

 **ERNST & YOUNG**

Quality In Everything We Do

Portugal: A new paradigm?

Ernst & Young Portuguese Attractiveness Survey 2007

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Editorial

With globalisation there is no single best location for an investment. Rather the critical factor is the ability to be part of the global network of business. How is Portugal answering to this challenge as with regards to the attraction of Foreign Direct Investment (FDI)? Because policy matters, are we addressing the right mix of policies to leverage the competitiveness of the country? Assuming results are encouraging, is the path sustainable on the long run? Is the relocation of investments from Portugal to other countries, being complemented with the right shift of labour to higher productivity activities?

On top of these ongoing concerns, there are new items on the agendas of CEO's of global players with implications on the attractiveness of sites. Obstacles to the implementation of global strategies are changing. In addition to funding activities and building plants, challenges are becoming more intangible. They relate to the ability of attracting talent, bringing in key skills, doing business in reliable regulatory frameworks, and finding the right entities for strategic partnering. At last but not the least, there is an all range of new issues related to green technologies. In what extent environmental issues are shaping corporate strategies and industry trends? Are we facing a new set of competitive advantage factors, that are becoming critical to investment localization decisions?

In this Ernst & Young Portuguese Attractiveness Survey 2007 we pursue the quest for understanding how these issues impact the attractiveness of Portugal.

What we discovered is a consistent path of evidence for the advent of a new paradigm. However it is still premature to assess whether we are facing but quick wins, or instead a new sustainable profile of attractiveness.

The methodology of our Survey is based on a two-fold, original methodology that reflects (1) the "perceived" attractiveness of Portugal and its competitors by a representative panel of 209 international decision makers and (2) Europe's real attractiveness for foreign direct investors, based on Ernst & Young's European Investment Monitor.

As the Ernst & Young Portugal Attractiveness Survey enters its third year, we would like to extend our gratitude to the participation and commitment of all decision makers, who have taken the time to share their thoughts with us.



Executive Summary

Reality: Foreign investment in Portugal in 2006

- **Foreign Direct Investment (FDI) project announcements in 2006 totalled 38, an increase of 31%** in relation to 2005 (29 projects). With intents to create 9,816 more jobs, approximately 491 jobs per project (124 in 2005 and 122 in 2004).
- **Investments in Portugal were mainly in service related functions**, representing 61% of total number of projects. In terms of job creation, industrial functions account for 79.8%, with a rather strong contribution of logistics (71% of total jobs created). The European average is 70% of jobs created in industrial functions.
- Altogether tertiary sector account for 29% of total number of projects, against 37% from industry.
- Spain and USA lead the rank of key investors in Portugal with 10 and 6 projects each. Behind in the rank there is UK and Germany, with 4 projects each. Germany focus on manufacturing and to a less extent in Research & Development (R&D). Spain is equally spread between manufacturing, logistics and sales & marketing.
- Investments in Portugal continue to be concentrated in Lisbon, Oporto and other coast side districts.
- The number of investments made in Europe increased from 3,066 in 2005 to 3,531 in 2006. The United Kingdom and France are still leaders in Europe, attracting 19% and 16%, respectively, of FDI in 2006.

Perception: Portugal's perception is improving

- **Portugal attractiveness relies mostly on three set of criteria:** a) access factors to the market, such as telecommunication infrastructures, and transport and logistic infrastructures; b) regulatory framework, such as a stable political legislative and administrative environment; c) business environment, such as flexibility of administrative procedures.
- There are other attractiveness factors, such as stable social environment, quality of life, Portuguese culture and language, Portugal's special expertise. However they are less critical to location decisions as the above mentioned.

- Key weaknesses related to fiscal, labour and productivity issues. In addition, insufficient labour law flexibility, as well as potential productivity improvement.
- **Investor's view of Portugal in 2006, is in line with positive assessment brought forward from 2005.** Furthermore, less than 8.5% believe Portugal as a potential business location has deteriorated (compared to 13% in the 2006 Survey). In one particular sector (high-tech & telecommunication infrastructures and equipments) none of the interviewed stated the deterioration of Portugal attractiveness.
- Expectations for next three years are rather positive. **More than 58% of investors believe Portugal will be able to improve its attractiveness.** And the number of investors who believe Portugal will deteriorate its attractiveness has also decreased from 8% in 2005 to 6.5% in 2006. Industries that perceive a higher improvement in the attractiveness are: high-tech & telecommunication infrastructure and equipment.
- In light of the said above results, it does not surprise that **64% of investors are in favour of Portugal's attractiveness policy.** There is one exception though in relation to the consumer goods industry, which can be explained by the level of Value Added Tax (VAT) in Portugal, and low growth economy.
- **The rationale of relocations of Portugal to other countries is driven by cost savings.** The majority is from automotive and consumer goods, and very few from high-tech & telecommunication infrastructures and equipment. Candidates to exit are targeting low cost countries. These findings signal the transformation of Portuguese paradigm of attractiveness: less labour intensive low value-added products and increased specialization in medium and high-tech activities.
- In terms of specialization areas, **services are quoted as the most attractive in the near future, with a significant contribution of tourism and leisure.** Complemented with a all range of services such as high technology, B to B and healthcare contributing to robust the cluster.



1.

