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New challenges

Ernst & Young Portuguese Attractiveness Survey 2008

Ernst & Young
Quality In Everything We Do

Contents

Editorial

New Challenges

As 2007 turned into 2008, the world saw unexpected events as a result of the credit crunch and subsequent financial turnmoil.

This instability brought to the top of agenda, risk management issues related to transparency and stability of political, legal and regulatory environment, as well as, currency robustness.

Europe is still the clear regional FDI destination leader, attracting 42% of global FDI inflows (US$651 b of FDI in 2007). But there are new protagonists such as Brazil, Russia, India and China, increasingly active in the global FDI market. In addition there are also new players such as sovereign wealth funds who consider FDI as an alternative asset allocation to other traditional applications such as private equity and M&A transactions.

Within Europe, we see different patterns and implications for the future. Western Europe is undergoing a painful shift to services. Knowledge and services are becoming the largest recipient of FDI, on the back of fewer jobs created for each project.

Fewer project announcements in industrial activities mean less job creation. The specialization of Europe in business services, software and financial services increased the exposure to the general economic slowdown, partly because the principal source of FDI is the USA. Furthermore these are sectors being hit hardest by the financial crisis.

While industrial investments fell in Western Europe, in Central and Eastern Europe they held up well with the automotive, electronics and electrical sectors still account for more than 50% of jobs. And investment in services in Central and Eastern Europe created fewer jobs in 2007.

While Europe is moving towards a more vulnerable specialization in value-added activities, Portugal has yet to step follow this move.

In 2007, business sectors more active in attracting FDI were automotive assembly, software, other transport services and electronics. However there is a gradual shift within each sector, from manufacturing to sales & marketing.

International investors believe Portugal's attractiveness will increase, with easier tax compliance, improvement of training and the education system, promotion of innovation and stimulation of R&D. These success factors fit perfectly into the competitive strengths of our economy, such as, top management skills, telecommunications infrastructure and an increasing attractive taxation environment.

The current economic instability caught Portugal in a shift from a low cost economy no longer competitive compared with Central and Eastern Europe, to a knowledge and innovation based economy still some way behind the other Western Europe economies. These new challenges may be overcame by engaging strongly in green technologies and energy related technologies, IT Services, and specialized activities related to logistics. These will drive business to business services and ultimately a more rapid execution of the Lisbon agenda.

Executive Summary

Review of 2007

FDI projects into Europe increased 5% in 2007,
and the major beneficiary was the UK.

Top 5 destinations of FDI in 2007 are UK, France, Germany and Spain. It is worthy to mention that Spain in 1997 was below top 10 destination countries of FDI.

In 2007, investment evolution is Central and Eastern Europe was contradictory, as Russia (+60%), Hungary (25%) and Germany (+7%) increased the numbers of FDI but Czech Republic (-27%) and Poland (-4%) kept the 2006 declining trend.

The USA has been the largest provider of investment projects into Europe, with 25% of all FDI projects in 2007.

The USA investment decreased its relative weight in terms of source of investment. However the country's investment in sectors like software, business services and financial services increased.

Emerging economies such as Brazil, Russia, India and China (BRIC), despite having some of the strongest growth rates in the world, are not yet major contributors of FDI projects for Europe.

UK, France and Spain were the key sources of FDI within Europe.

FDI in Europe is shifting from automotive, electronics and chemicals, to software, business services and financial services mostly due to the contribution of USA FDI. As a result, Europe is more vulnerable to credit crunch and economic slowdown.

In Portugal industry is still holding on. Altogether industrial related investments accounted for 65% and services account for 16% of total FDI in Portugal in 2007. And it is worth to signal the diversification towards higher income sectors such as automotive assembly, electronics, scientific research, chemicals, pharmaceuticals as well as other industrial sectors.

Conclusions and trends to watch

Despite decline in 2007, the USA is almost certain to remain the most significant country investing on Europe in 2008.

The economic slow down will impact on USA service sector investment to the detriment of FDI into Western Europe and probably disproportionately in the UK.

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

2008 will be interesting in identifying whether emerging economies such as the BRIC countries will become active players in terms of FDI.

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

In Portugal, information and communications technologies are by far the most perceived attractive sector for international investors. Energy industries (both renewable and non renewable) are considered by international investors as opportunities for quality and secure investments.

I

2007 Foreign Direct Investments in Portugal

2007 Foreign Direct Investments in Portugal

1.1
Investments in Portugal did not follow the European trend in 2007

In 2007, European countries maintained the growth trend verified in previous years in terms of FDI. Inward investment activity in Europe settled a record high in 2007, with 3.712 project announcements, representing an annual increase of 5%.

United Kingdom and France kept their position as the main destinations of investments in Europe in 2007, with 1.254 project announcements in both countries, representing approximately 34% of the total.

In 2007, investment evolution in Central and Eastern Europe was contradictory as Russia (+60%), Hungary (+25%) and Germany (+7%) increased the number of FDI but Czech Republic (-27%) and Poland (-4%) kept the 2006 declining trend.
In Western Europe, the Netherlands performed well with a 29% increase in the number of FDI projects in 2007.

While the performance across Eastern Europe countries is explained by a combination of lower costs, increased economic and political stability as well as large markets in their own right, the Netherlands gained momentum on the back of renewed interest in the chemical industry and a clearer proposition for business services investment.

European Mediterranean countries performed reasonably. Italy (-7%), Portugal (-3%) and Greece (-8%) had modest declines in the announced projects where as Spain maintained its good performance, reaching 256 investments, against 212 in 2006 and 147 in 2005.

The USA was the largest source of investment projects in Europe, representing 25% of all FDI projects in 2007.

The three European leading countries of FDI destinations (UK, France and Germany) decreased their market share from 43,5% in 2006 to 42% in 2007. This decline was offset by the relevant market share increases of Russia, Spain and other poorer European countries.

BRIC countries (Brazil, Russia, India and China) are not in the top 10 sources of FDI in Europe. The emerging economies of China and India are not yet locations in which to secure major quick wins.

Portugal kept the number of investments in 2007 with 37 announcements, against 38 in 2006. In the European FDI ranking (Portugal decreased from 20th in 2006 to 23rd in 2007). Taking into account the number of FDI relative to the total population, Portugal occuppies an average position, ahead of countries like Italy, Greece and Croatia, but behind most of the Eastern European countries, Scandinavian, as well as Ireland, Spain, Belgium, Austria, Switzerland and the Netherlands.

