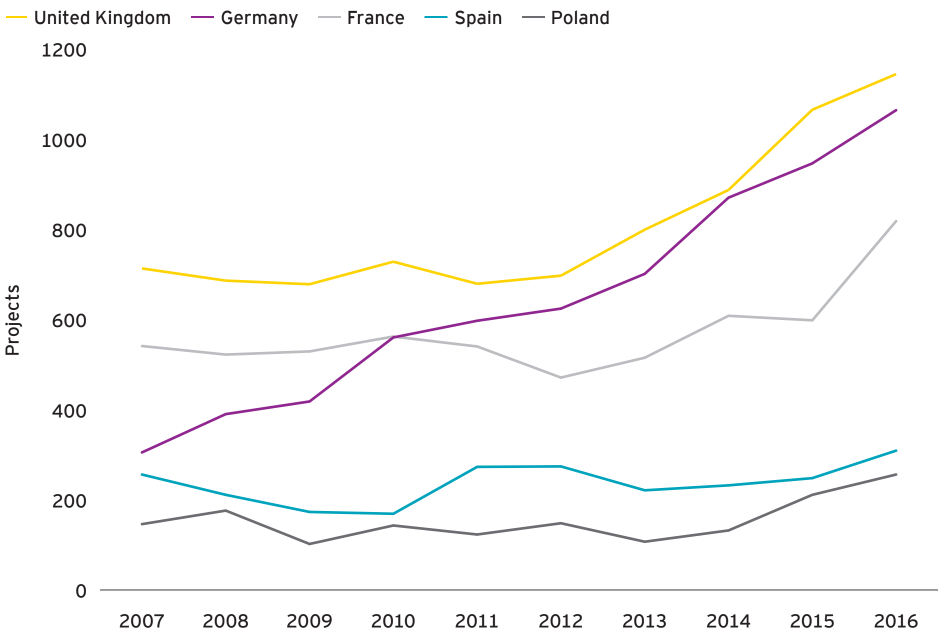
However, it is clear that the competition for FDI is becoming more intense across Europe. Not only did the UK's lead narrow during the year but Germany's market share also fell. Its increase of 12% to 1,063 projects was also outpaced by the Europe-wide growth rate, resulting in its share of all European projects secured declining from 19% to 18%.

Total number of FDI projects into Europe 2007-2016



Source: *EY European Investment Monitor (EIM), 2017*

Total number of FDI projects of Europe's leading five recipients, 2007-2016



Source: *EY European Investment Monitor (EIM), 2017*

Europe enjoyed its best year for FDI since the Eurozone crisis, with the number of FDI projects recorded increasing for the fourth year in succession, rising by 15% to take the total across Europe to 5,845 projects.

By contrast, France had a very good year in 2016, ending a sustained period of relative underperformance with a 30% rebound in project numbers to 779, boosting its European market share from 12% to 13%. Spain and Poland also performed well in 2016, with their project numbers rising by 24% and 21% respectively.

Poland's increasingly strong performance highlights the growing strength of countries in Central and Eastern Europe as destinations for FDI. The region achieved decade-high shares of new manufacturing, R&D and back-office projects in 2016, reflecting its increasing importance in ever more integrated European value chains.

... and concerns over the UK's appeal to new investors

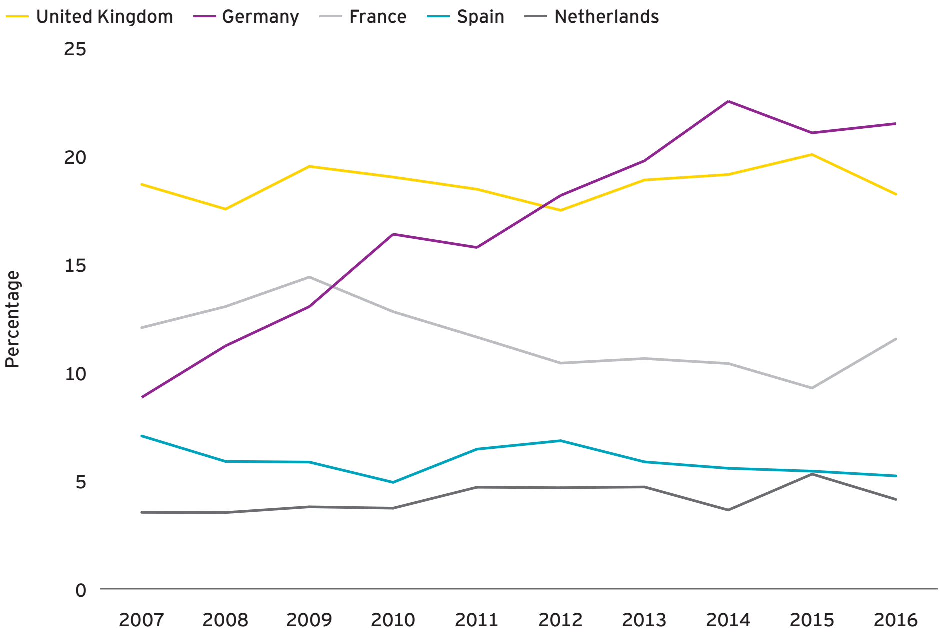
The total FDI project and employment figures include both expansion projects, where a company invests further in an existing presence, and "new" projects representing a company's initial investment in a particular market. New projects provide an important lens on the future attractiveness of a country, and offer a perspective on a country's ability to broaden its appeal to investors over time. Over-reliance on a core of investors may be an early-warning sign of declining attractiveness and hence limitations on future growth.

If we strip out expansion projects and look only at new projects, then the UK loses its position as the European FDI market leader. In 2012, the UK was overtaken by Germany in securing first-time investments. Germany has maintained this leadership in new projects in every year since then, and in 2016, the gap between Germany and the UK widened — with Germany marginally increasing its share of all new FDI projects coming into Europe from 21.1% to 21.6%, while the UK's share fell back to 18% from from 20% (as recorded in 2015).

But there is no sign of any Brexit effect on short-term investor sentiment ...

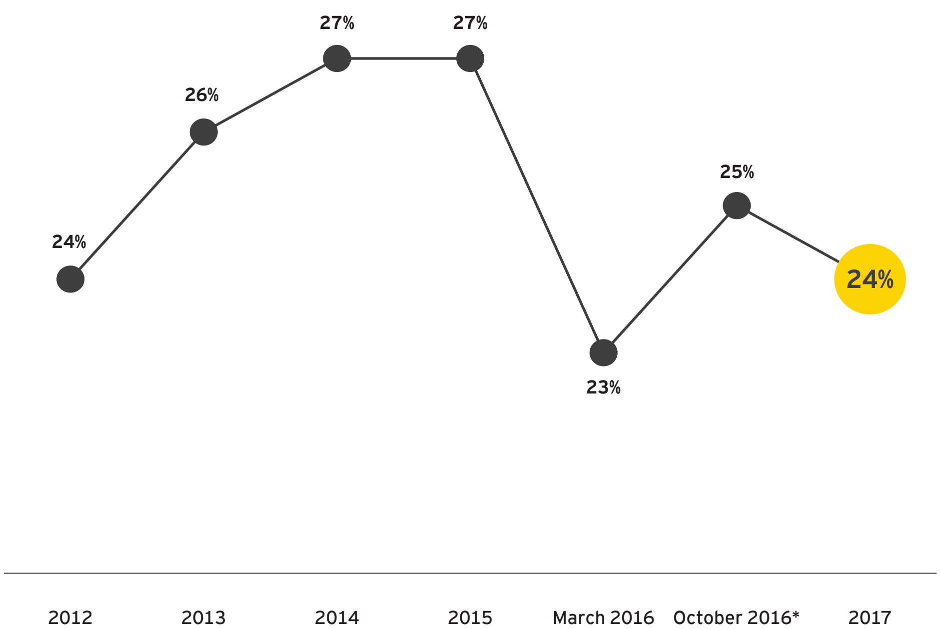
Although the UK's relative FDI performance in 2016 was not as strong as in recent years, there were no signs of a collapse in investment as a result of the UK's vote to leave the EU. The UK's actual performance in 2016 was in line with the results from our two investor perception surveys in 2016 — one conducted before the EU referendum, in March 2016, and one after it, in October — which both found that investors' one-year view of the UK as a destination for FDI remained positive.

Percentage of new projects recorded by the five leading recipients, 2007 – 16



Source: *EY European Investment Monitor (EIM), 2017*

Does your company have plans to establish or expand operations in the UK over the next year?

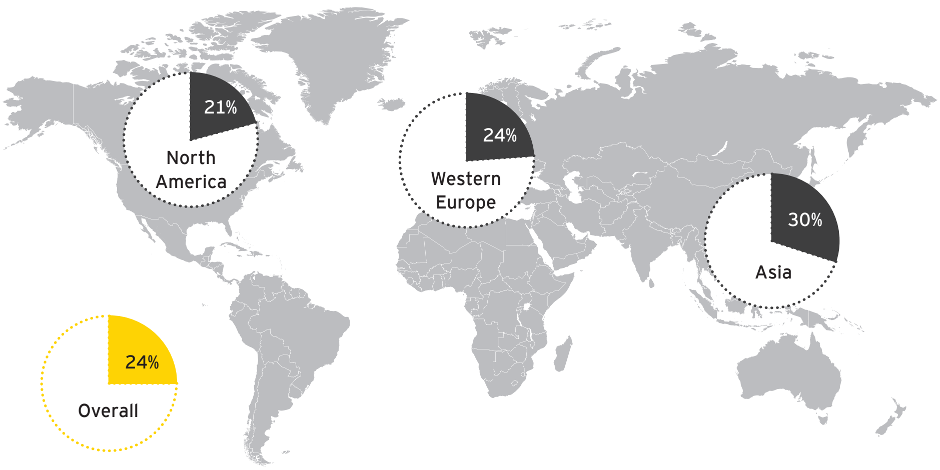


Source: *EY's UK Attractiveness Survey 2017, sample (n=453)*

Our 2017 investor survey shows that short-term investor sentiment for the next 12 months has not changed. The proportion of investors planning to establish or expand operations in the UK over the coming year is 24% in our 2017 survey, putting it in line with last year's results and within the range seen over the past seven years. The equivalent figures for Germany and France are 24% and 22% respectively, confirming that the UK's immediate prospects are in line with its peers.

Short-term plans are especially positive among Asian investors, 30% of whom say they intend to invest in the UK in the coming year, compared to 24% from Western Europe and 21% from North America. Also, 37% of investors that are already established in the UK plan to invest in the country during the coming 12 months, again in line with the 2016 results, against only 3% of those not established in the UK. While the UK may face challenges in attracting new investors, the established base remains secure.

Does your company have plans to establish or expand operations in the UK over the next year?



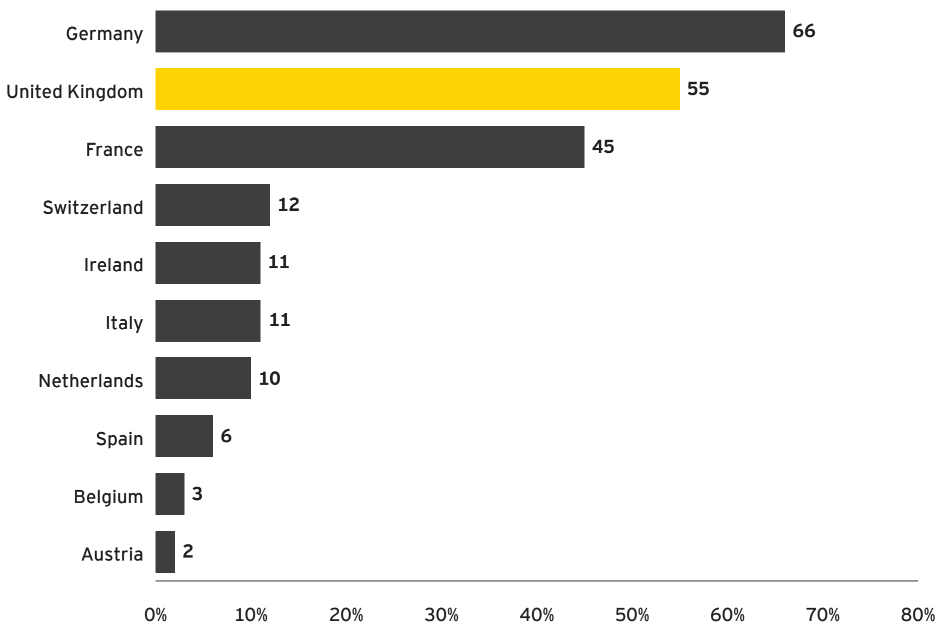
Source: *EY's UK Attractiveness Survey 2017, sample (n=453*

… and the UK's perceived ranking in Europe has recovered since October …

Investors' assessment of which countries are the top three for FDI in Europe brings some further reassurance for the UK, and appears to indicate that the initial "shock" we identified in our post-Brexit survey may be wearing off. In our 2017 survey the UK ranks second behind Germany and ahead of third-placed France in terms of perceived attractiveness, with 55% of investors putting the UK in their top three.