**2006 Foreign Direct
Investments in Portugal**

To keep track of investments carried out in Europe, and in Portugal, **Ernst & Young created the Ernst & Young European Investment Monitor (EIM) in 1997** to monitor investments and expansions of activity in the region.

This database does not capture Mergers & Acquisitions (M&A) activity and focuses only in investments perceived as long term commitments such as greenfield projects (investment in new sites) and expansion projects in existing sites. It is powered by Oxford Intelligence, and has benefited from an improved measurement of new projects, allowing a more precise analysis in terms of market share (for countries, industry and origins), with the guarantee of consistent and reliable data.

At macro level, data is available on FDI which includes equity capital, reinvested earnings and intra-company loans. While this information is broadly comparable, most companies and development experts are interested in where inward investment projects have been undertaken; the type of investment concerned, who made the investment and in which sectors.

The detailed analysis on the European reality is part of the 2007 European Attractiveness Survey. **This document aims to focus the analysis on the Portuguese economy.**

1.1 Investments in Portugal increased. The trend of investments in the UK and France continues.

Contrary to common perception, **European countries are experiencing the most active period in their modern economic history in terms of FDI.** Inward investment activity in Europe reached a record high in 2006, with 3,531 projects announcements, representing an annual increase of 15.2%

In 2006, the UK and France maintained its position as the main destinations of investments in Europe, with 1,251 investments made in total (14% increase in relation to 2005), which represented more than 35% of total investments and gives these two countries a comfortable head start when compared with other countries.

Investments in Central and Eastern Europe deteriorated slightly in relation to 2005. Poland, Czech Republic and Hungary witnessed a drop on number of projects, respectively of 180 to 152 (-15.6%), 116 to 113 (-2.6%), 115 to 108 (-6.1%).

European Mediterranean countries performed well, Spain (147 to 212 projects, +44%), Italy (49 to 74 projects, +51%) and Portugal (29 to 38 projects, +31%).

The three European leading countries in capturing FDI (UK, France and Germany) increased their market share in number of projects, from 41.6% in 2005 to 43.5% in 2006.

Portugal's market share increased in 2006 from 0.9% to 1.1%, and occupies the 20th position in the list of investment destinations (21st in 2005).

Top 15 European countries as investment destinations
(number of projects - 2005/2006)

Rank 2006	Countries	Number of FDI in 2006	Market Share 2004 (%)	Market Share 2005 (%)	Evolution of Market Share 2005/2006
1	United Kingdom	686	19.4%	18.2%	1,2
2	France	565	16.0%	17.5%	-1,5
3	Germany	286	8.1%	5.9%	2,2
4	Spain	212	6.0%	4.8%	1,2
5	Belgium	185	5.2%	5.9%	-0,7
6	Poland	152	4.3%	5.9%	-1,6
7	Romania	140	4.0%	2.8%	1,2
8	Switzerland	136	3.9%	3.0%	0,9
9	Czech Republic	113	3.2%	3.8%	-0,6
10	Sweden	113	3.2%	3.1%	0,1
11	Hungary	108	3.1%	3.8%	-0,7
12	Netherlands	95	2.7%	2.7%	-0,0
13	Russia	87	2.5%	3.6%	-1,1
14	Ireland	74	2.1%	2.2%	-0,1
15	Italy	74	2.1%	1.6%	0,5
20	Portugal	38	1.1%	0.9%	0,1
	Other	467	13.2%	14.3%	-1,0
	Total	3,531	100.0%	100.0%	

1.2 Portugal: Trends are higher than European average...

...both of investment in new projects...

During 2006, the majority of investments in Europe were new projects (77%). **Investments in Portugal follow the same trend with investments in new sites representing more than 82% of total investments received in 2006.** This mix outperforms 2005 results (new investments stood for 76%) and is showing a change in the type of investments.

Comparison between New Projects / Expansion Projects (2006)

Rank 2006	Countries	Number of FDI in 2006	Expansion projects (%)	New projects (%)
1	United Kingdom	686	26%	74%
2	France	565	41%	59%
3	Germany	286	17%	83%
4	Spain	212	21%	79%
5	Belgium	185	37%	63%
6	Poland	152	18%	82%
7	Romania	140	21%	79%
8	Switzerland	136	14%	86%
9	Czech Republic	113	19%	81%
10	Sweden	113	15%	85%
11	Hungary	108	40%	60%
12	Netherlands	95	13%	87%
13	Russia	87	10%	90%
14	Ireland	74	34%	66%
15	Italy	74	15%	85%
20	Portugal	38	18%	82%
	European % of total		23%	77%

... and number of jobs created

Portugal is in the top 10 countries in terms of jobs created (average by project of 491 in 2006 against 124 in 2005) and, once again, well above European average (101). This figure is based on projects for which employment information is available. For Portugal this indicator is likely to be biased by the investment of Abertis Infraestructuras, S.A. responsible for the creation of 7.000 jobs.