Top 15 European countries as investment destinations

Rank 2007	Countries	Number of FDI in 2007	Market Share 2007 (%)	Market Share 2006 (%)	Evolution of Market Share 2006/2007
1	United Kingdom	713	19.2%	19.4%	-0,2%
2	France	541	14.6%	16.0%	-1,4%
3	Germany	305	8.2%	8.1%	0,1%
4	Spain	256	6.9%	6.0%	0,9%
5	Belgium	175	4.7%	5.2%	-0,5%
6	Romania	150	4.0%	4.0%	0,1%
7	Poland	146	3.9%	4.3%	-0,4%
8	Russia	139	3.7%	2.5%	1,3%
9	Hungary	135	3.6%	3.1%	0,6%
10	Switzerland	124	3.3%	3.9%	-0,5%
11	Netherlands	123	3.3%	2.7%	0,6%
12	Czech Republic	83	2.2%	3.2%	-1,0%
13	Sweden	81	2.2%	3.2%	-1,0%
14	Ireland	80	2.2%	2.1%	0,1%
15	Italy	69	1.9%	2.1%	-0,2%
23	Portugal	37	1.0%	1.1%	-0,1%
	Other	555	15.0%	13.2%	1,7%
	Total	3,712	100.0%	100.0%	

1.2
FDI Profile across Europe changed in 2007

The top sectors in 2007 were similar to the ones in 2006 with software being the leading single sector in generating investment. However in 2007 for the first time, the main three sectors generating FDI were all service related.

The growth in outsourcing, IT based solutions, consulting, assurance activity, centralisation of services and e-commerce revolutionised business over the last ten years and led to investments in business services and software.

Business Sector	Market Share in 1997 (%)	Market Share in 2002 (%)	Market Share 2007 (%)
Software	8%	15%	13%
Business Services	4%	7%	13%
Financial Intermediation	5%	2%	6%
Machinnery & Equipment	5%	4%	6%
Electronics	8%	7%	5%
Other Transport Services	2%	2%	5%
Food	6%	5%	4%
Automotive Components	6%	8%	4%
Pharmaceuticals	5%	6%	3%
Chemicals	12%	5%	3%
Electrical	2%	3%	3%
Non-metalic mineral produtcs	2%	2%	3%
Total	100%	100%	100%

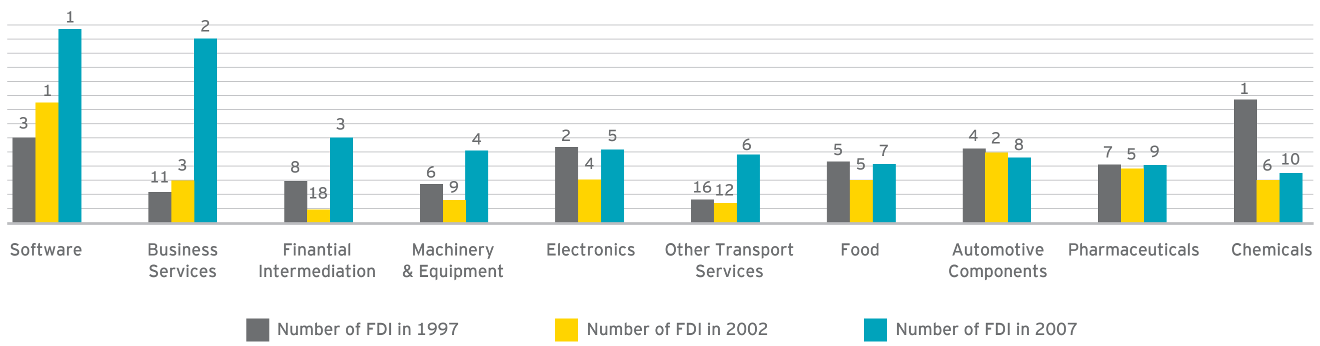
Market share of the main business sectors as destinations of Total FDI in Europe (1997-2002-2007)

1.3
What will be the impact of credit crunch?

Traditionally companies decide on their international strategy on the basis of confidence in markets as much as any other factor. Economic factors, such as interest rates in recipient countries had a limited impact on the investments decision, where as more general economic slowdowns and events have resulted in significant differences in the number of FDI.

The credit crunch had a limited impact on the level of FDI projects in 2007, mostly because these processes take several months to analyse and implement. However, potencial investors for 2008 and 2009 will have reassessed their investment plans with this additional event in mind. The impact of credit crunch will be particulary acute on European FDI. Loss of confidence will influence investment levels and the recent focus of FDI on service sector projects and the importance of the USA economy to European FDI projects (albeit in 2007 its importance decreased when compared with previous years), means that this phenomena may have a dispropor-tionated impact on FDI across Europe.

Relative position of business sectors in Europe - total FDI



1.4
Origin of FDI in Europe

Based on followings tables, the USA maintained the 1st place as an investor in Europe from 1997 to 2007.

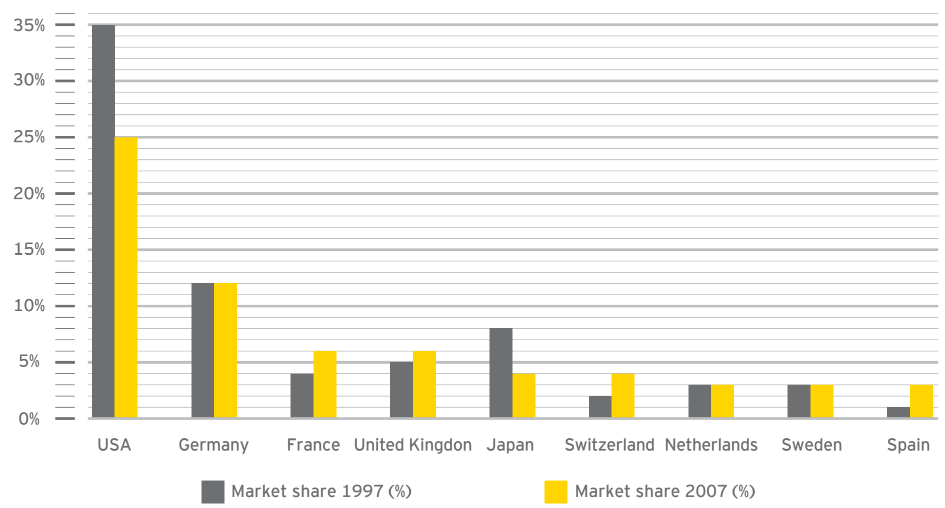
Spain was the country with highest increase, from 21 announced investments in 1997 to 96 in 2007. This growth was basically in sectors such as business services, automotive components and financial intermediation.

