France attractiveness survey 2011

The future. Now!

Ernst & Young
Quality In Everything We Do

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Seeking investments for the future

We reassess the attractiveness of both Europe and France this year against a background of rapid change: the world is increasingly multipolar, with foreign investment flows more evenly spread between different global regions.

Though centers of attraction are becoming more numerous and more specialized, the European Union as a whole captures 26% of global foreign direct investment (FDI), in line with its share of global GDP.

Western Europe has held up well this year: it is *perceived* as the second most attractive destination in the world, close behind China, and maintains its ranking in 2011.

In terms of *actual* attractiveness, investment flows return to levels pre-dating the economic crisis, with an 11% increase in investment decisions compared with 2009. The growth is modest, but could be sustained if Europe continues to achieve recognition of its historic strengths.

With 562 international investment projects announced in 2010, France remains the second most popular FDI destination in Europe. Industrial investments have held up well, thanks to the strength of France's world leaders in energy, transport and convenience goods. Services advance strongly meantime, especially business services, which performed well across the country thanks to initiatives by metropolitan regions and prospects offered by the *Grand Paris* (Greater Paris) project.

But this year, France's position as vice-champion is unquestionably under threat: with an impressive 34% surge, Germany missed becoming the main challenger to the leader, the United Kingdom, by only two projects.

In this new global economic geography, what signals should France send? What reforms should it undertake urgently to make the most of its potential and recover a leading role in the world? What sectors and investments, of necessity more focused than in the past, should it choose? And how, finally, should it win the confidence of companies that have not yet chosen France, and indeed, the confidence of the French themselves?

The 207 investors who agreed to share their views in this 10th *France attractiveness survey* offer some answers and suggest many ways forward. Their contribution to the wider debate is invaluable: their voices combine to suggest to France what it should do to make itself *the* destination for future investments.

May 2011

Stéphane Baller
Partner
Ernst & Young Société d'Avocats
Cross Border Business Services Leader

Marc Lhermitte
Partner
Ernst & Young Advisory

Foreword

Christine Lagarde
Minister for Economic Affairs, Finance and Industry

More than 20,000 foreign companies established in France together employ more than two million people. They contribute to growth and 2010 was, in many respects, a record year, in the number of projects attracted and the quality of their activities, and above all in the record 31,815 jobs created, up 6% on the previous year.

For the past four years, the Government has put the attractiveness of France at the heart of its economic policy. Although structural competiveness reforms and support for innovation are among the most emblematic policies, they are complemented by a series of big projects, such as the "Future Investment Program." The classic assets of France are well known, but they are not the only ones.

Rather, as the France attractiveness survey 2011 shows, modernizing the economy is not enough. It is also important to show the new face of France to our foreign partners, as the Invest in France Agency does, and correct a perception of France that is sometimes incomplete. In this respect, the 2011 survey offers a useful and effective dashboard to measure the impact of reforms underway and those to pursue.

Further changes are needed, a view shared all the way to the very top of the State. On 28 March, the President of the Republic sent a very important signal to our partners by personally convening the Strategic Council for Attractiveness. His involvement bears witness to our determination to support all foreign investors in France. On this occasion, we announced the creation of a single clearinghouse for all tax affairs of non-resident investors and the creation of a center dedicated to simplifying administrative formalities for foreign executives and their families. For we want to welcome competitive and innovative companies in a transparent and helpful way. In two words, we want to be business friendly.

Through their competitiveness, job creation, innovation and research and development, foreign companies are an opportunity and a boon for our economy.

May 2011

Executive summary

This is the 10th issue of the France attractiveness survey. We would like to take the opportunity to thank the hundreds of French and international decision makers as well as the Ernst & Young people who took the time to participate and share their views on the attractiveness of France in Europe.

In 2011, we would like to express a special thanks to Patrick Artus (director of research at Natixis, professor at Ecole polytechnique and Université Paris 1 Panthéon-Sorbonne, member of the French Economic Analysis Council). Jacques Bigot (chairman of the urban community of Strasbourg), Edward Glaeser (professor of economics, Harvard University, author of Triumph of the City), Ronald Kent (vice chairman of NYSE-Euronext and chairman of NYSE Euronext London), Sophie Kornowski-Bonnet (chairperson, Roche France), Claude Sassoulas (managing director, Europe and Africa, Tata Communications), Antonio Tajani (vice president of the European Commission in charge of industry and entrepreneurship) and Philippe Varin (chairman of the managing board, PSA Peugeot Citroën).