Top 15 European countries for FDI by job creation (2006)

Rank 2006	Countries	Total job creation in 2006 *	Jobs created by project (average 2006) *
1	Poland	31,115	324
2	United Kingdom	27,481	60
3	France	20,509	53
4	Czech Republic	17,369	214
5	Romania	13,969	191
6	Slovakia	13,527	436
7	Hungary	10,906	151
8	Spain	9,970	87
9	Germany	9,893	70
10	Portugal	9,816	491
11	Ireland	7,153	138
12	Russia	6,960	211
13	Belgium	5,417	48
14	Serbia	5,212	372
15	Bulgaria	4,080	128
	Other	17,996	
	Total	211,373	
	European average		101

* based on projects for which the information is available

From the job creation stand point, the majority of FDI investments in Portugal are in industrial functions, although with a much lower exposure in manufacturing and a higher relevance of logistics, when compared to 2005. However, the same conclusion does not apply in terms of number of projects. From this angle, Portugal captured a higher proportion of projects in services related functions.

In terms of average number of jobs created, one single industrial project created the same number of jobs as three tertiary projects: an average of 712 jobs was created for industrial functions compared to 220 for tertiary functions, in 2006.

Drilling down, investments in logistics have created a significant number of jobs. In services, Shared Services Centre and Contact Centre have also contributed significantly to this outcome.

Still industrial in many aspects, Portugal is also relying on its strengths in the knowledge economy, realising technology-intensive investments and establishing new services and operations: a full 23.7% (number of projects) of 2006 inward investment was in headquarters, call centres, R&D operations and call centres, creating approximately 1,931 jobs.

FDI and job creation by business function in Portugal (2006)

Business Functions	Number of FDI in 2006	Market Share Job Creation 2006	Jobs created by project (average 2006) *
Manufacturing	26.3%	85%	92
Logistics	13.2%	71.3%	3,501
Total industrial functions	39.5%	79.8%	712
Sales & Marketing	36.8%	0.5%	17
Headquarters	2.6%	0.0%	0
Research & Development	5.3%	0.6%	28
Contact Centre	13.2%	8.9%	292
Shared Services Centre	2.6%	10.2%	1,000
Total service functions	60.5%	20.2%	220

* based on projects for which the information is available

Europe, particularly Western zones, has now confirmed its place in the global market as a prime location for service sector related jobs: the region, nonetheless, remains attractive to traditional, manufacturing related industries. Manufacturing functions retained a highly respectable 40% of the total number of projects in 2006.

In terms of job creation we have seen the same relation of one project for industrial functions against three projects in services related functions.

1.3 FDI: Shift towards services and logistics

The two business sectors with a greater number of FDI projects in 2006 were **Business Services (15.8%)** and **Transportation/Logistic (10.5%)**. Together, along with automotive components, software and non-metallic mineral products, accounted for 50% of the investments in Portugal.

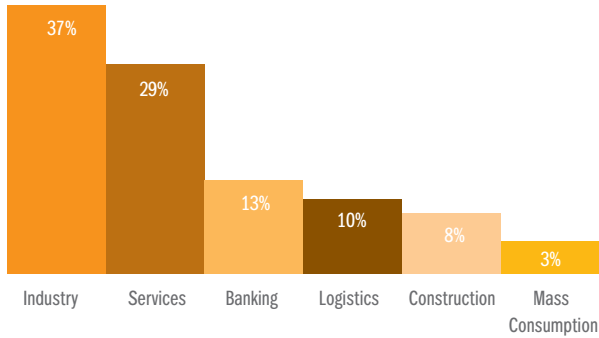
FDI in Portugal breakdown by business sector (2006)

Business Services	Number investments	% Number investments
Business Services	6	15.8%
Transportation / Logistic	4	10.5%
Automotive components	3	7.9%
Non-metallic mineral products	3	7.9%
Software	3	7.9%
Financial Intermediation	2	5.3%
Machinery and equipment	2	5.3%
Renting	2	5.3%
Chemicals	1	2.6%
Computers	1	2.6%
Construction	1	2.6%
Electronics	1	2.6%
Food	1	2.6%
Forestry	1	2.6%
Furniture and sports equipment	1	2.6%
Insurance and Pensions	1	2.6%
Oil & Gas	1	2.6%
Pharmaceuticals	1	2.6%
Publishing	1	2.6%
Real Estate	1	2.6%
Scientific Research	1	2.6%
Total	38	

Altogether services accounted for 29% of total number of projects against 37% from industry, logistics rank close banking/finance/insurance.



FDI in Portugal breakdown by key business sector (2006)



Industry

Automotive Components 7.9%
Chemicals 2.6%
Electronics 2.6%
Forestry 2.6%
Furniture and sports equip. 2.6%
Machinery and equip. 5.3%
Non-metallc mineral 7.9%
Oil & Gas 2.6%
Pharmaceuticals 2.6%
Publishing 2.6%

Services

Business Services 15.8%
Computer 2.6%
Scientific Research 2.6%
Software 7.9%

Banking

Financial Intermediation 5.3%
Insurance and pensions 2.6%
Renting 5.3%

Logistics

Transp./Logistics 10.5%

Construction

Construction 2.6%
Real Estate 2.6%

Mass Consumption

Food 2.6%

Within industry is worth to flag the diversification towards higher income activities such as automotive components, and the advent of others, such as chemical, pharmaceutical, machinery and equipment.