Spanish origin FDI by business sector (1997-2007)

Origin FDI by sector	1997	2007
Business Services	0	16
Automotive Components	0	11
Financial Intermediation	0	7
Food	2	5
Non-metalic mineral products	4	5
Software	0	5
Utility supply	0	5
Others	15	42
Total Spain origin FDI	21	96

Origin of the FDI (table) and market share evolution by country (graph) for 1997 and 2007

Origin of FDI	Number of FDI in 1997	Number of FDI in 1997
USA	933	941
Germany	314	454
France	116	238
United Kingdom	144	236
Japan	209	161
Switzerland	60	130
Netherlands	85	108
Sweden	78	101
Spain	21	96
Austria	32	91
Canada	64	91
Italy	62	85
Others	511	980
Total	2629	3712



USA origin FDI in Europe by business sector (1997-2007)

Origin FDI in Europe by business	1997	2007
Software	138	232
Business Services	52	147
Financial Intermediation	31	56
Electronics	90	49
Pharmaceuticals	50	46
Chemicals	115	42
Machinery & Equipment	33	36
Publishing	3	35
Scientific Instruments	28	31
Scientific Research	0	23
Food	33	22
Automotive Components	50	20
Others	310	202
Total USA origin FDI	933	941

Where is the Spanish investment heading to? The table to the right shows a strong investment in Central and Eastern Europe, France and Portugal.

The USA invested less in the UK and Ireland and more in Spain, France and Germany.

Spanish origin of FDI in Europe by destination country (1997-2007)

Spain as origin of FDI	1997	2007
France	14	23
Romania	0	13
United Kingdom	2	11
Portugal	0	10
Poland	0	8
Germany	0	5
Hungary	0	4
Italy	0	4
Bulgaria	2	3
Czech Republic	0	3
Netherlands	0	3
Others	3	9
Total Spain origin FDI	21	96

USA origin of FDI in Europe by destination country (1997-2007)

USA as origin of FDI	1997	2007
United Kingdom	376	268
France	107	125
Germany	73	106
Spain	18	58
Belgium	39	49
Switzerland	19	47
Netherlands	42	46
Ireland	99	38
Poland	25	27
Russia	35	19
Sweden	8	19
Others	92	139
Total USA origin FDI	933	941

1.5
What happened to the Eastern and Central European economies?

Of the leading locations of Poland, Hungary and the Czech Republic, only Hungary had an increase in 2007.

The emerging economy in the region in the attraction of FDI has been Romania, with no significant investment in 1997 to a leading position in 2007, within this region.

This was mainly on the back of securing electronics and automotive component investment.

This suggests that lower costs in Romania are now capturing investment from other Eastern and Central European regions.

1.6
How important are the BRIC economies

Emerging BRIC economies (Brazil, Russia, India and China) have recorded rapid economic growth over the last decade, are major recipients of FDI and are in a position to become leading global economies. However, in terms of generating investment projects, these economies are not yet major generators of FDI projects for Europe. All of them are below the 10 top investors, with India leading followed by China, Russia and Brazil.

Top destinations of BRIC investment (1997-2007)

BRIC origin FDI by prefered locations	Leading location	% investment	Second location	% investment	Third location	% investment
Brazil	Spain	20%	Portugal	20%	France / UK	11%
Russia	UK	17%	Germany	13%	UKraine	10%
India	UK	56%	Germany	18%	France	6%
China	UK	41%	Germany	15%	France	10%

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

1.7
Most investments in Portugal are in new projects, consistently with the European average...

During 2007, the majority of investments in Europe were new projects (79%). In Portugal, the figures followed the European trend, with 73% of the total announcements being investments in new locations. Therefore, the share of new projects is slightly lower than the European average (73% against 79%).

Comparison between New Projects/ Expansion Projects in Europe (2007)

Rank 2007	Countries	Number of FDI in 2007	Expansion projects (%)	New projects (%)
1	United Kingdom	713	24%	76%
2	France	541	35%	65%
3	Germany	305	15%	85%
4	Spain	256	20%	80%
5	Belgium	175	21%	79%
6	Romania	150	19%	81%
7	Poland	146	14%	86%
8	Russia	139	11%	89%
9	Hungary	135	32%	58%
10	Switzerland	124	9%	91%
11	Netherlands	123	16%	84%
12	Czech Republic	83	20%	80%
13	Sweden	81	21%	79%
14	Ireland	80	29%	71%
15	Italy	69	19%	81%
23	Portugal	37	27%	73%
	Other	555	15%	85%
	Total	3,712	21%	79%

...and still rely heavily in labour intensive industries

In terms of jobs created during 2007, Portugal stands in a relatively good position (14th in 2007) at European levels, despite being worse than the 2006 figures (10th). In 2007, as for the job creation by project, Portugal is well above the European average (202 against 87), keeping its profile as recipient of labour intensive industries. To this outcome, the Volkswagen and Ikea investments in Portugal have contributed considerably with 777 and 550 new jobs. The project of Sheehan Medical Corp has also significantly biased the figures, with 1.250 new hires announced.

Considering merely the announced projects in which this information is based, the average job creation during 2007 by project in the manufacturing activity is 310, mainly influenced by the Volkswagen and Ikea investments. In the Sales & Marketing activity, the average job creation by project is 663, highly influenced by the announced investment in a new private hospital by the Sheehan Medical Corp.

Top 15 European countries by job creation (2007)

*based on projects for which the information is available

Rank 2007	Countries	Total job creation in 2007	Jobs created by project (average 2007)*	Number of FDI in 2007*
1	United Kingdom	24186	52	468
2	Poland	18399	194	95
3	Czech Republic	15102	270	56
4	Russia	14934	293	51
5	France	14488	39	375
6	Romania	12464	204	61
7	Hungary	11104	152	73
8	Slovakia	8479	229	37
9	Spain	7335	58	127
10	Germany	5972	49	121
11	Serbia	5484	152	36
12	Belgium	4379	43	101
13	Ireland	4052	84	48
14	Portugal	4045	202	20
15	Slovenia	3480	232	15
	Other	22648	68	335
	Total	176551	87	2019

Average job creation by business function in Portugal (2007)

*based on projects for which the information is available

Activity	Number of FDI in 2007*	Total jobs created*	Jobs created by project (average 2007)*
Manufacturing	13	4030	310
Total industrial functions	13	4030	310
Sales & Marketing	5	3314	663
Shared Services Centre	1	300	300
Headquarters	1	8	8
Total service functions	7	3622	517

1.8
In the last ten years, FDI in Portugal has been shifting slightly from manufacturing related activities to Sales & Marketing

The majority of the FDI in Portugal is in industrial functions (Manufacturing and Logistics), despite a consistent growth in the last ten years in Sales & Marketing related projects. Since 1997, there has been a slight and progressive decline in the relative share of the Manufacturing projects, (from 62% in 1997 to 55% in 2007 – applying the moving average), while the investments in Sales & Marketing activities have been gradually increasing its relative share of total projects announced (10% in 1998 to 20% in 2007).