This outcome represents a significant improvement for the UK since October 2016, when the UK's score plunged to 40% and it was overtaken by France as Europe's second-most attractive FDI destination. This year's findings see the UK return to the second place it held in March 2016, before the EU referendum. And while the UK's score has slipped from 59% to 55% over the year, Germany's score has fallen even more sharply, narrowing its lead.

Which are the top three countries for FDI in Europe? Open-ended question, three possible answers.



Source: *EY's UK Attractiveness Survey 2017, sample (n=224)*

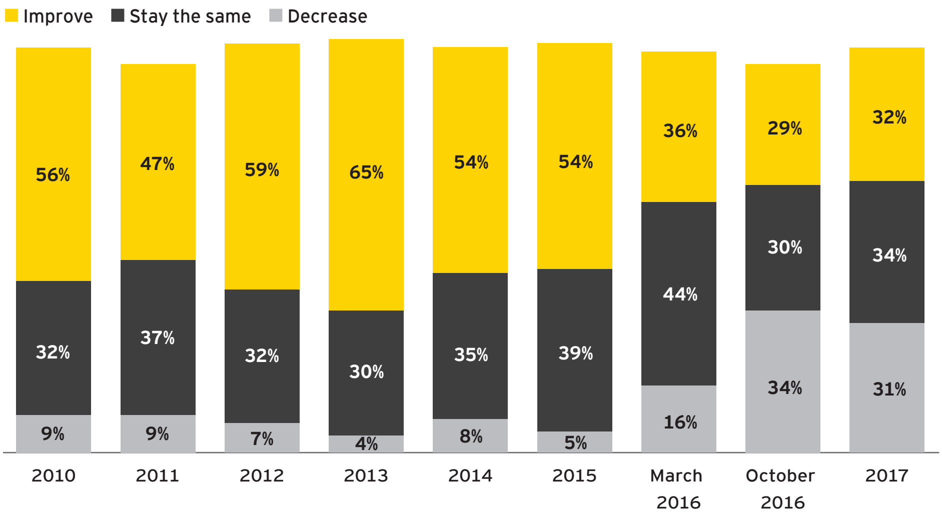
... but long-term views of the UK's FDI attractiveness are a cause for concern ...

However, the relatively positive perceptions of the UK's attractiveness in the short term are offset by a significant deterioration in investors' longer-term expectations of the UK's future evolution as an FDI location. In our 2017 study, 31% of our respondent investors worldwide say they expect the UK's attractiveness for FDI to decline over the coming three years, while 32% say they expect it to improve.

While both figures represent a marginal improvement since October 2016, they are significantly worse than the long-term averages. Since March 2016, the share of investors with a negative view of the UK's medium-term prospects has almost doubled and the 2017 figure is more than four times higher than the average result from 2010 to 2015. The UK's net positive score is now 1% compared to a peak of 61% in 2012.

These results suggest that the Brexit vote and its aftermath may have had a significant impact on global perceptions of the UK's future attractiveness. As we have seen before in previous Attractiveness Surveys, it does seem that investors' concerns over the UK tend to be more about future projects than the immediate situation – a tendency that fits in with long lead times for decisions on FDI projects. Decisions on the majority of the investments made in 2016 would have been made prior to 2016, and projects being implemented in the next 12 months will still have two years, and potentially longer, to earn a return before Brexit formally occurs.

How do you think the UK's attractiveness for Foreign Direct Investment will evolve over the next three years?



Source: *EY's UK Attractiveness Survey 2017, sample (n=453)*

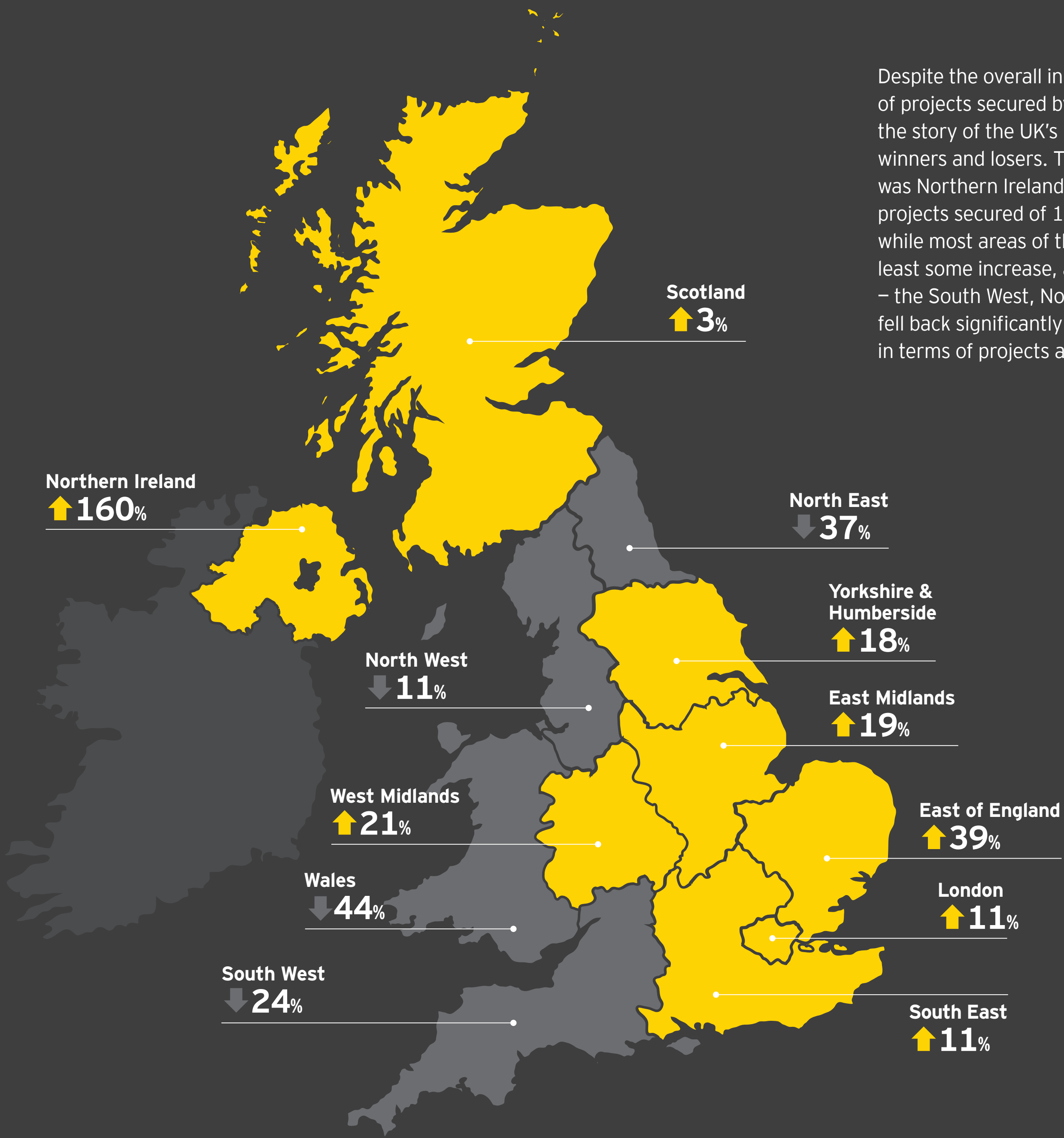
... leaving us with mixed messages

The UK's FDI performance in terms of both projects and jobs attracted and investor perceptions in 2016 is a mixed one. The UK achieved growth in project numbers and jobs created but at a significantly slower rate than the market overall, and the UK also fell further behind Germany in attracting new investment. Similarly, while investor sentiment for the next 12 months is positive and in line with historical averages, the medium-term perspective is significantly more pessimistic than historical norms. All of these findings are consistent with our survey results from last year; we did expect UK FDI performance to hold up in 2016 even after the referendum on EU membership, but this does not provide us with a clear sense as to what the future holds. More analysis of actual performance and investor sentiment is required to form a clearer view on the UK's prospects and the appropriate policy response.

Since March 2016, the share of investors with a negative view of the UK's medium-term prospects has almost doubled and the 2017 figure is more than four times higher than the average result from 2010 to 2015.

FDI in the UK regions: a generally strong but patchy year ...

Despite the overall increase in the number of projects secured by the UK in 2016, the story of the UK's regions is one of winners and losers. The biggest winner was Northern Ireland with an increase in projects secured of 160% over 2015, and while most areas of the country saw at least some increase, a number of regions – the South West, North East and Wales – fell back significantly when measured in terms of projects attracted.

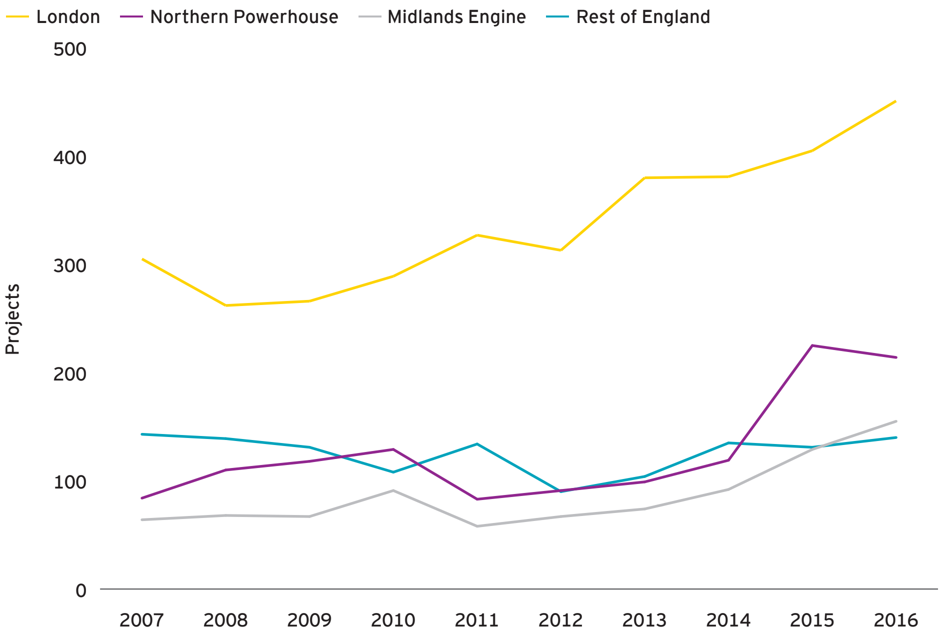


Among the regions that put in strong performances during the year, London and the South East were boosted by increases in project volumes in the business services and financial services sectors, while the Northern Powerhouse, the Midlands Engine and Scotland all continued to do well. In absolute terms, 2016 represented a high point in the decade for projects secured by London, Scotland, the West Midlands, Yorkshire and the East Midlands.