FDI in Portugal breakdown by activity (2006)

Activity	Number investments	% Number investments
Sales & Marketing	14	36.8%
Manufacturing	10	26.3%
Logistic	5	13.2%
Testing & Servicing	4	10.5%
Reasearch & Development	2	5.3%
Contact Centre	1	2.6%
Headquarter	1	2.6%
Shared Services Centre	1	2.6%
Total	38	100.0%

From the 18 industrial oriented investments in Portugal, 10 were manufacturing-driven, the others being logistics and testing & servicing. Within this context it is important to highlight two particular investments that occurred during last year: from Abertis in the new logistic center for transport and communication company (amounting to €463m) and Repsol's in the expansion of petrochemical complex facility (amounting to €753m).

Regarding project type, it is interesting to realize that all expansion projects occurred either on manufacturing or logistic activities, whereas in services all investments represented new projects. This trend demonstrates a remarkable broad base of investor interest.

FDI in Portugal breakdown by project (2006)

Project type	Number investments	% Number investments
New	31	81.6%
Expansion	7	18.4%
Total	38	

From the perspective of origin country of investment, the top 5 is composed by Spain (26.3%), USA (15.8%), United Kingdom (13.2%), France (10.5%) and Germany (10.5%).

UK companies invest mainly in services where as Germany players in industry (automotive components and manufacturing).

Spanish investments comprise a variety of activities and business sectors and account for a significant percentage of FDI, both in terms of number projects and value.

FDI per origin country (2006)

Origin country	Number investments	% Number investments
Spain	10	26.3%
USA	6	15.8%
United Kingdom	5	13.2%
France	4	10.5%
Germany	4	10.5%
Italy	2	5.3%
Japan	2	5.3%
Singapore	2	5.3%
Belgium	1	2.6%
Brazil	1	2.6%
Sweden	1	2.6%
Total	38	

1.4 Global Companies: Strategic implication for Portugal

In what extent global players prefer Portugal vis à vis other European location for investments?

Do they tend to put all eggs within the same basket, or do they diversify their investments geographically? We conclude that German and British companies tend to be more global, as they invest in several European countries.

Nevertheless there are a significant number of companies, 8 Spanish, 3 North American, 2 Italian, 2 French, 1 Belgium, 1 Brazilian, investing only in Portugal.

FDI - top 10 investors in Europe (2006)

Parent Company Name	Origin Country	FDI in Portugal?
Deutsche Post AG	Germany	No
Deutsche Telekom AG	Germany	No
General Electric Co	USA	No
Hitachi	Japan	Yes
EADS	France / Germany / Spain	No
IBM Corp	USA	Yes
Microsoft Corp	USA	No
Robert Bosch GmbH	Germany	Yes
Siemens AG	Germany	No
TNT NV	Netherlands	No

Finally, from the top 10 investors in Europe in 2006, only 3 have invested in Portugal (Hitachi – new office for business consulting; IBM Corp – new consultancy, auditing and business management services center; Robert Bosch, through Vulcano – expansion of solar panel manufacturing facility).

1.5 Europe is still seen as a prime location for industrial activities. Within its peer group, Portugal is a key player in logistics and manufacturing activities

In the European top 5 investment activities ranking, Portugal stands in a modest place. The area where Portugal is better positioned in 2006 is the logistics sector (with a market share of 1.9%).

Looking at Portugal's peer group (based on 2006 total investments) we come to the following conclusions: investments per project made in Portugal is similar to countries such as Switzerland, Bulgaria and Ireland (USD 38,8m per project); in terms of number of investments made in 2006, Portugal is below Ireland, Bulgaria, and Italy but above Eastern Europe countries like Croatia, Estonia, Serbia and Latvia.

Portugal Peer Group

(number of projects - 2005/2006)

Countries	Number of FDI in 2006	Capex 2006/number of FDI (USD m)*	Market Share 2006 (% of number of FDI)	Market Share 2005 (% of number of FDI)	Evolution of Market Share 2006/2005
Switzerland	136	1,6	28,7%	25,9%	2,8
Italy	74	4,8	15,6%	13,6%	2,0
Ireland	74	28,7	15,6%	18,7%	-3,1
Bulgaria	68	7,8	14,3%	9,2%	5,2
Portugal	38	38,5	8,0%	8,1%	-0,1
Serbia	23	5,1	4,9%	5,3%	-0,4
Latvia	22	1,4	4,6%	4,5%	0,2
Croatia	15	3,6	3,2%	5,8%	-2,7
Estónia	15	13,4	3,2%	6,4%	-3,2
Slovenia	9	0,9	1,9%	2,5%	-0,6

* based on projects for which the information is available

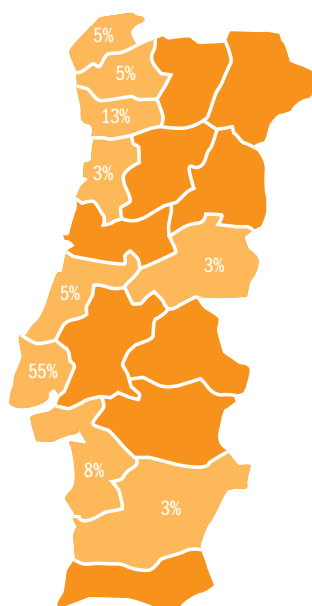
When comparing to the previous year, in 2006 the distribution of market share is more widely spread, signalling a more diverse investment matrix.