The automotive and chemicals explain the shift away from manufacturing, whereas electronics and telecommunications contributed to the increased percentage in Sales & Marketing and Shared Services. It should be noted that there is progressively a lower share of investments intended to set up headquarters in Portugal.

The European evolution is more services oriented than in Portugal. In 2000, 45% of FDI was in manufacturing activities, but this percentage dropped to 40% in 2007. Sales & Marketing went up from 25% to 29% within the same period as shown below.

Breakdown of FDI for 2000 and 2007 by activity (moving average)

Activity	Europe 2000	Europe 2007	Portugal 2000	Portugal 2007
Manufacturing	45%	40%	56%	55%
Sales & Marketing	25%	29%	19%	20%
Logistics	8%	8%	9%	9%
R&D	8%	7%	4%	4%
Shared Services	1%	1%	0%	3%

Long-term evolution of the FDI in Portugal by activity (Moving average)

Activity	Market share in 1997 (%)	Market share in 1998 (%)	Market share in 1999 (%)	Market share in 2000 (%)	Market share in 2001 (%)	Market share in 2002 (%)	Market share in 2003 (%)	Market share in 2004 (%)	Market share in 2005 (%)	Market share in 2006 (%)	Market share in 2007 (%)
Manufacturing	62%	62%	61%	56%	57%	61%	63%	62%	60%	57%	55%
Sales & Marketing	0%	10%	17%	19%	20%	18%	16%	16%	16%	19%	20%
Logistics	8%	10%	10%	9%	8%	9%	8%	8%	9%	9%	9%
Share Services Centre	0%	0%	0%	0%	1%	1%	1%	1%	2%	2%	3%
Research & Development	0%	3%	2%	4%	3%	2%	4%	4%	4%	4%	4%
Other	31%	15%	10%	12%	11%	9%	9%	9%	8%	9%	9%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

1.9 Taking into account the business sectors involved, industrial related investments were significantly diversified in 2007

In 2007, business sectors with the largest number of FDI projects are automotive assembly (3), software (3), other transport services (3) and electronics (3). These investments together accounted only for 32% of the total projects announced in Portugal, which demonstrates the diversity of the sectors involved, in a country traditionally recipient of manufacturing investments.

Altogether, the industrial related investments accounted for 65% and services related for 16% of the total FDI in 2007. Within industrial related projects, it is worth to signal the diversification towards higher income sectors such as automotive assembly, electronics, scientific research, chemicals, pharmaceuticals and electrical, as well as other industrial sectors.

Business sector	Number of investments	% Number of investments
Automotive Assembly	3	8%
Software	3	8%
Other Transport Services	3	8%
Electronics	3	8%
Non-metalic mineral product	2	5%
Machinery & Equipment	2	5%
Financial Intermediation	2	5%
Fabricated Metals	2	5%
Real Estate	2	5%
Chemicals	2	5%
Scientific Research	2	5%
Agriculture	1	3%
Pharmaceuticals	1	3%
Computers	1	3%
Furniture & Sports Equipment	1	3%
Plastic & Rubber	1	3%
Automotive Components	1	3%
Utility supply	1	3%
Health & Social Work	1	3%
Food	1	3%
Electrical	1	3%
Sale & Repair of Motor Vehicles	1	3%
Total	37	100%

Breakdown of FDI in Portugal business sector (2007)

...but Portugal is not shifting from industry to services sectors as in Europe, taking into account the period 2000-2007

Sector	Europe 2000	Europe 2007	Portugal 2000	Portugal 2007
Industry	63%	60%	66%	67%
Services	29%	30%	18%	17%
Banking	5%	5%	7%	5%
Logistics	3%	5%	9%	9%
Construction	0%	1%	0%	2%

Breakdown of FDI for 2000 and 2007 by sector (moving average)

In Europe, the trend over a 7-year period (2000-2007) shows a shift from industry to services and logistics.

The shift is explained by the increase of business services while software related services remain sustained, and on industry, a drop in chemicals (significant lower contribution of investments in this sector in Europe in 2007 against 2000) and electronics.

In Portugal, industry remains as significant as it was in 2000, the same applying for services. In services, the downward trend in software was offset by the increased contribution of business services and telecommunications. Market share of logistics, banking and construction related projects has been quite constant over the last years.

In 2007, 73% of the investment announcements in Portugal correspond to new projects and the remaining (27%) to expansion projects. Naturally, most of the new projects are related with sales & marketing activities whereas the expansion investments are mostly manufacturing.

Long-term evolution of the FDI in Portugal by business sector (Moving average)

Business sector	Market share in 2000 (%)	Market share in 2001 (%)	Market share in 2002 (%)	Market share in 2003 (%)	Market share in 2004 (%)	Market share in 2005 (%)	Market share in 2006 (%)	Market share in 2007 (%)
Industry	66%	69%	72%	74%	71%	70%	68%	67%
Services	18%	17%	15%	14%	16%	16%	18%	17%
Banking	7%	5%	4%	4%	4%	4%	5%	5%
Logistics	9%	7%	7%	7%	7%	9%	9%	9%
Construction	0%	1%	1%	1%	1%	1%	2%	2%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Industry
- Automotive Assembly
- Electronics
- Non-metalic mineral products
- Machinery & Equipment
- Fabricated Metals
- Chemicals
- Automotive Components
- Paper
- Basic metals
- Leather
- Textiles
- Wood

Industry
- Forestry
- Oil & Gas
- Pharmaceuticals
- Scientific Research
- Utility supply
- Agriculture
- Food
- Other Transport Equipment
- Electrical
- Furniture & Sports Equipment
- Plastic & Rubber
- Scientific Instruments

Services
- Software
- Health & Social Work
- Computers
- Retail
- Publishing
- Business services
- Sale & Repair of Motor Vehicles
- Telecommunications & Post

Banking
- Financial Intermediation
- Insurance & Pension
- Renting

Logistics
- Water transport
- Land transport
- Air transport
- Other Transport Services

Construction
- Real Estate
- Construction

2007 Foreign Direct Investments in Portugal

1.10
In 2007, Spain keeps its leadership as the main investor in Portugal

Taking into account the origin of the FDI in Portugal, it is clear the dominance of Spain as the main investor with 26% and 32% of total announcements in Portugal in 2006 and 2007 (2 of the Spanish investments in 2007 are joint ventures with Portuguese companies). Spain is followed by the USA, which comprised 16% of the investments in both years. In 2007, Germany (14%), France (5%), Ireland (5%) and Japan (5%) complete the top 5 countries which invest in Portugal.