An analysis of regions' respective market shares of all UK FDI projects over the longer term shows that 2016 represented the highest market share during the past decade for the West and East Midlands (9.7% and 3.8% respectively) and Yorkshire (8.6%), with all 3 regions benefitting from their strength in the manufacturing sector. London rebounded slightly from a historically low market share recorded in 2015 (38%) to account for 39% of all projects in 2016 – although this was still well below its high point of 44% achieved in 2011.

Taken together, the regional FDI figures for 2016 do suggest that the strong regions are thriving while the more geographically "peripheral" regions – the likes of Wales, the North East and South West of England – are sliding behind. Finding ways to share the benefits of FDI more evenly across the country is a critical challenge that future policy needs to address.

Projects recorded by English groupings, 2007 – 16



Source: *EY European Investment Monitor (EIM), 2017*

... with the new groups coming to the fore

This tendency for the successful regions to power ahead may reflect the impact of the early moves on devolution in England. When we separate out London, the Northern Powerhouse and the Midlands Engine from the "rest" of England, it becomes clear that the "rest" has been surpassed over the past decade in terms of projects attracted by both of the newer groupings. The Northern Powerhouse and Midlands Engine are now attracting roughly double the number of projects they secured at the beginning of the last decade, whereas the rest of England is attracting roughly the same number as it did then.

The Northern Powerhouse and Midlands Engine are now attracting roughly double the number of projects they secured at the beginning of the last decade, whereas the rest of England is attracting roughly the same number as it did then.

Leeds City Region Enterprise Partnership (LEP)

Roger Marsh OBE
Chair of Leeds City Region Enterprise Partnership (LEP)

Attracting FDI to Leeds City Region by building a knowledge-based economy

The Leeds City Region is not only the largest economy in the North, but is reinventing itself as a knowledge-based economy at a faster rate than any other city in the UK, resulting in unprecedented growth. The ambition is palpable in our tech start-up scene and the benefits are continuing to attract FDI.

This confidence is supported by the statistics. Our gross value added (GVA) has increased from £57.8b in 2011 to £64.6b in 2016. This economic success is due not only to a record number of FDI projects in Yorkshire and the Humber, but a wider economic success story. We experienced the fastest rate of private sector growth in the UK in 2016, seeing over 6% annual growth.

In Leeds, the property market is attracting national interest delivering the highest level of office space since 2007 in the city center and investments in exciting new developments. The recently announced £2m Tech Hub, to be located above Leeds train station at Bruntwood's Platform development, will provide a 410-desk co-working and small office space with on-site support to grow and find finance for tech companies looking to enter the market.

Crucial to the strength of our growing the knowledge economy is the supply of talent.

Leeds bucked the trend of the so-called north-to-south brain drain in a recent Centre for Cities report and saw a net gain of graduate retention. Our future growth will come from the digital and tech sector and our workforce strategy is geared up for this. We've launched #TechGoals, the first initiative of its kind in the UK, enabling pupils to learn about the digital skills needed for the future.

Matt Grest, former Director of Digital Platform Delivery at Sky in Leeds, says:

"It's amazing to see the caliber of young people, starting their careers on global-level digital projects and seeing them develop and go from strength to strength. Sky's made a significant investment in Leeds and we are definitely here for the long run."

This success is felt across the City Region. Large corporates such as Worldpay, TSYS, Vocalink and Nostrum, located in Harrogate, comprise a thriving FinTech scene. Bradford-based ECSC, AIM listed in 2016, continues to pioneer cyber solutions, counting Barclays, GCHQ and 10% of the FTSE 100 among its clients. US-owned Piksel, located in York, works with Channel 4 to develop the online video platform, All4, across devices and platforms.

It all makes for a compelling proposition for knowledge-driven international companies looking to grow their UK base.

I was delighted when Perform Group, the world's leading digital sports content and media company which operates 40 offices across the world including Japan and New Zealand, announced its expansion in Leeds in 2016, creating over 100 new jobs.

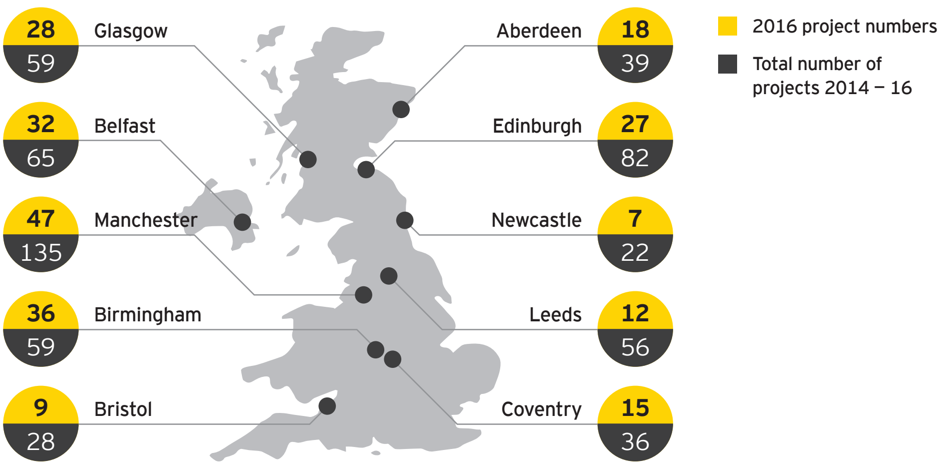
Ben Warn, CEO of New Ventures at Perform Group, said:

"Perform Group is at the pinnacle of digital sports content and media globally, as such we require the best people from analysts and coders through to account managers. When it came to the expansion, we looked globally at where we could find the right people, with the right attitude in the right location, and it was then we realized that we were already here in Leeds and just needed to expand.

Over the last four years, we've developed some fantastic relationships across the Leeds City Region, particularly with the universities."

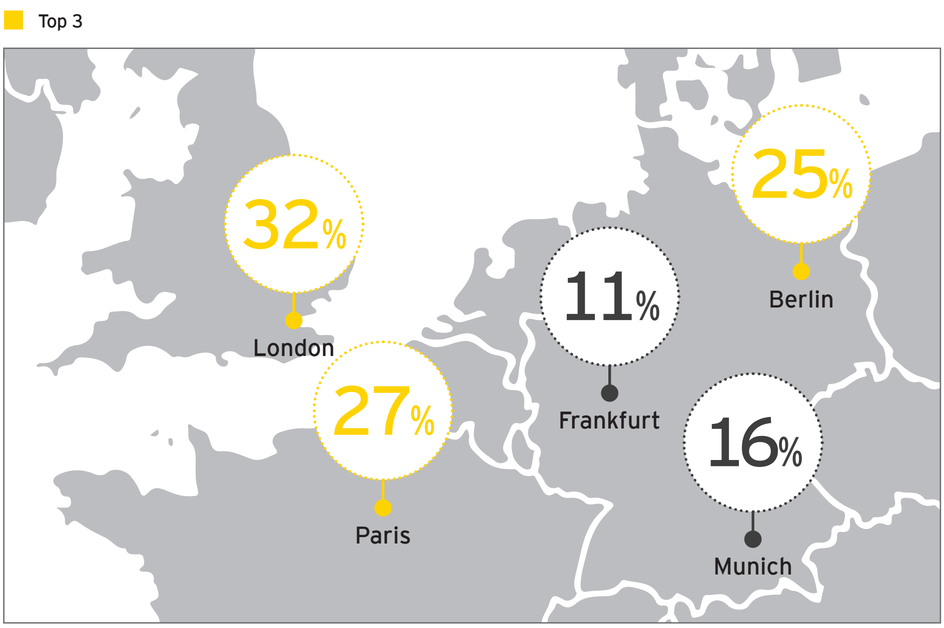
What is clear to everyone in the City Region is that our future lies in investing in our people and the infrastructure that makes business thrive. This makes good sense to tech start-ups and global firms alike.

Leading city project numbers, 2014 – 16 (excluding London)



Source: *EY European Investment Monitor (EIM), 2017*

Which are the best three cities for FDI in Europe?
Open-ended question, three possible answers.



Source: *EY's UK Attractiveness Survey 2017*

Strong cities help drive regional FDI performance ...

The best performing UK regions in terms of number of projects outside of London are Scotland, the North West, Yorkshire and Humberside, and the West Midlands. All benefit from the contribution of one or more core cities. Scotland has three of the UK's top 10 FDI destination cities, the West Midlands has two, and both the North West – with Salford and Liverpool – and Yorkshire and Humberside – with Barnsley, Bradford, Doncaster and Sheffield among others – benefit from a spread of strong city destinations.

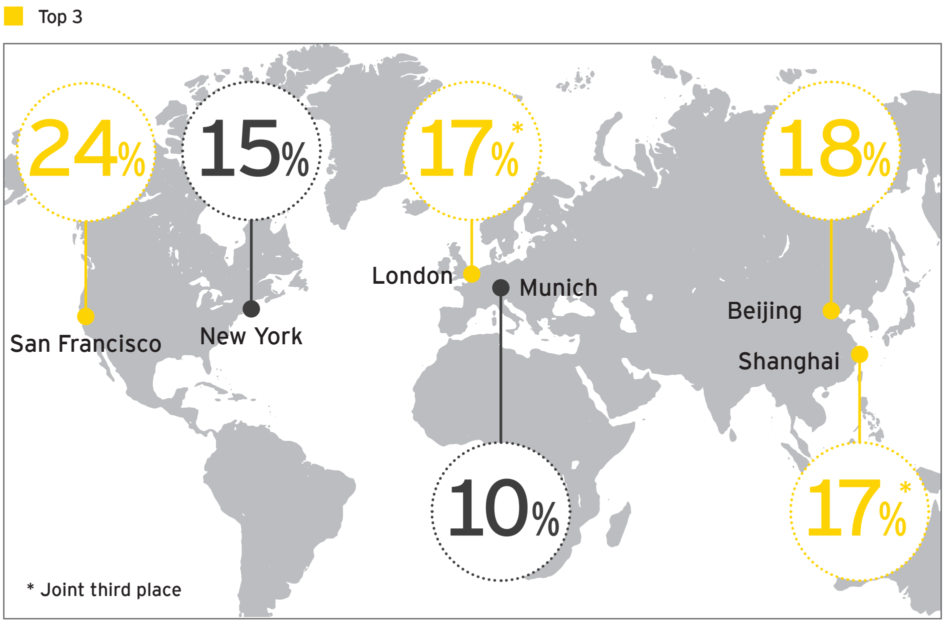
... with London still out in front, at least for now

London remains the most attractive city for FDI in Europe among international investors but in keeping with the mixed messages theme, its lead over Paris has fallen by nearly two-thirds since our 2016 survey.

Similarly while London remains one of the cities identified as having the potential to produce the next global technology giant, it has slipped in the rankings over the last year from second to third place behind San Francisco and Beijing. There are clear signs of competition in the technology arena intensifying with a number of cities coming to prominence.