Top 10 investment sectors in Portugal and largest variations to 2005
(number of projects - 2005/2006)

Investment sectors	Number of FDI in 2006	Activity	Market share 2006 (%)	Market share 2005 (%)	Evolution of market share 2005 / 2006
Business Services	6	Sales & Marketing (5) Contact Centre (1)	15.8%	3.0%	12.8
Other Transport Services	4	Logistics (3) Sales & Marketing (1)	10.5%	17.0%	-6.5
Software	3	Testing & Servicing (2) Headquarters (1)	7.9%	7.0%	0.9
Non-metallic mineral products	3	Manufacturing (2) Logistics (1)	7.9%	7.0%	0.9
Automotive Components	3	Manufacturing (2) Research & Development (1)	7.9%	17.0%	-9.1
Financial Intermediation	2	Sales & Marketing (2)	5.3%	0.0%	5.3
Machinery & Equipment	2	Manufacturing (2)	5.3%	0.0%	5.3
Renting	2	Testing & Servicing (1) Sales & Marketing (1)	5.3%	0.0%	5.3
Furniture & Sports Equipment	1	Manufacturing (1)	2.6%		2.6
Food	1	Manufacturing (1)	2.6%	10.0%	-7.4

1.6 Same trend as in the past: investments in Portugal are concentrated in Lisbon, Oporto and coast side districts

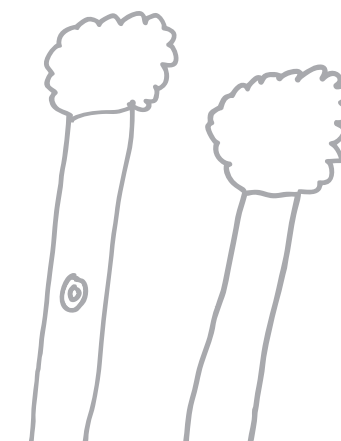
Split of FDI in Portugal by districts
(market share 2006)



Unsurprisingly, investments are highly concentrated in Lisbon (55%) and Oporto (13%). **In fact, during this year, investments concentrated even further in Lisbon** (in 2005 market share was 41%).

Like in previous years, investments tend to locate on the coast side, which reflects the existing economic gap between inland and coast side districts.

Additionally, investments are mostly in the centre and north of the country (86% of total investments), again consistent with previous years.



1.7 European investors faithful to Europe and Portugal

Top 5 investors in Portugal

(number of projects - 2005 / 2006)

Rank 2006	Countries	Number of FDI in 2006	Market share 2006 (%)	Market share 2005 (%)	Evolution of market share 2005 / 2006
1	Spain	10	26.3%	24.1%	-2.2
2	USA	6	15.8%	6.9%	-8.9
3	United Kingdom	5	13.2%	10.3%	-2.8
4	Germany	4	10.5%	24.1%	13.6
5	France	3	7.9%	6.9%	-1.0

In total, intra-European investments represent 53.1% of FDI in Europe, with Germany being the first country (12.7%) and the UK second (6.7%). The USA is the first non-European country to invest in Europe.

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Similarly, key investors in Portugal are Spain and USA. In fact Portugal is the main destination of investments for Spanish companies. The following non-European investors in Portugal this year are Brazil and Singapore, whereas in 2005 this place was occupied by USA and Brazil.

Top 6 destinations of Portuguese investment

(number of projects - 2000 / 2006)

Rank 2000 - 2006	Countries	Number of FDI in 2000 - 2006	Market share 2000 - 2006 (%)
1	Spain	24	39.3%
2	Poland	8	13.1%
3	France	7	11.5%
4	United Kingdom	7	11.5%
5	Romania	4	6.6%
6	Netherlands	2	3.3%

Since 2000, Portugal increased its presence in the neighbour country, Spain, followed by investments in Poland, France and United Kingdom.



2.

Perception of Portugal by international investors

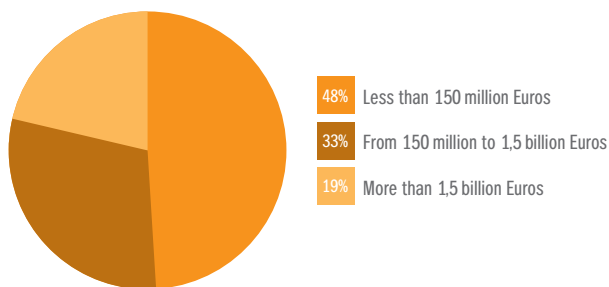
The *Ernst & Young Portuguese Attractiveness Survey 2007* was carried out by CSA. Specifically for Portugal, this independent market research company surveyed 204 international business executives by telephone (using CATI – Computer Assisted Telephonic Interviews) from April to May 2007. The sample was established to provide the most accurate profile of foreign investors in Portugal, with regard to the EIM (European Investment Monitor) data since 2000.

Size and industry group: all business models

To further guarantee 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.

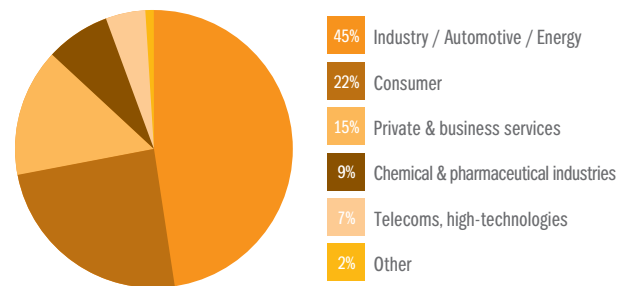
Size of companies surveyed by turnover (2007)



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.