FDI per origin country (2007)

Origin country	Number of investments	% Number of investments
Spain	12	32%
USA	6	16%
Germany	5	14%
France	2	5%
Ireland	2	5%
Japan	2	5%
Bermuda	1	3%
Belgium	1	3%
Finland	1	3%
India	1	3%
Italy	1	3%
Jordan	1	3%
Sweden	1	3%
United Kingdom	1	3%
Total	37	100%

The Spanish investment can not be labelled, since it is comprised of either manufacturing and sales & marketing activities, as well as shared services, logistics and headquarters. The most relevant investments were announced by Artenius Portugal Industria De Polimeros in a new plastics production facility for a petrochemical company ($496 million and 150 new jobs announced) and Banco Santander Central Hispano in a new administrative support centre for branches (300 new jobs announced).

The US investments are also considerably diversified into sales & marketing and manufacturing activities. The investments from Manitowoc Crane Group and Cisco Systems Inc should be highlighted in terms of number of jobs created (100 and 80, approximately).

Investments coming from Germany are mostly related with manufacturing and logistics. The most relevant project is the one that Volkswagen AG has announced to expand the facilities in order to produce the Scirocco model (777 new jobs announced).

Considering the 10 top investors in Europe in 2007, only 2 have invested in Portugal (Renault SA and EasyJet).

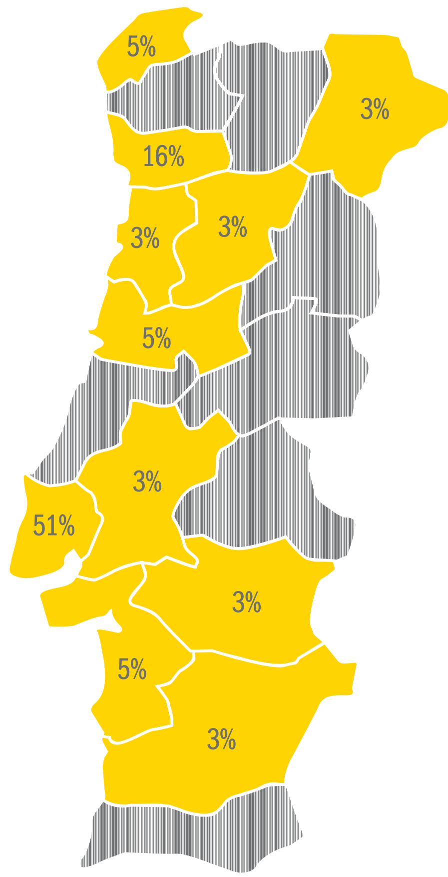
FDI – Top 10 investors in Europe (2007)*

*based on projects for which the information is available

Parent Company Name	Origin Country	Business sector	FDI in Portugal?
Micron techonology inc	USA	Electronics	No
OAO AvtoVAZ/Magna International Inc	Russian Fed./ Canada	Automotive Assembly	No
Hyundai Motor Co	South Korea	Automotive Assembly	No
Ryanair Holdings plc	Ireland	Air Transport	No
Ford Motor Co	USA	Automotive Assembly	No
Renault SA	France	Automotive Assembly	Yes
EasyJet	United Kingdom	Air Transport	Yes
Alstom/Tvel OAO	Alstom/Tvel OAO	Utility supply	No
Telekom Austria	Telekom Austria	Telecommunications & Post	No
Outokumpu Oy	Finland	Fabricated Metals	No

1.11
The investments in Portugal are concentrated in Lisbon, Oporto and coast side districts, as in the past

Keeping the trend followed in the past, investments are highly concentrated in Lisbon (51%) and Oporto (16%). In fact, 86% of the investments were made in coast side regions, against 14% in the countryside.



1.12
Portuguese FDI abroad has been mostly targeting Spain in the last decade

Since 1997, Portugal has increased its presence mainly in Spain, followed by Poland, United Kingdom and France. Nevertheless, the Portuguese FDI abroad remains somewhat arbitrary, since it is considerably dependent on a small number of companies and in very specific conditions.

Long-term evolution of Portuguese FDI by destination

Rank	Countries	Number of FDI in 1997-2007	Market share 1997-2007 (%)
1	Spain	25	34%
2	Poland	9	12%
3	United Kingdom	8	11%
4	France	7	10%
5	Portugal	5	7%
6	Romania	5	7%
7	Germany	3	4%
8	Hungary	3	4%
9	Belgium	2	3%
10	Bulgaria	2	3%
11	Netherlands	2	3%
12	Czech Republic	1	1%
13	Slovakia	1	1%
	Total	73	100%

II

Perception of Portugal by international investors

Perception of Portugal by international investors

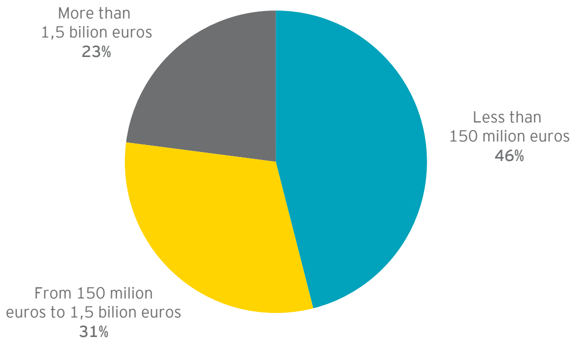
The Ernst & Young Attractiveness Survey 2008 was carried out by CSA. Specifically for Portugal, this independent market research company surveyed 209 international business executives by telephone (using CATI – Computer Assisted Telephonic Interviews) from April to May 2008. The sample was established to provide the most accurate profile of foreign investors in Portugal, with regard to EIM (European Investment Monitor) data since 2000.

Size and industry group: all business models

In order to obtain a representative sample of the Portuguese market, the type of company and their international strategies, the survey included the opinion of:

- SME (small and medium enterprises), as well as multinationals;
- Industrial companies, as well as service providers.

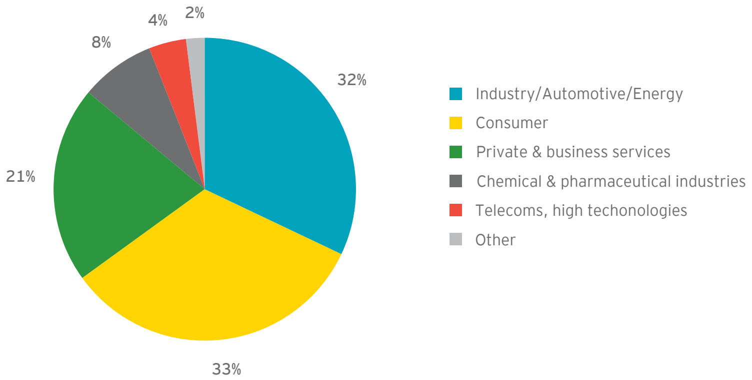
Size of companies surveyed by turnover (2008)



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

- Industry, automotive, energy;
- B-to-B and B-to-C services;
- telecoms and high-tech;
- consumer products;
- real estate and construction.