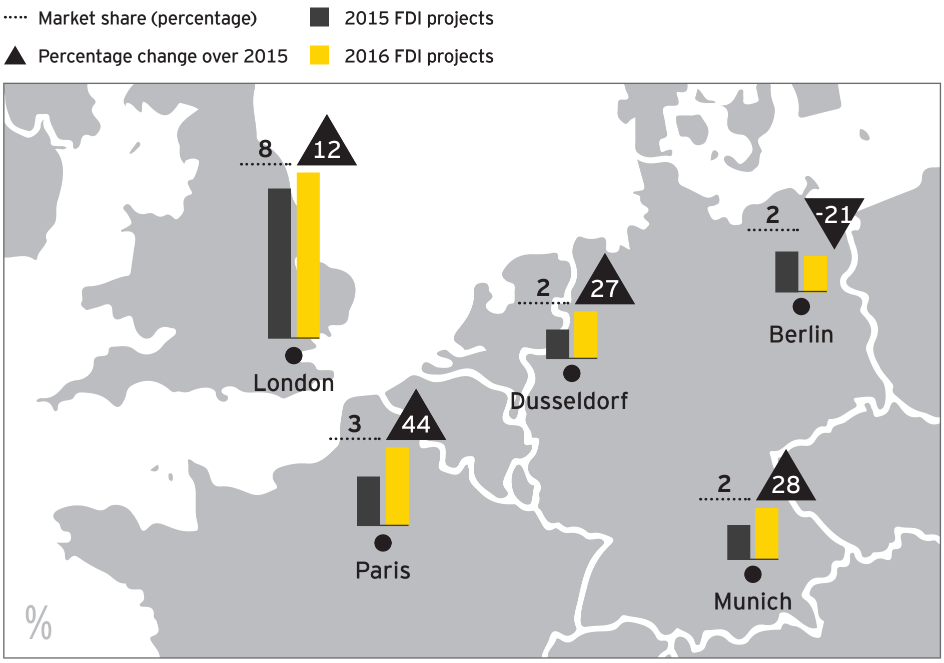
London was by far the most successful city in Europe in attracting FDI projects in 2016 but the change in perceptions of the city among investors together with the decline in certain of the forward looking indicators for the UK does mean future success is far from guaranteed.

Which three cities in the world offer the best chance of producing the next technology giant? *Open-ended question, three possible answers.*



Source: *EY's UK Attractiveness Survey 2017*

Top five destination cities by FDI projects



Source: *EY European Investment Monitor (EIM), 2017*

Analysis
Is 2016 a watershed year?

As we have already identified, it is very difficult to assess the UK's FDI performance in 2016. While the UK secured its highest-ever level of FDI projects and jobs in 2016, continuing its recent run of record-breaking years, this increase was outpaced by the growth in FDI projects and employment secured across Europe as a whole, resulting in a slight drop in the UK's European market share of FDI projects and employment.

Investor perceptions also provide mixed messages. On one hand, the intention to invest in the UK in the next 12 months is both in line with historical results and similar to the outlook for France and Germany. By contrast, investors are much more negative about the prospects for the UK's attractiveness over the next three years than historical norms and significantly less positive about the UK than Europe as a whole.

In this section we analyze the key drivers of the UK's FDI performance and perception among investors to help us understand firstly where the UK currently sits in terms of its attractiveness, and secondly, to identify the issues that will need to be addressed to give the UK the best chance of continuing success in attracting FDI.

A favorable sector base drives the UK's FDI performance ...

Looking across Europe as a whole, the top five sectors generating FDI projects in 2016 were software, business services, machinery and equipment, automotive assembly, and financial services. Of these sectors, software and business services together tend to generate about a quarter of all European FDI projects, but the strength of each varies year on year.

The UK's existing sector strengths play a major role in explaining the UK's leadership position for FDI in Europe – the UK is the leading destination for 5 of the top 10 sectors in Europe including the two largest, software and business services.

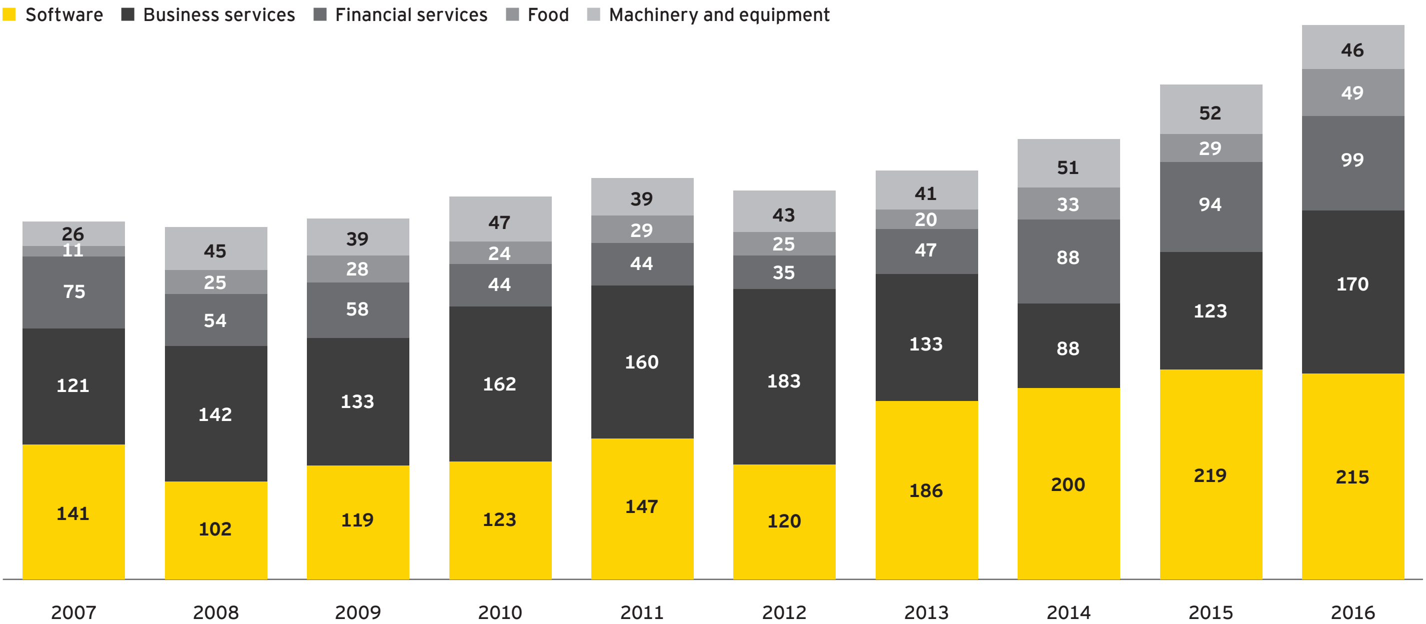
The top 10 sectors for FDI in Europe, and the leading recipient for each, 2016

	2016 projects	Leading country	Share of projects
Software	780	UK	28%
Business services	702	UK	24%
Machinery and equipment	369	Germany	27%
Automotive assembly	345	UK	12%
Financial services*	295	UK	34%
Food	271	UK	17%
Chemical	218	Germany	17%
Electrical	214	Germany	24%
Electronics	202	Germany	24%
Plastic and rubber	189	Germany	21%

Source: *EY European Investment Monitor (EIM), 2017*

*Financial intermediation plus insurance and pensions

Top five leading sectors in UK by project numbers 2007 – 16



Source: *EY European Investment Monitor (EIM), 2017*

… with consistent year-on-year performance …

As in previous years, the top five UK sectors are slightly different from Europe's top five, with food displacing automotive. Also, the proportion of projects generated by software and business services is higher in the UK than in Europe as a whole, with these two sectors generating almost 35% of all projects into the UK. In 2016, financial services was again the third-largest sector generating FDI projects into the UK, with the UK achieving a market share of 34% of all financial and insurance projects in Europe.

The UK FDI figures for 2016 show very positive performances from both business services, with FDI projects rising by 38% from 123 to 170, and also financial services (combining financial intermediation and insurance and pensions), for which projects increased from 74 to 99, outpacing the Europe-wide rate of increase from 275 to 295. Software and manufacturing held up reasonably well, with software projects slipping slightly in 2016 to 215 from 219 the year before. While investment in manufacturing facilities dropped to 160 from 183, total investments by manufacturers increased from 355 to 374 projects, driven by more growth in logistics. The decline in software projects was slightly disappointing in a growing European market, but both software and manufacturing continued to perform reasonably well in terms of jobs. Food manufacturing projects rose from 29 to 46, and online retail from 34 to 42, underlining the strength of e-commerce in the UK.

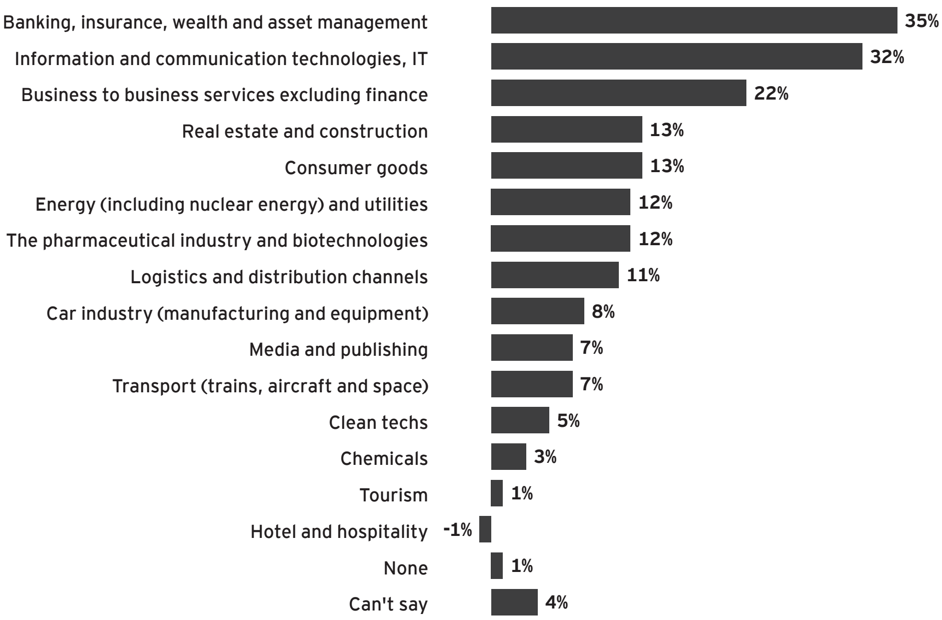
Taken together, the sector statistics and perception findings are generally positive for the UK going forward.

... but investor expectations confirm both the UK's sector strengths and future challenges

Turning to the perception study findings on which business sectors will drive the UK's growth in the coming years, respondents' top three sectors remain unchanged from March 2016, with investors expecting financial services, IT and business services to lead the way for the UK economy. These three sectors are joined in the top five by real estate/construction and consumer goods, replacing energy and utilities, and transport industry/automotive, since last year. Investors' identification of financial services, IT and business services as the main growth drivers fits well with the UK's strengths on the basis of the 2016 FDI project data, meaning investors' perceptions reflect the UK's actual areas of strength.

Taken together, the sector statistics and perception findings are generally positive for the UK going forward. However, while the UK is clearly strong in the Information and Communication Technology (ICT) sector, which is seen as Europe's fastest-growing, the UK is not seen as likely to perform as strongly in the next three highest-ranked sectors – energy and utilities, transport and automotive, and pharmaceuticals and biotechnology – all of which are traditionally significant sources of employment creation. There is a risk that the UK's existing sector strengths, at least as perceived by investors, may mean that the UK is less well positioned for future growth from FDI, especially in employment terms, than its current market strength would suggest.

In your opinion, which business sectors will drive the UK's growth in the coming years?



Source: *EY's UK Attractiveness Survey 2017, sample (n=224)*
NB: *Open-ended question, three possible answers.*

Concern over a potential shift to a lower value-added project mix ...

In terms of the types of project activity for UK FDI projects in 2016, the UK gained its largest number of projects from sales and marketing activities, with the number of investments in sales and marketing offices rising by 32%. As a result, this activity represented more than half the total number of projects, accounting for 612 out of the total of 1,144, a proportion that is in line with previous years.

We have previously discussed the concern that sales and marketing projects might create little value for the UK economy – in many cases being a means for suppliers in other countries to sell to UK customers with little domestic value add. However, our detailed analysis suggests that a significant share of such projects tend to be from the software, business services and financial services sectors, accounting for 368 of the 612 projects in the sales and marketing category in 2016. In the main the investments from these sectors tend to lead to an increase in the strength and credibility of the UK's offer in these industries, with the investment often being used to create the European center for the investing company. In addition, even pure sales offices still act to build trade interdependencies between the UK and other countries which may be useful in future negotiations.

... with some positive signs ...