For more information on the Ernst & Young attractiveness surveys: www.ey.com/attractiveness

Attractiveness ranking of global regions: a new order that benefits Europe too

- In what is now a multipolar world, Western Europe retains its ranking as the second most attractive global destination: with a score of 35% it is close behind China (38%) while Central and Eastern Europe takes third place with 29%.
- This ranking, based upon an opinion survey, is corroborated by the 2010 facts and figures: the number of European inward investment projects rose 14% to 3,757 projects, generating 137,337 jobs, up 10%, marking a clear recovery in investor confidence.
- Western Europe benefits simultaneously from growth in investment projects (+11%) and related jobs (+21%), while project numbers in Central and Eastern Europe rise 22%, but job creation falls 1%.

FDI into France: France takes second place in Europe, with Germany hard on its heels

- France remains an international inward investment champion, with 562 projects, creating 14,922 jobs. But it is (very) closely followed by Germany, which attracted 560 project decisions in 2010.
- This performance, in line with trends in most European countries, owes much to the dynamism of services (+40% for business services), R&D (+34%) and the automotive industry (an increase from 6 projects in 2009 to 21 in 2010).
- But some trends in sectors strategic to the economic recovery are a source of concern: a fall in power sector projects (and a warning light over renewable energy) and pharmaceutical projects (-33%), a quasi-stagnation in head office projects and, so far as the origin of investment is concerned, few projects from India and China.
- Finally, the most striking development of 2010: with 560 project announcements, Germany now rivals France as the challenger to the United Kingdom, which remains the undisputed champion of European attractiveness, with 728 projects.

Perceptions 2011: France attracts ... but does it inspire?

- The outlook is not reassuring. Only 31% of investors believe that the attractiveness of France will improve in the next five years, down from 45% just a year ago. But 47% now expect a bright future for Germany. These shifts in perceptions invite reflection about the prospects for France.
- Yet, signals dispatched to the foreign investment community in recent months have been received: 62% find the projects associated with the Grand Emprunt (national loan) attractive and 51% believe scrapping the taxe professionnelle (business tax) will enhance the attractiveness of France as a business location.
- Nonetheless, investors continue to seek, as ever, strong signs in terms of labor flexibility, cuts in social charges and support for innovation. Their views also suggest big regional conurbations could play a dynamic role and enhance French attractiveness.

Key figures 2010

+14% number of FDI projects in Europe

562 projects **(+6%)** and **14,922** jobs created **(+12%)** in France, closely followed by Germany with **560** projects

70% of the **207** international investors questioned are satisfied with France as an investment destination

But only **31%** believe France's attractiveness will improve in the years ahead

Europe in a changing world: the end of privilege

In January 2010, Ernst & Young launched a report at the World Economic Forum in Davos, Winning in a polycentric world[1], which examined the impacts of globalization on the world economy.

The report showed that the globalization of the world's 60 largest economies will continue to deepen in the coming years. The strong growth of the emerging countries and accelerating international trade and investment are contributing to the creation of a world in which opportunities and skills are shared more evenly. The abolition of privilege, in effect ...

That is why the proportion of foreign direct investment now going to the European Union (26% in 2010 compared with 43% on average in the first decade of the 21st century[2]) should not be seen as a sign of decline, but rather as the advent of a new era, in which new forces oblige each region and country to update and better define its role in a changing world.

[1] *Winning in a polycentric world : Globalization and the changing world of business,* Ernst & Young, 2011.
[2] CNUCED 2010.

A new world order that benefits Europe too

In a multipolar world where investors have increasing expectations from the countries where they invest, Europe holds its own in spite of stiff competition.