Company business sectors surveyed (2008)

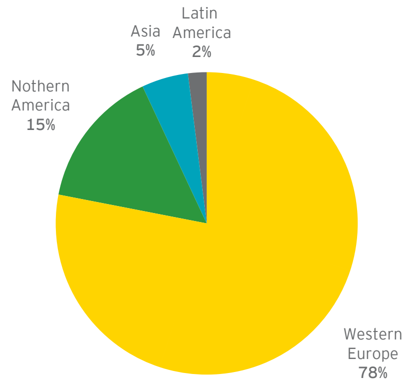


Companies origins: an international sample

The sample is mainly comprised of Western European companies (according to the nationality of the parent company), with most significant countries being Spain (22%), Germany (20%) and France (15%), followed by the USA (14%).

Compared with the 2007 survey, the sample has a larger share of Spanish and North American respondents. This is in line with the investments made in Portugal in 2007 and it is important to keep in mind, as it can explain some significant differences in the results compared to 2006.

Nationality of the companies surveyed (2008)



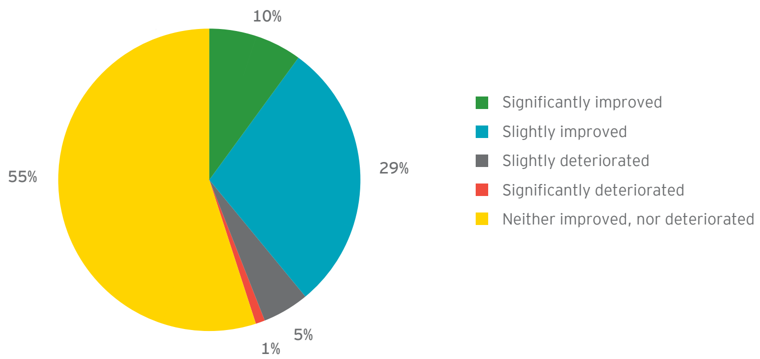
2.1 The image of Portugal improved in 2008, following the 2007 trend, mostly driven by the companies which are established in the country

The way Portugal is seen from the international investors kept the same trend observed in 2007, with 39% stating that their perception of Portugal as a potential business location has improved compared to 6% which state that the attractiveness of Portugal has deteriorated.

Considering the established companies in Portugal (122), 56% of the interviewed stated that the attractiveness of the country has improved, while the companies which are not established (87) replied 11%. Therefore, there is a significant perception gap between who is operating in and outside the country.

The larger companies are the most distrustful, with 25% of them stating that the situation improved, against 38% in the smaller and 45% in the medium companies. In the general consumer activity, the overall perception of improvement was considerable (42%) above the private and business services (31%) and the general industrial production (incl. automotive and energy) (39%).

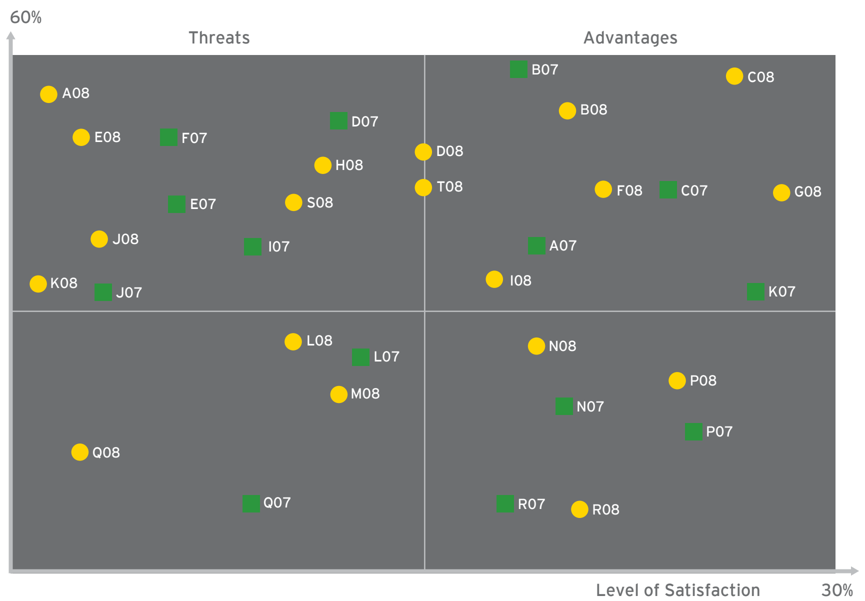
Evolution of executives' perception of Portugal (2008)



2.2
Perception of international investors improved in relation to corporate taxation

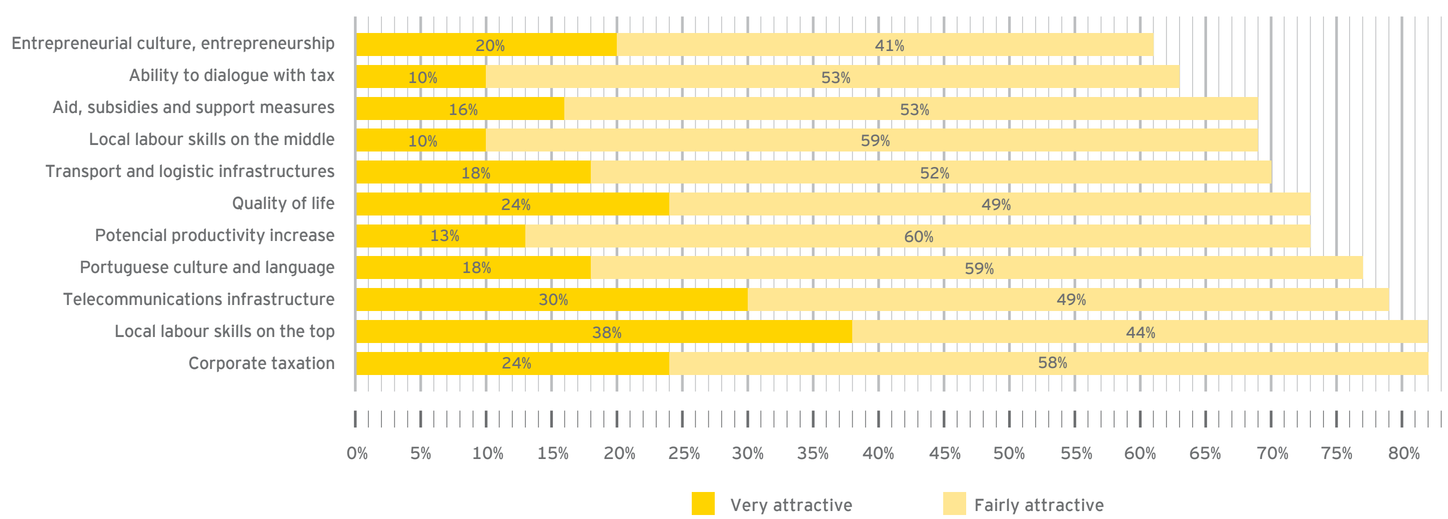
Our survey shows a favourable evolution on the perception of corporate taxation in relation to 2006. However there are more negative assessments related to the ability to dialogue with tax authorities, VAT level and level of bureaucracy and compliance requirements. Other areas where Portugal is attractive are: telecommunications infrastructures, transport and logistic infrastructures, and top management skills.