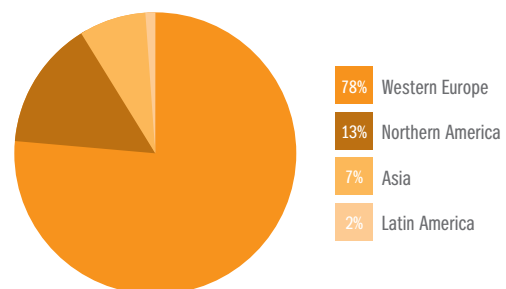
Company business sectors surveyed (2007)



Companies origins: an international sample

The sample is comprised mainly of Western European companies (in relation to the nationality of the parent company), with most significant countries being Spain (19%), France (18%) and Germany (24%). The USA represents 11% of the Northern America.

Nationality of the companies surveyed (2007)



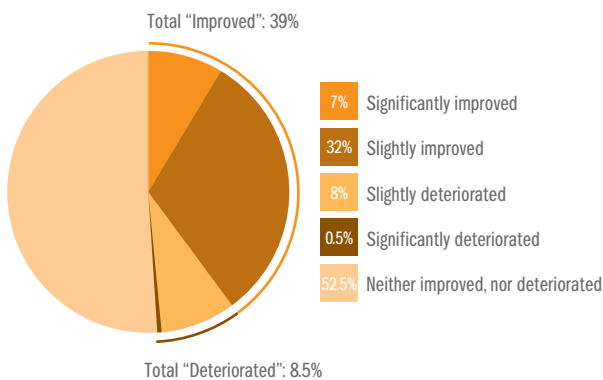
Compared to the 2006 survey, the sample is more “European”. This is in line with the investments made in Portugal in 2006 and it is important to keep it in mind, as it can explain some significant differences in the results compared to 2005.

2.1 Portugal image improved in 2006 globally,...

Investors view of Portugal, on a stand alone basis, have clearly progressed from 2005 to 2006, with less than 8.5% stating that their perception of Portugal as a potential business location has deteriorate (compared to 14% on the 2006 Survey) 91.5% state that the attractiveness of Portugal either remained unchanged or improved (against 86% in 2006 Survey).

In one particular sector, high-tech & telecommunication infrastructure and equipments, none of the interviewed stated the attractiveness of Portugal deteriorated.

Evolution of executive's perception of Portugal (2006)

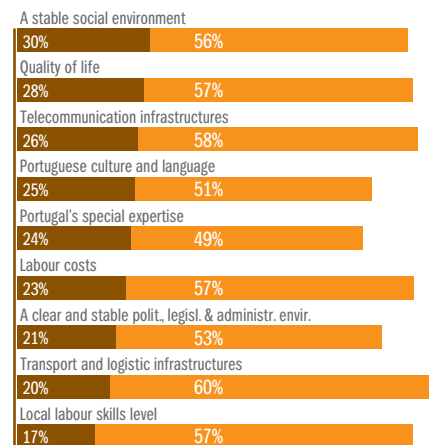
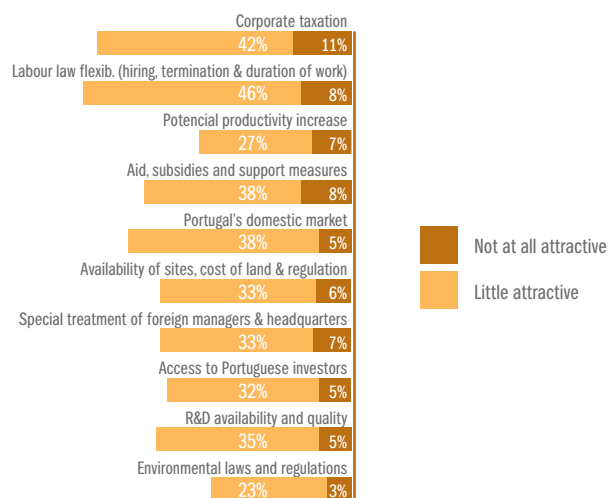


Results 2005: Total "Improved": 49% | Total "Deteriorated": 14% | Neither, nor: 37%

... in the country's strengths and weaknesses...

Investors perception of Portugal show a global trend to improvement in all strengths criteria.

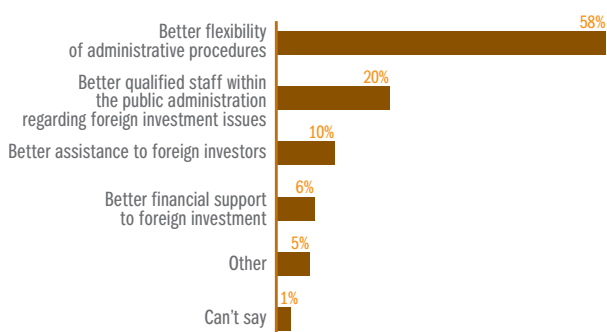
Portugal's Top 5 strengths and weaknesses (2006)



It is worthy to mention the improvement in the perception of the quality of transport and logistic infrastructures, telecommunication infrastructure, and the stability of regulatory framework.