Looking beyond sales and marketing activities, logistics projects grew strongly, increasing by 44% from 71 to 102 projects, double the Europe-wide growth rate. This appears to reflect the UK's strong online focus, although it is too early to tell if it is also part of companies' repositioning for Brexit. There was also a small increase in back-office projects.

... but other concerns ...

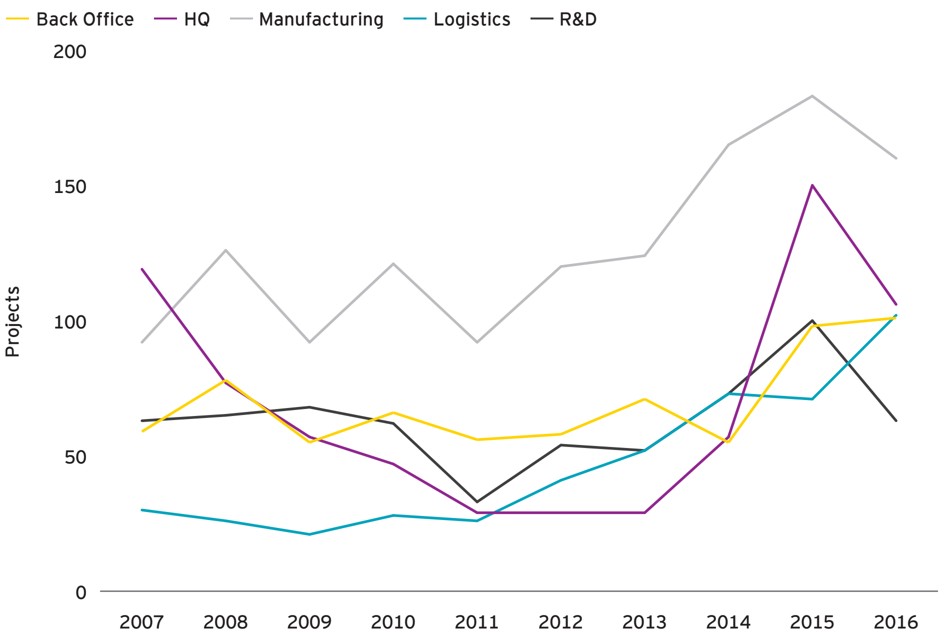
Manufacturing plant investments and HQ projects fell back from the totals recorded in 2015, although in both cases 2015 represented a high point. The 160 manufacturing projects secured during

Main types of investment in the UK in 2016 and UK's European market share

	Projects	Market share (%)	Change on 2015 (%)
Sales and marketing	612	22.8%	32.2%
Manufacturing	160	10.4%	-14.4%
Logistics	102	20%	43.7%
Headquarters	106	40%	-31.6%
R&D	63	15.6%	-37%

Source: *EY European Investment Monitor (EIM), 2017*

UK FDI projects by activity (excluding sales and marketing offices) 2007-2016



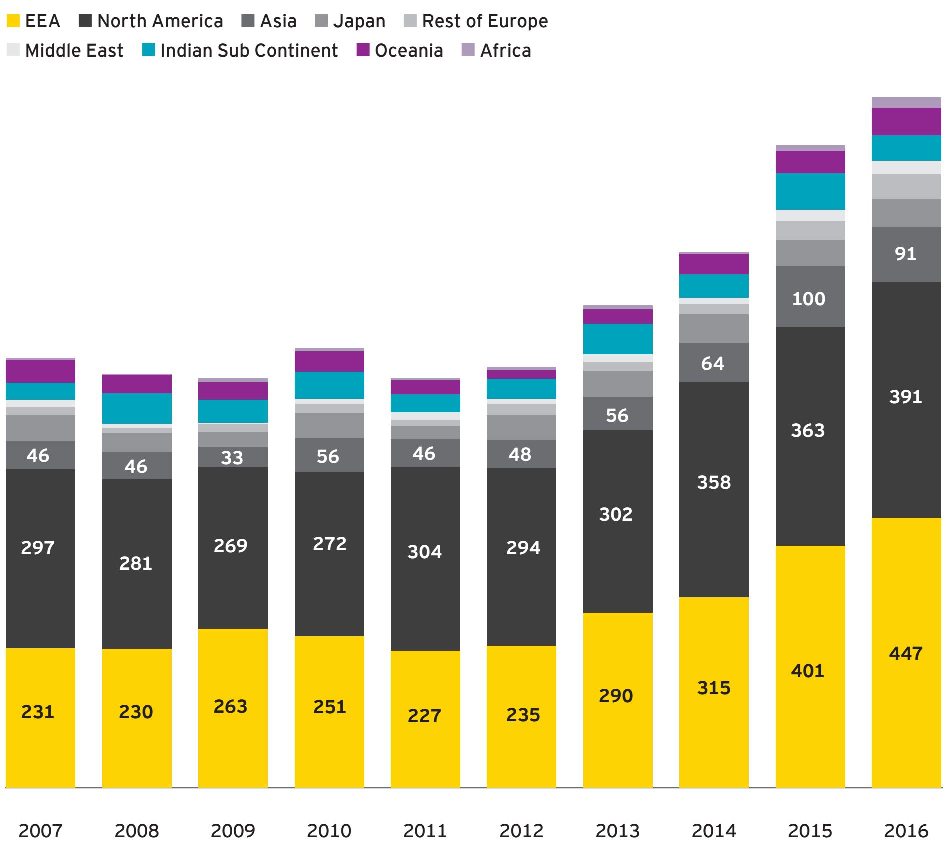
Source: *EY European Investment Monitor (EIM), 2017*

2016 still represented the second-highest number of manufacturing projects over the past decade. The decline in UK HQ projects from 155 to 106 is also put into perspective by the fact that the European market for these projects shrank during the year from 294 to 266.

... most worryingly around R&D

Of more concern is the sharp fall in the number of UK R&D projects from 100 to 63, especially since the Europe-wide market for these projects grew from 386 to 405. This slowdown for the UK against the background of a growing European project flow may raise Brexit-related concerns over the UK's influence and access to EU research funds and skills to fuel future innovation. This is consistent with the investor perceptions of the UK's ability to benefit from European growth in sectors, such as life sciences and biotechnology, identified earlier. The decline in R&D projects was broad-based with especially worrying falls in the number of manufacturing R&D projects, down to 26 from 42 in 2016, and a reduction from 22 to 11 in software.

Origin of all UK projects by global region 2007-2016



Source: *EY European Investment Monitor (EIM), 2017*

European investment becoming increasingly important for the UK ...

The UK has generally been less reliant on European-originated FDI as a source of projects than other European countries. The percentage of projects into the UK generated from within the European Economic Area (EEA) has varied over the past decade but the percentage has been rising in recent years and in 2016 the proportion of UK projects generated from the EEA was the highest ever, at 39%, up from 32% in 2007.

Historically, North America has been the most important region of origin for FDI projects into the UK, with the proportion of UK projects generated from North America varying between 34% and 42% over the past decade. However, the trend in terms of North American investments may now be downward. 2016 saw the proportion of investment arising from the USA fall to its lowest level in the past 10 years, and 2015 and 2016 are the only years in the decade where US investment has been surpassed by European-originated investment.

Unlike for Europe as a whole, the proportion of investment recorded into the UK from the Asian economic area has generally remained fairly stable over the past decade. The proportion of all UK FDI projects originating from Asia in 2016 was down slightly at 8%, from a high point of 9% in 2015 – and the average level of Asian investment into the UK as a proportion of all FDI projects over the decade was 7%.

... although the USA remains the largest country investor ...

A breakdown of the top 10 countries generating investments into the UK shows that several countries featuring in the European top 10 do not make it into the top 10 for the UK. Apart from the UK – which obviously cannot provide FDI into itself – the countries that drop out of the UK's top 10 are Switzerland, Italy and Sweden. These are replaced by the Commonwealth countries of India, Canada and Australia, together with Ireland.

Among the countries in the UK's top 10 origins of investments, large rises in project numbers were recorded from Ireland (+79%), France (+37%), Germany (+31%) and Australia (+29%). Conversely, significant declines were recorded in the number of projects from China (-13%); the Netherlands (-21%), where the UK lost out to Germany; and from India (-30%).

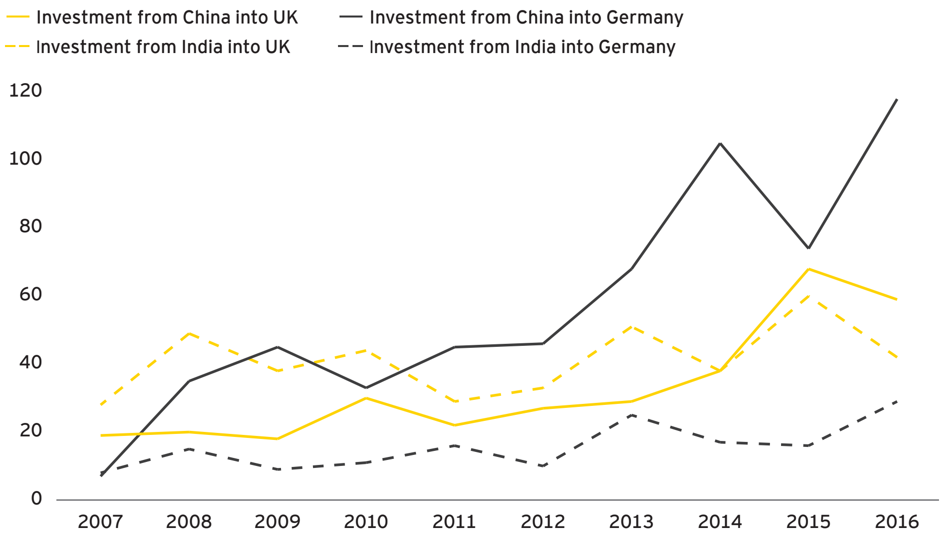
… and as Chinese FDI into Europe surges, Germany is winning out over the UK …

Across Europe, the number of FDI projects originating from China each year now outstrips those from India by almost 3:1 – a stark contrast with the beginning of the decade, when Indian projects were more prevalent. The UK, however, secured 40% of all Indian projects compared to 20% of Chinese projects, meaning the Indian project flow continues to be important to the UK. Among the countries that feature in the UK's leading origins of investment but are outside the European top 10, the UK achieves the following market shares of their projects: Australia – 62%, Ireland – 45%, India – 40% and Canada – 24%.

… and the UK is lagging its peers in growth markets …

Taken together, the FDI project figures for 2016 suggest that the UK's core strengths of investment from the North American Free Trade Agreement (NAFTA) and the EEA remain in place, with projects from both up around 10%, and investment from Japan and the Tiger economies up very slightly. However, the UK's FDI projects from both India and China are down, consistent with our earlier finding that the UK is not performing as well in attracting new projects as it is in securing FDI from existing investors. The UK also feel back behind Germany in attracting FDI from 24 identified high-growth markets, having surpassed Germany for the first time in 2015.