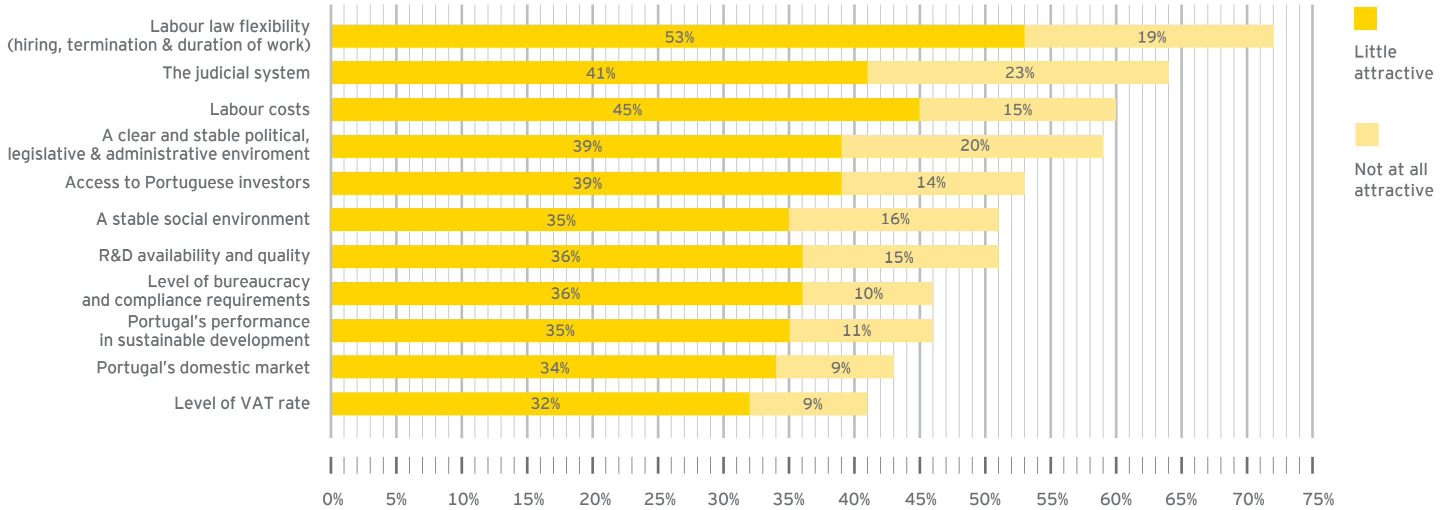
Strategic threats depicted in our survey are as follows: instable political, legislative and administrative environment, labour costs, instable social environment, labour law flexibility, lack of middle management skills, possibility of increasing productivity, judicial system. The table below shows the diagram of advantages / threats of Portugal as perceived in the survey, and the evolution of each attractiveness factor from 2007 to 2008.



A - Stable, legislative & administrative enviroment
B - Transport and logistic infrastructuras
C - Telecommunication infrastructuras
D - Potential prroductivity increase
E - Labor costs
F - Corporate taxation
G - Local labor skills on the top management
H - Local labor skills on the middle management
I - Portugal's domestic market
J - Labor law flexibility
(hiring, termination & duration of work)
K - Stable social environment
L - R&D availability and quality
M - Portugal's performance in sustainable Development
N - Portuguese culture and language
P - Quality of life
O - Access to local Portuguese investors
R - Aid, subsidies and support measures
S - Ability to dialogue with tax administration
T - Level of VAT rate

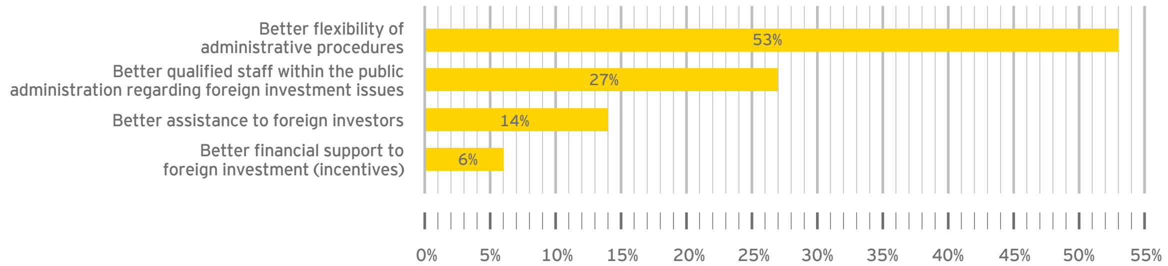
Portugal's Top strengths and weaknesses (2008)





Despite the improvements noticed in the Portuguese public administration efficiency in 2007 and 2008 (71% of the interviewed stated that there were improvements in the Portuguese public administration efficiency), there is still an overall sceptical view about the level of bureaucracy and compliance requirements (46% of the respondents considered this area as little attractive or unattractive).

The area in public administration in which the improvements were mostly noticed was the flexibility of administrative procedures (51% of the interviewed). It was also perceived a relevant development in the workforce qualification within the public administration, namely the staff which leads with foreign investment issues.

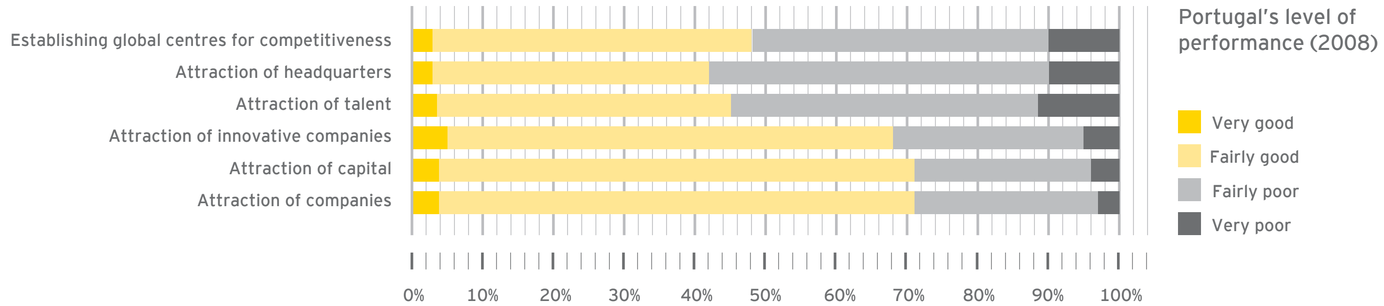


Public administration efficiency (2008)

...but Portugal still remains incapable of attracting foreign talent, as well as headquarters

The poor results regarding the ability to render special treatment to foreign managers and headquarters remain consistently unchanged.