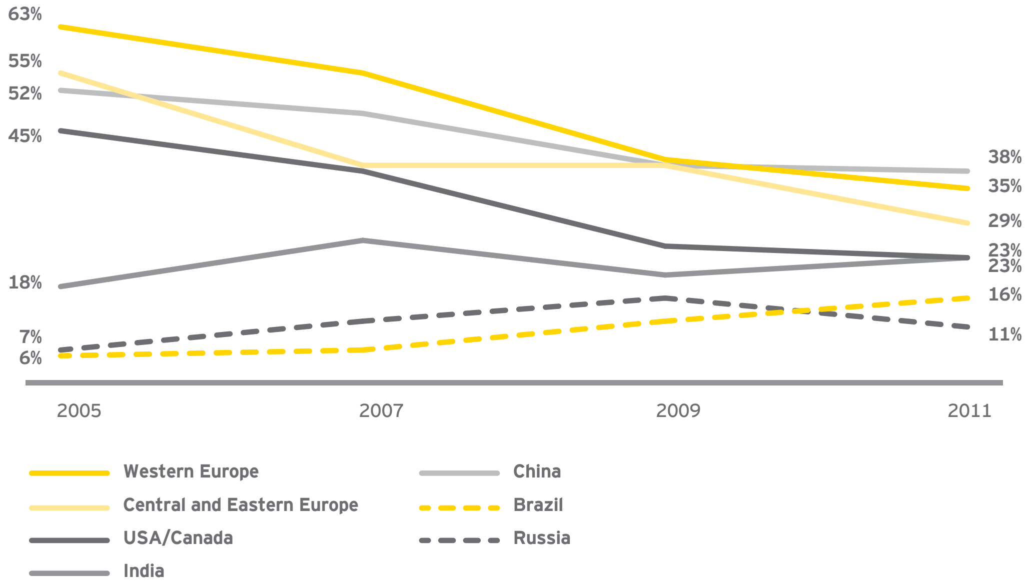
Global competition gets tougher
In 2011, Western Europe retained its second place among the world's most attractive destinations (35% approval among investors), just behind China (38%). With 29%, Central and Eastern Europe takes third place.

In the future, no global region will be able to claim a monopoly on attractiveness, as the *Ernst & Young European attractiveness survey 2011* clearly shows. In 2005, the region seen as most attractive by investors surveyed, Western Europe, scored 63% of votes; the least attractive, Brazil, 6%. In 2011, the gap has reduced substantially, with a maximum score of 38% for China and a lowest score of 11% for Russia.

Europe retains its place
Although growth in the Eurozone remains moderate (+1.7% in 2010 and +1.5% forecast for 2011[3]), its economic fundamentals are sufficiently sound to support hopes of a return to stable and sustainable growth in a context where inflation remains moderate (1.6%) and global demand for goods and services rose 10.6% in 2010. Many governments have introduced deficit reduction and supply-side stimulus policies, while endeavoring to avoid damaging demand. This subtle balance should, in the long term, strengthen economic stability, bolster confidence and promote consumption — and thereby the appetite of foreign investors for Europe's large and unique single market. These varied signals encourage investors to again envisage acquisitions, new investments and extensions of their existing capacity in Europe.