Projects from China and India going into UK and Germany



Source: EY European Investment Monitor (EIM), 2017

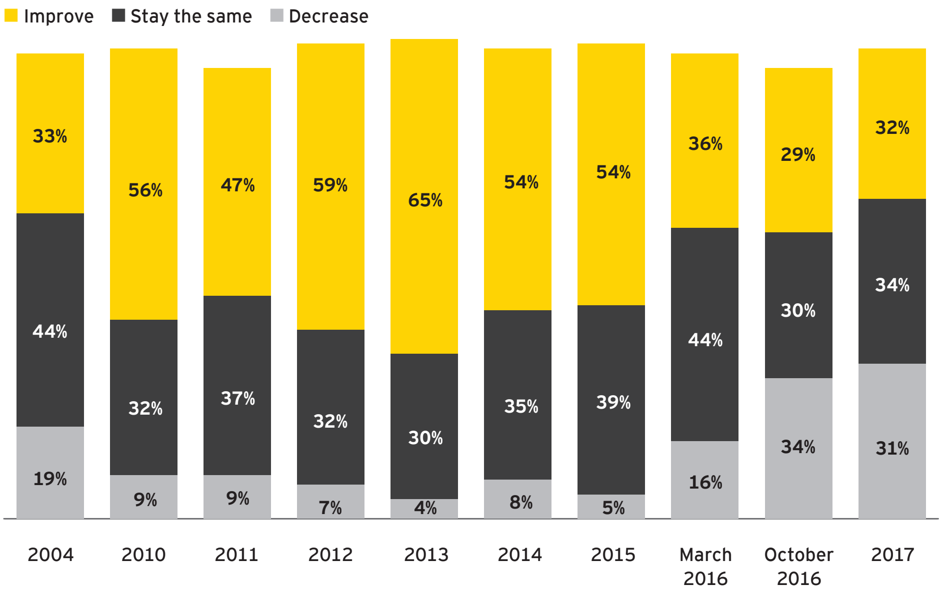
Another significant trend is the increasing importance of cross-border FDI within Europe: this has outstripped North American investment into the UK for the past two years – but the UK is lagging behind Germany in securing this investment. Also, Asian investments into Europe are increasing as a proportion of total projects, but the UK's total share of this flow of Asian projects is declining – and in the race to secure projects from China, the UK is currently trailing in Germany's wake.

These are trends that started before the EU referendum but it is likely that Brexit will bring the challenges into sharper focus. The UK will need to develop its positioning with investors from different regions in the light of the changes that Brexit will create. However this will be a challenging task.

… and there are real challenges ahead …

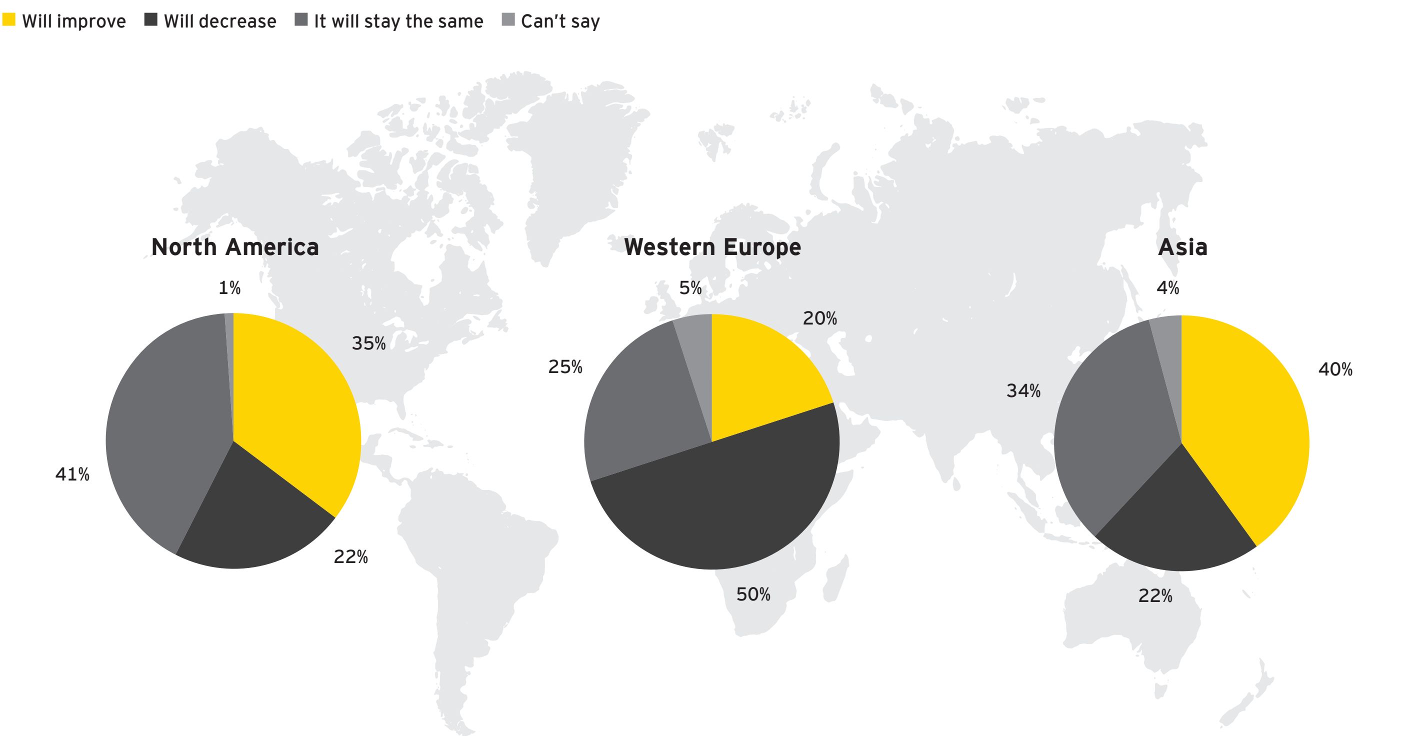
While short-term investor perspectives of the UK were positive, a wider diversity of opinion emerges when investors in different regions in the world are asked how they think the UK's attractiveness as an FDI location will evolve over the coming three years. The stand out finding here is a far more negative view of the UK's future attractiveness expressed by respondents in Western Europe compared to those based in the other two regions – with fully 50% expecting it to deteriorate, compared to just 22% in both Asia and North America. This disparity appears to be linked to Brexit, and may have implications both for investors' strategies and UK Government policies going forward, especially given how important Europe is as a source of UK FDI.

How do you think the UK's attractiveness for FDI will evolve over the next three years?



Source: *EY's UK Attractiveness Survey 2017*

How do you think the UK's attractiveness for FDI will evolve over the next three years?



Source: *EY's UK Attractiveness Survey 2017, sample (n=453)*

… as the UK's rating on several key criteria is in free fall

Potential concerns over the UK's longer-term attractiveness for FDI are reinforced by a sharp decline in how highly international investors rank the UK on several of its key characteristics. The UK's high perception ratings on factors such as quality of life, educational standards and social stability have been a major source of strength for the UK's FDI offer in recent years, underpinning its broad-based appeal to investors globally based on a wide range of criteria.

A comparison of this year's ratings with those from March 2016 show that some leading attributes have experienced only slight declines during the year. For example, "quality of life, diversity, culture and language" has fallen to 83% from 88% a year ago; "technology and telecommunication infrastructure" is down to 80% from 83%; and "the UK's domestic market" has slipped to 73% from 76%. There are even modest improvements in some areas where the UK has historically been relatively weak, including corporate taxation, labor costs and labor legislation, and the UK's availability of real estate also holds up reasonably well.

How attractive are different aspects of the UK as a location for establishing new FDI activities?

	Total	2016 reminder	Very attractive	Fairly attractive	Little attractive	Not attractive	Can't say
Quality of life, diversity, culture and language	82%	88%	35%	47%	11%	5%	2%
Technology, telecom infrastructure	80%	83%	30%	50%	12%	3%	5%
UK's domestic market	73%	76%	20%	53%	14%	7%	6%
Flexibility of labor legislation	67%	62%	21%	46%	20%	7%	6%
Education in trade and academic	66%	86%	22%	44%	20%	8%	6%
Corporate taxation	64%	56%	20%	44%	20%	9%	7%
Transport and logistics infrastructure	63%	75%	16%	47%	22%	7%	8%
Local labor skills level	61%	80%	16%	45%	25%	8%	6%
Stability of social climate	61%	84%	15%	46%	25%	7%	7%
Level of business regulation	59%	NEW	16%	43%	24%	9%	8%
Stability and transparency of political, legal and regulatory environment	58%	78%	13%	45%	25%	7%	10%
Labor costs	52%	51%	15%	37%	36%	5%	7%
Access to European market	50%	78%	17%	33%	30%	14%	6%
Availability and cost of real estate	38%	41%	7%	31%	37%	17%	8%

Source: *EY's UK Attractiveness Survey 2017*

However, these moderately positive findings are sharply offset by a collapse in the UK's ranking on key criteria, such as "education in trade and academic" (down to 66% from 86% in March 2016); "transport and logistics infrastructure" (down to 63% from 75%); "local labor skills levels" (down to 61% from 80%); "stability and transparency of political, legal and regulatory environment" (down to 58% from 78%); and "access to the European market" (down to 51% from 78%).

While a decline in the UK's reputation for attributes, such as political stability and access to the European market, may be understandable following the Brexit vote and subsequent events, it is more difficult to identify the specific drivers of the declines recorded in the other criteria, such as transport infrastructure. It is hard to interpret the findings as anything other than the result of the shock caused by the UK's decision to leave the EU. There appears to have been a major change in attitudes toward the UK over the last 12 months, with the result being a dramatic reappraisal of how investors globally view a wide array of UK capabilities. The scale of the decline in the UK's rating is unprecedented in our surveys over the last decade and is a major concern.

Within this overall trend, a couple of specific points are worth noting. One is that investors from North America are tending to remain markedly more positive about the UK's attributes, perhaps reflecting their greater distance from Brexit and the surrounding events. The other is that companies not currently established in UK tend to be markedly less positive than those already here – a tendency that has been noted in previous years, but appears to have been magnified by Brexit. Once again highlighting the challenges the UK faces in attracting new investors.

Viewpoint — infrastructure

Malcolm Bairstow
Infrastructure Sector Leader, EY

Infrastructure as a positive influence to Attractiveness

In order to remain competitive in a post Brexit world, the UK must have world-class and connected infrastructure which operates reliably and with customer centricity at its heart. This is unlikely to be achieved unless the sector can attract FDI and private finance to support both capital investment and infrastructure operations.

Currently, the infrastructure sector and its supply chain, the construction industry, are making headway but much more needs to be done to tackle a number of challenges, many of which have resulted from earlier lack of investment and uncoordinated policies. The outcome must be consistent, world-class and visible delivery of infrastructure projects across the UK.

Efficiency and productivity

Possibly the biggest barrier to investor confidence is the perceived unpredictability of the development process in the UK, and the time and cost of getting things done. Lengthy planning and approval processes, such as that experienced on London's recent third runway debate, can erode any appetite for inward investment. This problem also affects smaller projects, and especially regeneration and housing projects, where often the public and private sectors need to cooperate. It is hard to get clarity on the contribution from either side; it can be hard for Government to spend their money wisely and difficult for the private sector to have the confidence that the result will be an investable deal. The result can be a lack of action or a waste of public money.

Some of the strategic issues impacting productivity can only be tackled in a coordinated and joined-up way. In response to the Government's challenge for sector cohesion around the Industrial Strategy, the construction industry (led by the Construction Leadership Council) is making renewed efforts to operate in a more efficient and joined-up way.

Skills, innovation and investment in technology

Any reduction in available human resources resulting from Brexit, combined with an historic lack of investment in skills and an anticipated increase in demand, is forcing the infrastructure sector to radically review its processes and practices.

The leaders of the UK's mega projects are seeking to collaborate and coordinate to create a number of regional supply chain hubs and skills colleges to serve the industry as a whole. This corralling of resources must be allied with an investment in technology and adoption of off-site and high-tech manufacturing processes. All of this is a massive challenge for supply chain businesses who are still suffering after a sustained period of wafer-thin margins. This need for the supply side to invest may be helped as a result of industry consolidation. A weak pound and an emergence of more, larger engineering houses and construction conglomerates is resulting in a number of take-overs in the sector. Atkins and Waterman's are two British businesses about to be swallowed up by overseas acquirers.

The development and mandating of BIM and the Government's investment in Digital Built Britain are all positive steps to facilitate technological processes in the sector.

Housing

A shortage of housing and an inadequate pipeline of new residential developments is exacerbating a number of problems relating to infrastructure. One consequence of an inadequate supply of housing stock has been unaffordable dwellings, particular in London and the South East. This issue is a drag on workforce mobility which adversely impacts available skills and workforce capacity.

Ironically, development of off-site manufacturing and pre-fabrication techniques could be a key enabler of increased and more economical residential provision.

Action plan

A stable situation but with increasing signs of future weakness ...