As evidenced in the graph below, Portugal's performance in attracting talent and decision centres / headquarters is rather low.



Portugal's level of performance (2008)

III Portugal looking ahead

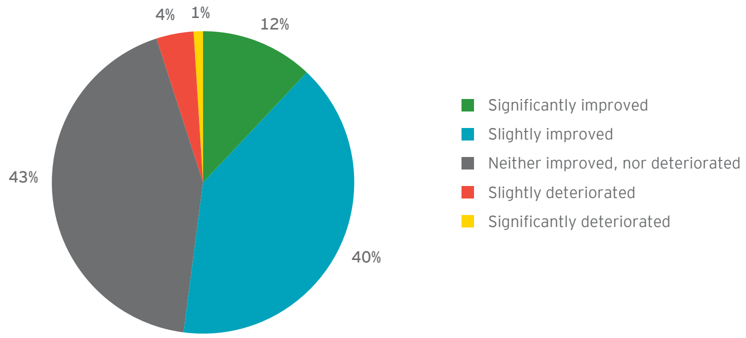
Portugal Looking ahead

3.1
Investors' expectations for the next three years (2008)

Approximately, 53% of the investors believe that Portugal will be able to improve its attractiveness over the next three years. There was a slight deterioration of those expectations comparing with 2007 survey, when 58% of the interviewed stated that improvements would be effective.

Nevertheless, only 5% (against 7% in 2007) of the respondents considered that the attractiveness in Portugal will deteriorate over the next three years. Again, the companies established in Portugal contributed significantly to this outcome, since 71% of those stated that improvements were expected in Portugal's attractiveness policy over the next three years.

Executives' perception of Portuguese attractiveness over the next three years (2008)



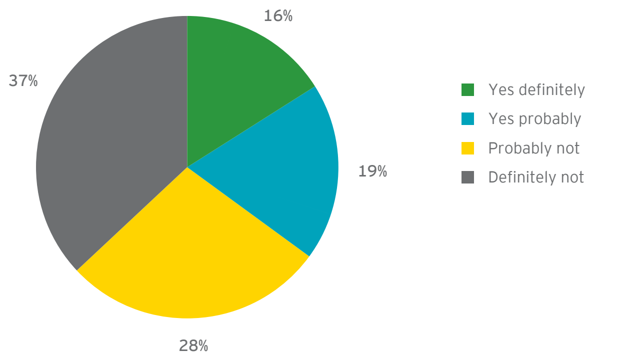
3.2
The majority of companies are not planning to relocate activities from Portugal, despite resistance to new investments and expansions

35% of the corporate decision makers admit they are considering establishing or developing activities in Portugal in the future.

In accordance with 2007 survey, 37% of the inquired stated that they will not, definitely, establish or develop activities in Portugal.

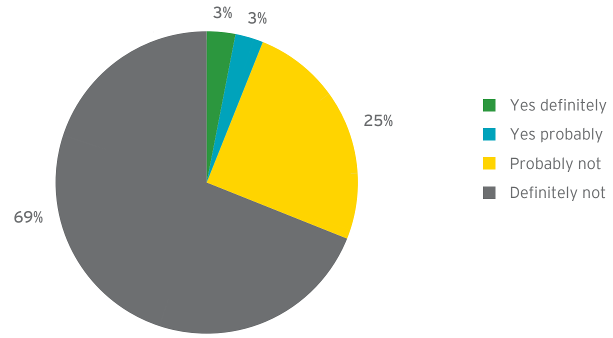
Nevertheless, the companies established in Portugal were considerably more receptive to develop its activities in Portugal, since 46% stated that they will do so. The companies not established in Portugal are still not receptive to established in the country, since only 14% stated they would do so. These figures illustrate an external image of Portugal which is still a cause of concern to the majority of the international investors. A relative modest number of companies, 6%, are planning to reallocate its activities to other countries in the near future. Therefore, 94% of the inquired stated that they do not want to reallocate to other countries, which is a comfortable scenario to Portugal. When comparing with 2007 survey, the 2008 figures are more optimistic.

Future investment or development projects in Portugal (2008)



Taking into account the companies that will reallocate part of its activities from Portugal, we found out that the key rationale for this decision relies in cost savings. These companies are basically from industrial and mass consumption sectors. Finally, the candidates for relocation are mostly targeting low cost areas such as China, Africa and Eastern Europe, for high scale production.

Relocation intentions (2008)

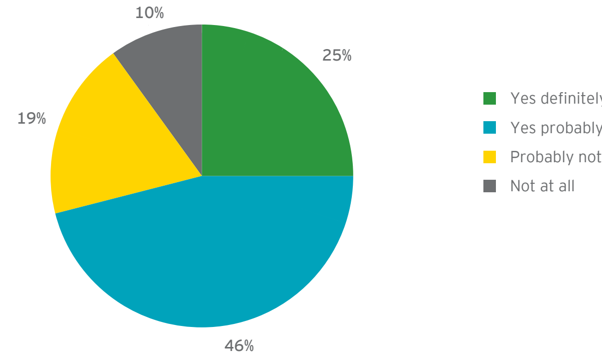


3.3
There is considerable receptiveness regarding the attractiveness policy adopted in Portugal...

More than 70% of the international investors are pleased with the Portuguese attractiveness policy.

Companies from the industrial sectors were more reluctant about the Portuguese attractiveness policy. In order to improve the Portuguese attractiveness, the companies surveyed stated that Portugal should lighten companies' legal and fiscal obligations, renew training and educational system, promote innovation and stimulate R&D, promote economic growth among SMEs and other measures that could increase the ease of doing business in the country.

Satisfaction towards international investors' attractiveness policy (2008)



...still driven by specific sectors...

Information and Communication Technologies are by far the most attractive sector in the near future, for international investors, with 26% of them considering it as the first option of investment. Energy sectors, both renewable and non-renewable, are considered by international investors as opportunities for quality and secure investments.

Summing up, the expectation of international investors relies on activities with a substantial asset / infrastructure ownership and high qualified business services to strengthen existing clusters. Investments in renewable energy are becoming relevant in number and amount invested, signalling a new trend of opportunities in this area.

The most attractive sectors in the near future (2008)