In addition to the said above strengths, there is a significant improvement in the assessment of public administration efficiency: 81% of the opinions of international decision makers quoted this improvement, particularly in better flexibility of administrative procedures.

Public administration efficiency (2006)



Key area of improvement is related to better flexibility of administrative procedures. However, there are other areas to improve such as qualification of staff and better assistance to foreign investors, either through financial support or operational improvement, such as a one-stop-shop for administrative related issues.

Measures to improve public administration efficiency (2006)



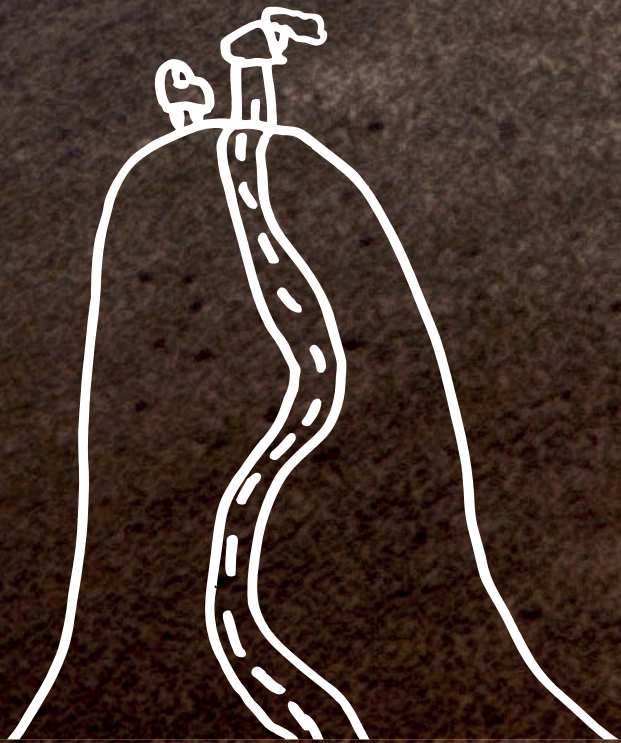
In relation to weakness there are a few signs of less attractiveness in critical aspects of location decisions: corporate taxation, potential productivity increase. In addition, there are other factors deteriorating, such as availability of sites, cost of land and regulations and special treatment of foreign managers and headquarters.

To sum up, improvements in key strengths consist in factors related to market access and stable regulator environment. The deterioration in weaknesses focus on fiscal, legal and labour productivity factors. Finally, the deterioration of the ability to render special treatment to foreign managers and headquarters, may be related to the difficulty of attracting headquarters and top quality managers.

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

Portugal's level of performance (2006)

	Very Good	Fairly Good
Attraction of innovative activities	9%	58%
Attraction of top quality managers	7%	46%
Attraction of corporate venturing capital	3%	50%
Establishing world class clusters	7%	46%
Attraction of talent	7%	39%
Attraction of decision centres / headquarters	4%	38%



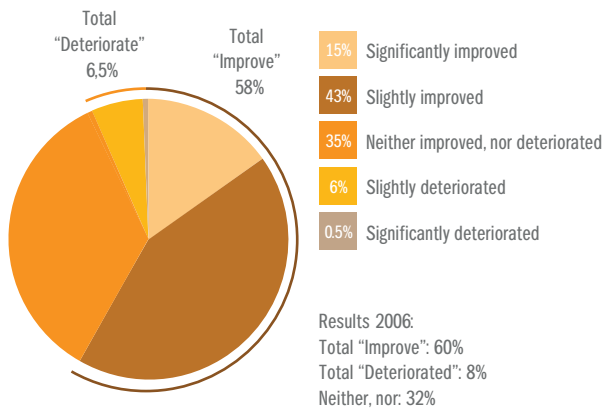
3.

**Portugal
Looking ahead**

3.1 Investor's expectations for the next three years

More than 58% of investors believe Portugal will be able to improve its attractiveness over the next three years. Furthermore, the number of investors who believe Portugal will deteriorate its attractiveness has also decreased from 8% in 2006 to 6.5% in 2007.

Executive's perception of Portuguese attractiveness over the next three years (2007)



18

Industries that perceive a higher improvement in the attractiveness of Portugal are: high-tech and telecommunication infrastructure and equipments (64%); industry, automotive, energy (65%).

36% of corporate decision makers state they are considering establishing or developing activities in Portugal. This outcome is in line with the results of Ernst & Young European Investor Monitor 2006. There are 38 announcements of projects for Portugal, representing an increase of 31% (from 29 to 38).

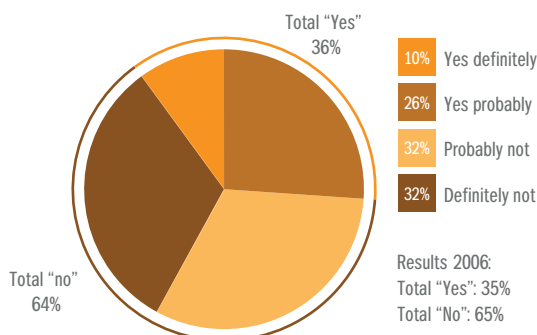
And only 32% state they will "definitely not" establish on develop activities in Portugal.