While both the UK's post-Brexit FDI performance and investor perceptions have held up comparatively well to date, we have identified a number of signs of potentially significant longer-term weaknesses starting to emerge. Examples include:

- The loss of European FDI market share in 2016
- The UK's relative weakness in attracting new investment projects
- Declining performance in key areas for the future, such as R&D and software, and in certain sectors likely to have higher employment growth potential
- The UK's reliance on European-originated investment, the most vulnerable in future according to our investor survey responses, alongside a failure to capture a fair share of Asian growth
- Risks that the UK is missing the opportunity to participate fully in evermore integrated European supply chains

However, it is the extremely sharp decline in investors' assessment of the UK's future attractiveness on several key criteria that provides the most concern, suggesting a major decline in the UK's attractiveness.

... so the risk is potentially significant ...

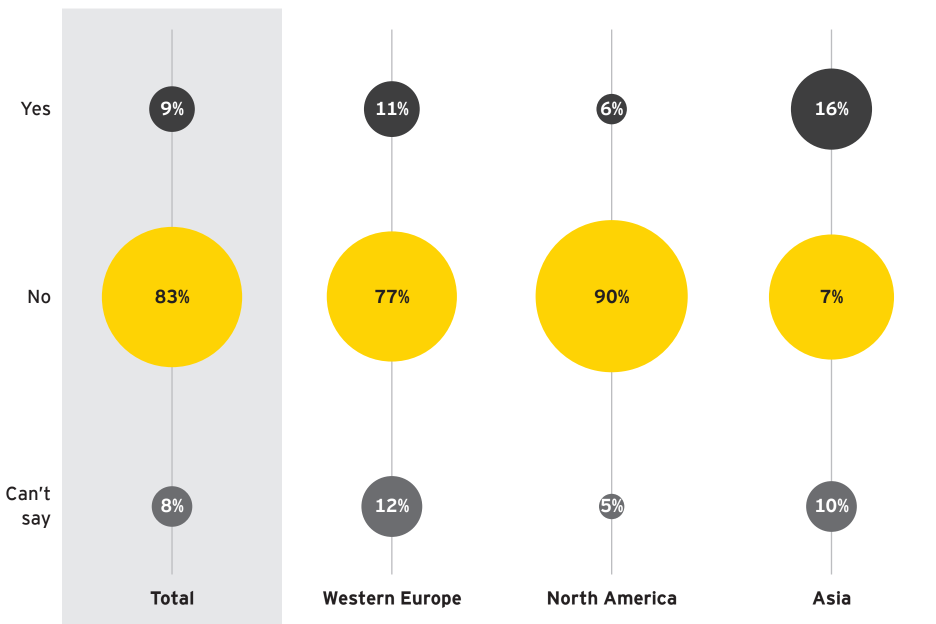
Our investor survey sought to assess the risk of companies that have previously invested in the UK either shifting their focus or even relocating their existing assets out of the UK. Asked whether the decision by the UK government to leave the European Single Market will prompt them to change their investment plans or relocate operations from the UK to Europe in the next three years, some 9% of all companies replied yes. This figure rises to 11% among companies already established here, suggesting there is a real risk of a significant number of relocations in future.

In terms of regions of origin, the area with the highest proportion of companies planning to shift either their focus or operations is Asia, with 16% of Asian investors saying they will do this, compared to 11% from Western Europe and 6% from North America.

A breakdown by sector of the investors looking to change their investment plans or relocate operations in the next three years reveals an interesting split. The proportion of technology and services companies looking to relocate is generally within the 3% to 8% range, while the proportion of industrial companies – the likes of automotive, machine tools, industrial equipment, chemicals and pharmaceuticals – considering moving is around 11% to 14%. The decline in UK automotive projects in 2016 from 56 to 43 despite a 7% growth in Europe as a whole is potentially an early indicator of how the industrial sector may react to the changing UK environment.

In terms of where investors would relocate their operations to, over two-thirds – 68% – of moves would be to Europe, including 88% of relocations by Western European companies. However 27% of US companies would relocate to the USA.

Following the UK Government's decision to leave the European Single Market, does this mean you will change your investment plans or relocate operations in the next three years from the UK to Europe?



Source: *EY's UK Attractiveness Survey 2017, sample (n=453)*

… because investors have some real concerns about the UK's openness in future …

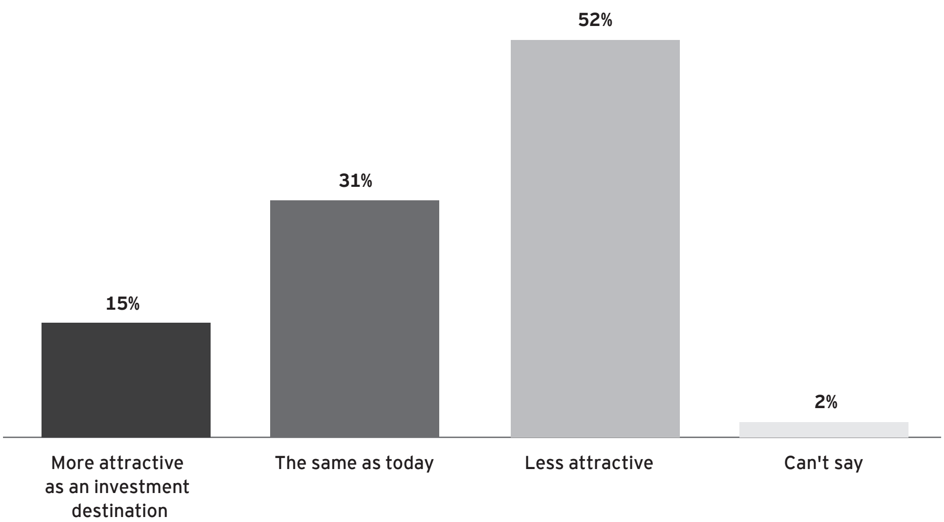
Our perception study shows clearly that restrictions on immigration – both of skilled and unskilled labor – and loss of access to the EU market are shaping investor sentiment about the future attractiveness of the UK as an FDI location. Over half (52%) of investors say that leaving the European Single Market makes the UK less attractive as an investment location, and only 15% believe it makes the UK more attractive. Similarly, 55% say restricting skilled immigration after leaving the EU would make the UK less attractive, and 53% say restricting unskilled immigration would make it less attractive – against just 6% in each case who say it would make the UK more attractive.

Perhaps unsurprisingly, Western European respondents are more negative about the UK leaving the European Single Market: an overwhelming 61% of respondents based in Western Europe say this reduces the UK's attractiveness, compared to 50% of Asian companies and 48% of North American respondents. Around 15% to 16% of companies from each region say leaving the European Single Market makes the UK more attractive.

… with access to the Single Market and Customs Union front of mind

Asked to cite the key factors that they are concerned about with the UK after it leaves the EU, investors state clearly that their major concern is the impact on market access and its implications for tariffs and customs processes – issues that they rate as a higher priority than potential labor challenges.

The UK Government has announced that the UK will leave the European Single Market. Does this make the UK…?



Source: *EY's UK Attractiveness Survey 2017*

What are the key factors that you are concerned about with the UK after it leaves the EU?

		Established IN/OUT		Company nationality		
	Total	**Established in the UK**	**Not established in the UK**	**Western Europe**	**Northern America**	**Asia**
Total sample	453	275	178	134	183	86
Loss of access to EU markets	38%	35%	44%	35%	40%	39%
Tariffs on exports	27%	27%	27%	21%	37%	20%
Tariffs on imports	24%	26%	19%	32%	20%	22%
Customs compliance costs	21%	19%	25%	25%	16%	22%
Restrictions on labor mobility	20%	25%	13%	17%	18%	28%
Border delays	15%	16%	14%	19%	16%	12%
Diverging regulation	14%	16%	11%	22%	12%	8%
Currency or exchange rate	1%	2%	< 1%	1%	1%	6%
Tax laws	1%	1%	< 1%	1%	1%	-

Source: *EY's UK Attractiveness Survey 2017*

There is a window of time to act ...

As we have previously identified, the short-term sentiment among investors is positive toward the UK and hence there is time to respond to address the concerns expressed about the UK's future attractiveness. A rapid and decisive strategic response can position the UK for future success in the FDI market.

... and the priorities are clear ...

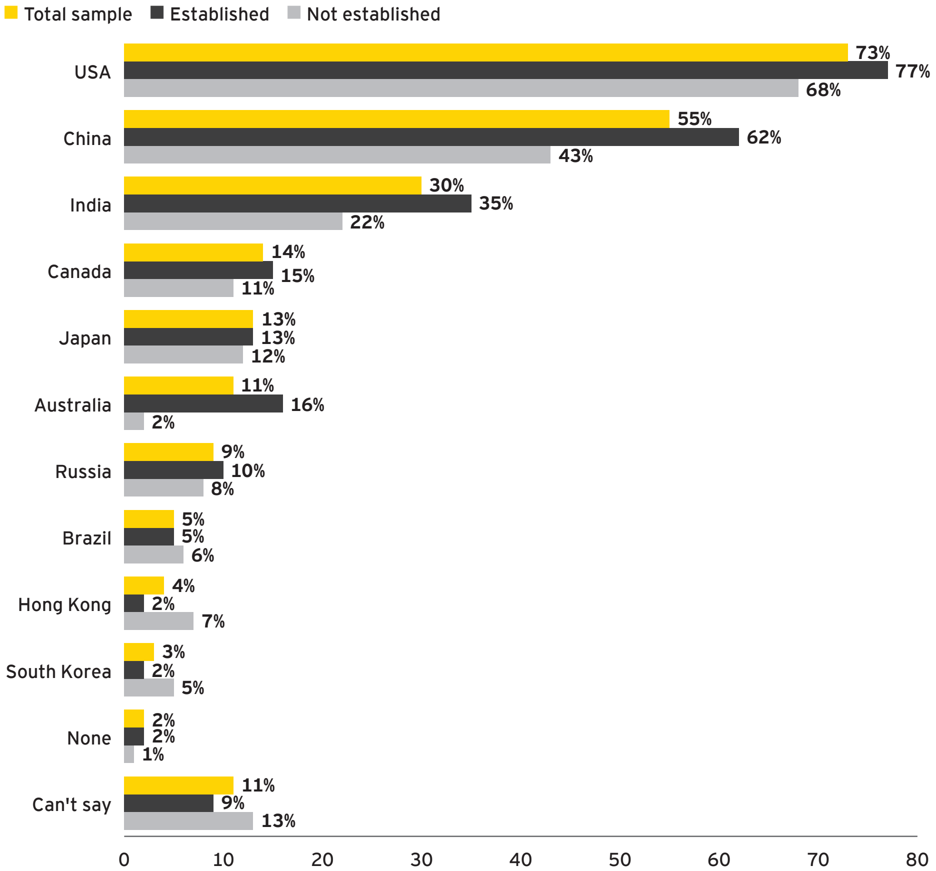
In the view of global investors, the priorities are clear. Consistent with previous years, infrastructure (cited by 31% of investors, if we add the various types of infrastructure together) and skills (cited by 28%) remain very important. But we have also identified new Brexit-influenced priorities, such as negotiating trade deals with new countries (32%), retaining existing EU trading arrangements (28%), the approach to migration (22%) and creating incentives for foreign investors (21%) – all of which are seen as important steps to compensate for changes in the UK's relationship with EU.

The countries where trade deals are regarded as most important are the USA – identified by 73% of investors, China by 53% and India by 30%, way ahead of the next highest – Japan – with 13%. It is clear where the UK should focus in its efforts to strike new trade agreements, alongside the obvious need to focus on retaining as much of the current arrangements with the EU as possible.

Which of the following areas should be priorities for the UK Government to maintain the UK's attractiveness in future?

Source: *EY's UK Attractiveness Survey 2017, sample (n=453)*

Which three countries outside of the EU should the UK prioritize in trade negotiations to minimize the impact of the UK leaving the European Single Market?