It is fair to say that the number of investors that are planning new investments already have projects in Portugal (44% of total Yes relate to investors that are in the country), and more than 70% of investors who said "No" do not have any investment in Portugal. These numbers reflect the fact that the country continues to evidence uncertainties for new investors.

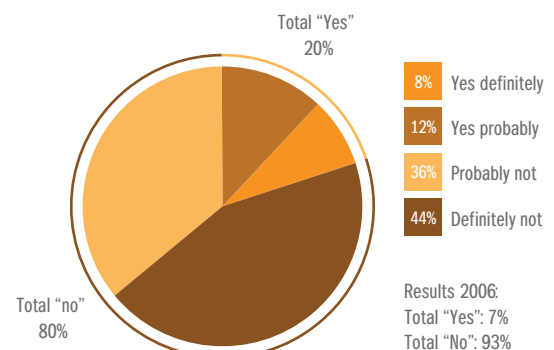
However, the number of investors that is anticipating relocations from Portugal to other countries increased from 7% in 2006 to 20% in 2007. Also, the number of companies that are keen to maintain its investments in Portugal remained practically (from 93% to 80%) stable.

3.2 The future signals the change of paradigm

Future investment or development projects in Portugal (2007)



Relocation intentions (2007)



To wich zone/country?						
Denmark	3	Africa (inc. North Africa/Maghreb)	4	Central & Eastern Europe	2	
Finland	2	Czech Republic	1	Russia	2	
The Netherlands	2	Can't say	1	China	2	
Can't say	2			Other Asia	2	
Western Europe	9					
					Resp.	23

3.2 The future signals the change of paradigm of Portugal

Analysing closely the companies who stated they will relocate part of its activities from Portugal, we find that the key rationale of this decision relies in cost savings (explain 77% of all responses). From this sample, more than 50% are from automotive, industry and 15% from consumer goods. Whereas the most majority of high-tech & telecommunication infrastructure and equipment is not considering any significant relocation.

Finally, candidates to relocation are targeting low cost countries (61%) and high scale production. These findings signal the transformation of Portuguese paradigm of attractiveness less labour intensive low value-added products and increased specialization in medium and high-tech activities.

Services are quoted as the most attractive in the near future. Within services, there is a significant contribution of tourism and leisure. Which is complemented with a all range of services such as, high-technology, B to B and healthcare, contributing to robust this clusters.

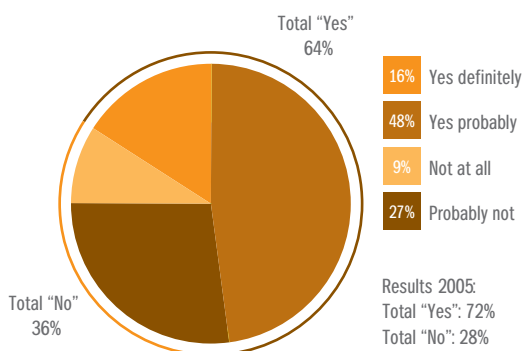
Ranking second we have environment and renewable energy, as important as industry. Real state and construction mirror importance of logistics.

To sum up, expectation of foreign investors rely on activities with a substantial asset / infrastructure ownership, and business services to robust the associated clusters. Environment and renewable energies are a new card for investors.

In relation to the current attractiveness policy...

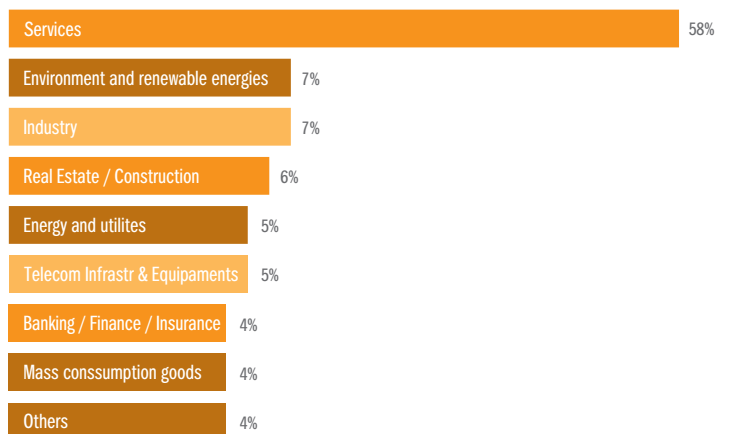
Roughly 2/3 of international investors like Portugal's attractiveness policy. This reflects the consolidation of high assessment made in 2006.

Satisfaction towards international investors' attractiveness policy (2006)



The higher percentage of those who do not consider the policy as being appealing is explained by representatives of consumer goods, and is driven by the level of VAT in Portugal and low growth economy, amongst other factors.

3.3 The most attractive sectors in the near future (2007)



Services	Industry	Other
Tourism and Leisure 45%	Car Industry 1%	Pharmaceutical Industry 1%
Retail/Mass Marketing 4%	Transport 1%	Other 1%
Telecom Services 3%	Heavy Industry 1%	Can't say 2%
High Technology Services 3%	Chemical Industry 1%	
B to B services 2%	High Technology Equipaments 2%	
Healthcare 1%	Media and Publishing 1%	
Mass consumption goods		
Mass consumption goods, food & textile ind. 3%		
Bio-agriculture 1%		

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all the companies that took part in this 2007 survey.**