Source: *EY's UK Attractiveness Survey 2017, sample (n=453)*
NB: *Three possible answers.*

… and equally so at the regional level

The requirements for investors looking to invest in the UK regions are consistent with the messages at the national level. As in previous years, skills and infrastructure are the key drivers of investment in the UK's regions and cities, and these are the priority areas to address to ensure that the benefits of future economic success are felt across the country. We have seen how the stronger regions of the UK appear to be becoming relatively stronger and hence policy must look to ensure that investment in areas, such as infrastructure and skills, takes more balanced growth into account.

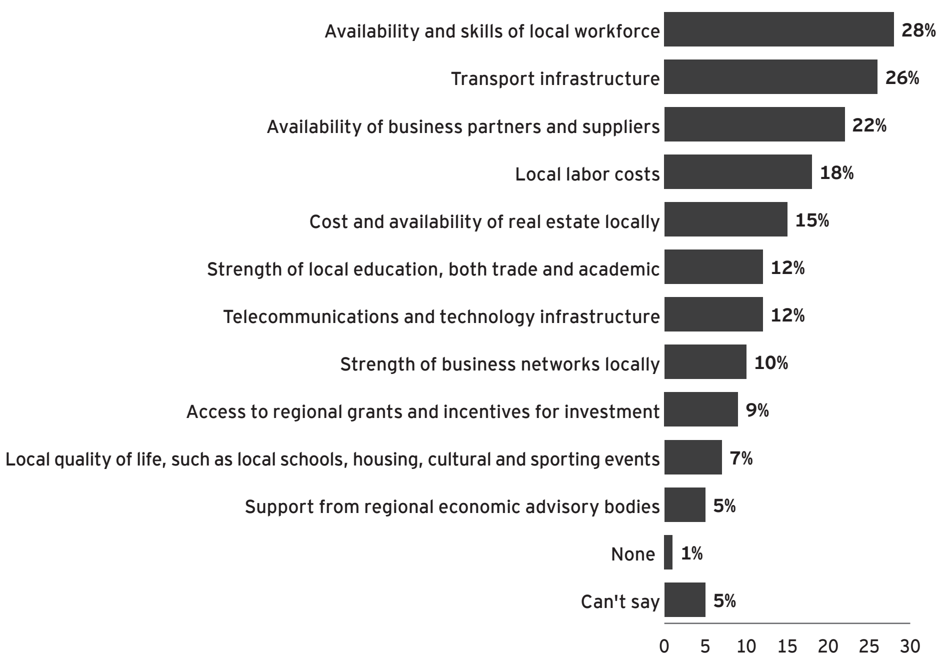
Our research has identified the UK's relative weakness in attracting new investors. In this context, the fact that investors rank the availability of business partners and suppliers as their third priority is interesting. If the UK is to improve its appeal beyond existing investors and to ensure all areas of the country can capture the benefits, helping potential entrants understand the resources and capabilities available to them will be extremely important.

A plan for success

The UK economy has performed well after the vote to leave the EU and the outlook for FDI remains strong in the short term. However, there are a number of indicators suggesting that the outlook for the UK is likely to be challenging and the UK needs to move quickly to position for future success. Brexit will be a complex and resource-intensive process and as such a clear focus on priorities is required and the UK will have to be clear on its priorities.

It is also the case that investors are uncertain about the future attractiveness of the UK which is understandable given the uncertainty that currently exists around key aspects of the UK's future relationship with the EU. As well as defining its priorities and incorporating these into an action plan, the UK must communicate its intentions clearly to investors and businesses around the globe.

What are your investment criteria when considering investing in the regional locations in the UK?



Source: *EY's UK Attractiveness Survey 2017, sample (n=453)*
NB: *Two possible answers.*

Methodology

The "real" attractiveness of Europe for foreign investors

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

Data is widely available on FDI. An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intra-company loans.

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

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

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

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

This database tracks those FDI projects that have resulted in the creation of new facilities and new jobs.

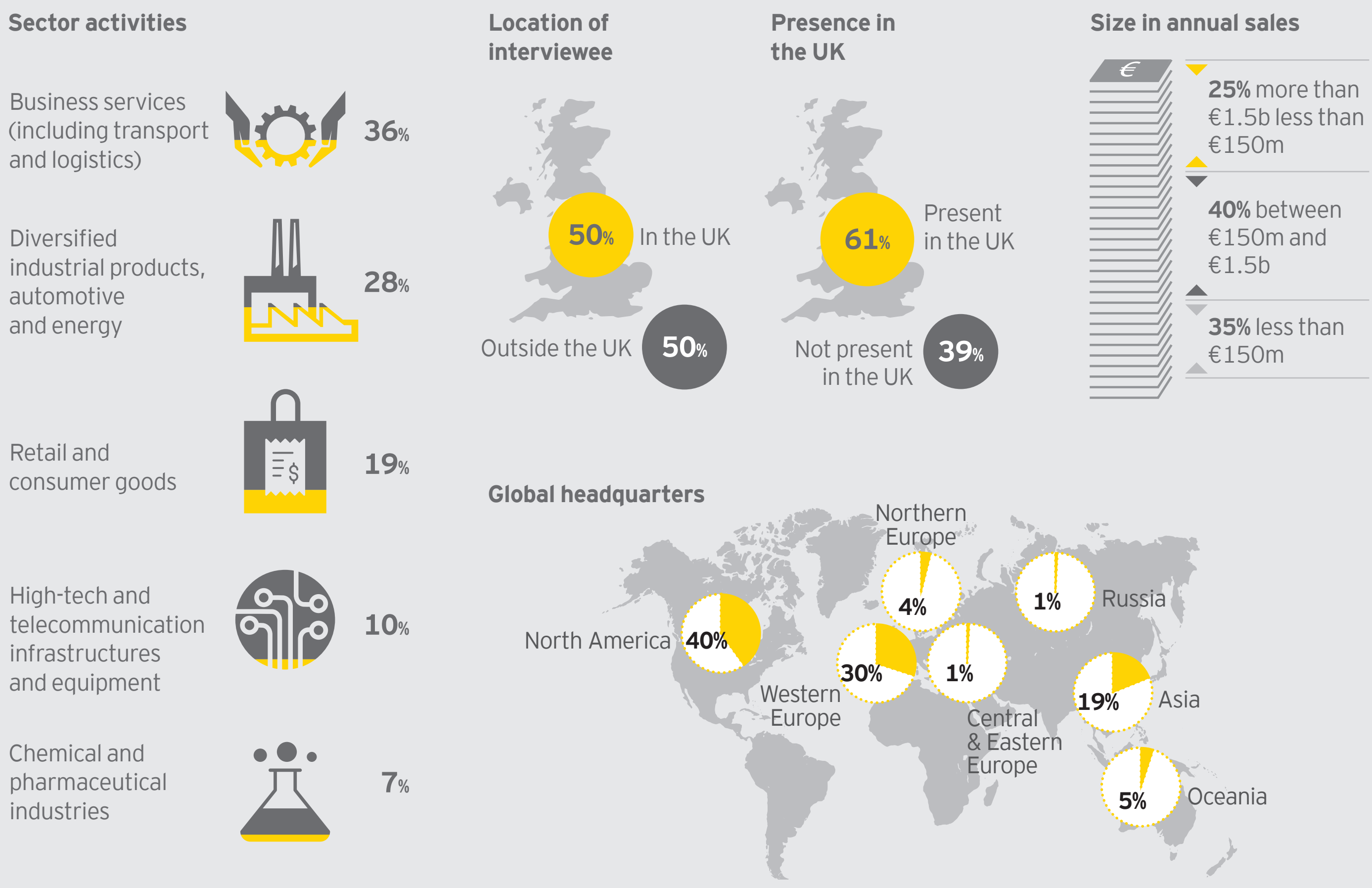
The following categories of investment projects are excluded from the EIM:

- **M&A and JVs (unless these result in new facilities or new jobs being created)**
- **License agreements**
- **Retail and leisure facilities, hotels and real estate***
- **Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)***
- **Extraction activities (ores, minerals and fuels)***
- **Portfolio investments (pensions, insurance and financial funds)**
- **Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)**
- **Not-for-profit organizations (charitable foundations, trade associations and government bodies)**

The "perceived" attractiveness of Europe and its competitors for foreign investors

We define the attractiveness of a country or area as the combination of its image, investors' level of confidence in it as an investment destination and the perception of its ability to provide the most competitive benefits for FDI.

The research was conducted by the CSA Institute from February to April 2017, via telephone interviews with a representative group of 453 international decision-makers.



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

About EY's Attractiveness Program

EY's Attractiveness Surveys and Program around the world

EY's Attractiveness Surveys are widely recognized by our clients, media, governments and major public stakeholders as a key source of insight into FDI.

Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 16-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

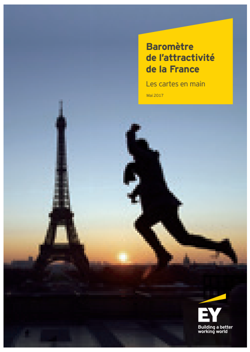
For more information, please visit:
ey.com/attractiveness
Twitter: @EY_FDI and @EYnews
#EYAttract

EY's Attractiveness country reports in Europe 2017

Europe

Austria

Belgium

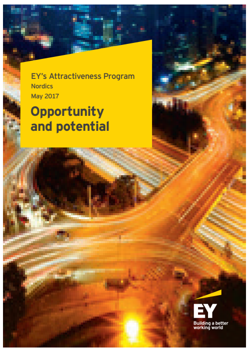


France

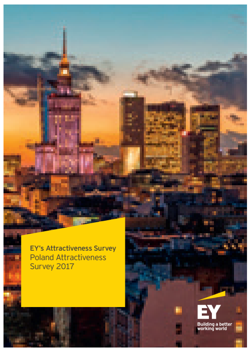
Germany

Italy

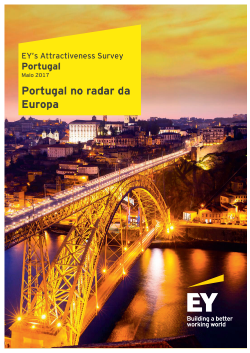
The Netherlands



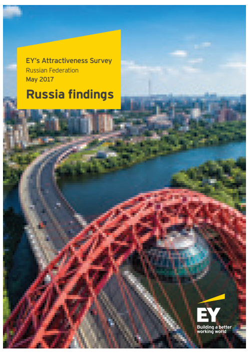
Nordics



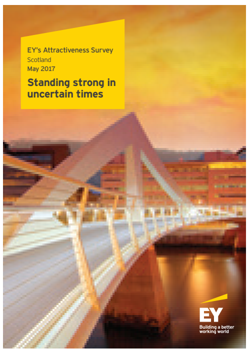
Poland



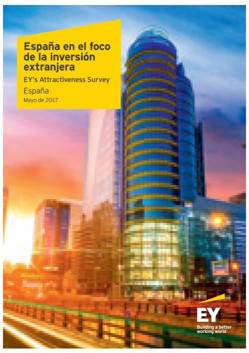
Portugal



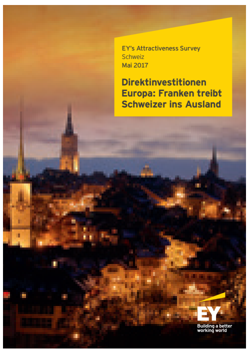
Russia



Scotland



Spain



Switzerland

United Kingdom

Further reports to be launched in EMEIA later this year include Africa, Baltics, Financial Services, India and Malta.

EY's UK Attractiveness Survey is part of the EY Economics for Business Program which provides knowledge, analysis and insight to help business understand the economic environments in which they operate.

ey.com/uk/economics
ey.com/uk/ukas
economics@uk.ey.com

Follow:
markgregoryeconomics.ey.com
linkedin.com/in/markgregoryuk
@MarkGregoryEY

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EYG no: 03380-172GBL

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com