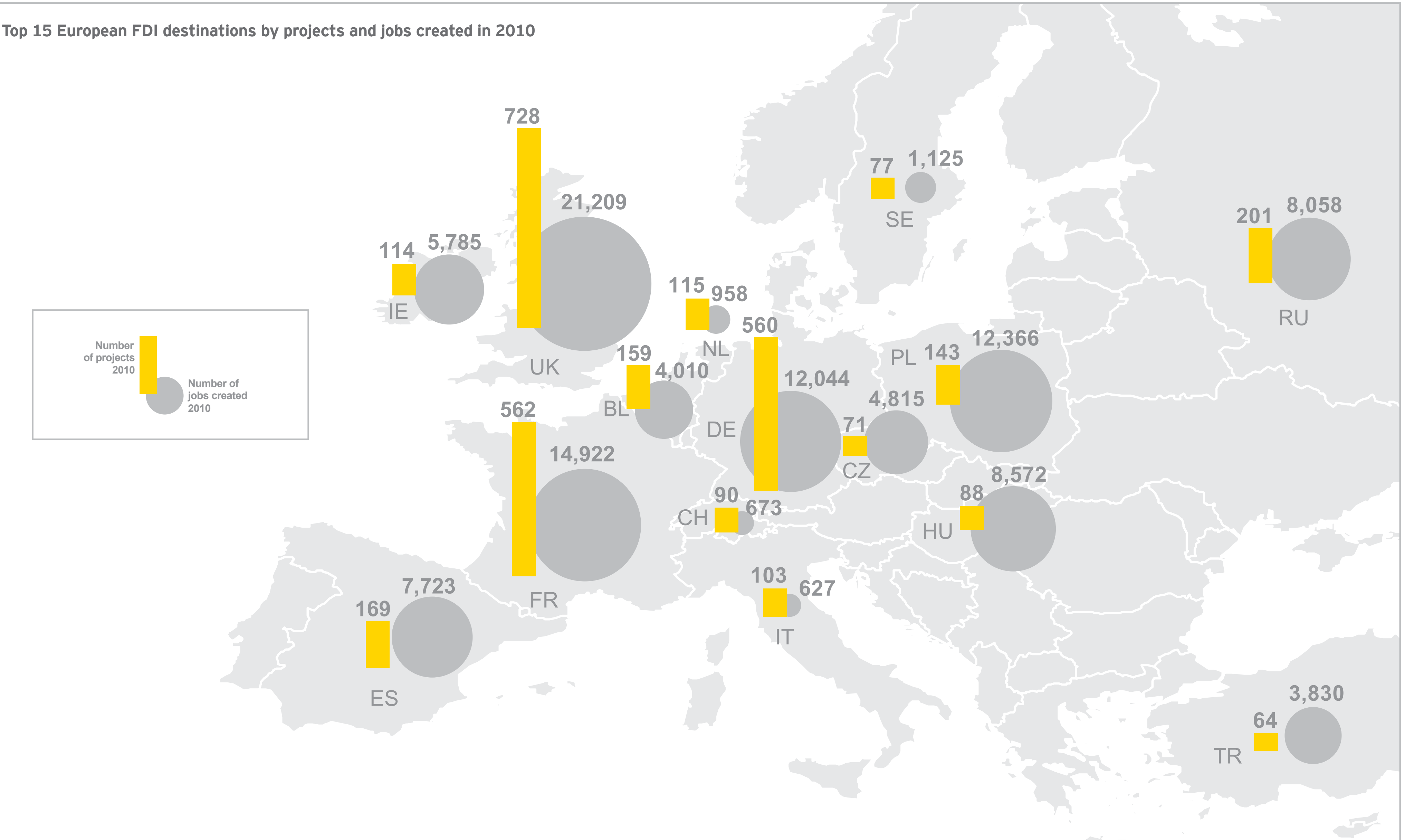
[3] *Ernst & Young Eurozone Forecast* — April 2011.

From a general point of view, which are the three most attractive regions in which to invest? (three possible answers)



Source: Ernst & Young European attractiveness survey 2011

Top 15 European FDI destinations by projects and jobs created in 2010



Source: Ernst & Young 2010 European Investment Monitor
Number of new FDI projects in each country.
Only public and firm announcements of job-creating projects are included. For details of the methodology for counting investment projects and divergence from Invest in France Agency data, see section on methodology.

International investments in Europe: return to the pre-crisis trend in 2010

Between 2009 and 2010, the number of inward investment projects in Europe grew by 14% and the jobs they created by 10%, marking a clear pick-up in European inflows.

Western Europe continued to attract the greatest number, with 75% of the projects (and 52% of the jobs). Projects in Central and Eastern Europe increased by 22%, though job creation fell by 1%.

Trend in the number of international investment projects in Europe

	2009	2010	Change 2009/2010	Share of European total
Central and Eastern Europe	759	925	22%	25%
Western Europe	2 544	2 832	11%	75%
Total Europe	**3 303**	**3 757**	**14%**	**100%**

Source: Ernst & Young European Investment Monitor 2011

Trend in resulting job creation in Europe

	2009	2010	Change 2009/2010	Share of European total
Central and Eastern Europe	65 859	65 372	-1%	48%
Western Europe	59 335	71 965	21%	52%
Total Europe	**125 194**	**137 337**	**10%**	**100%**

Source: Ernst & Young European Investment Monitor 2011

Automotive

The number of projects in the European automotive sector doubled in 2010 (258 projects). The sector now accounts for a quarter of jobs created by international investment projects in Europe. Overall, European industrial sector projects grew by 23%, and 57% of FDI jobs created in Europe stemmed from manufacturing projects.

Business services and software

With 561 investment projects and more than 11,000 jobs created, business services are the leading FDI sector by project numbers, accounting for 15% of all projects and 8% of related jobs. Shared service centers (essentially support functions) are one of the fastest growth segments in 2010: the number of investments in this type of activity almost doubled, accompanied by a 54% rise in jobs created.

The creation, development and maintenance of software ranks second, accounting for 10% of projects in 2010, but only 4% of jobs created. For example, in software, Tieto (a Finnish-Swedish company) announced the creation of 500 jobs across two projects and AVG Technologies (of the Netherlands) announced 400 in Central and Eastern Europe.

These services need skilled workers. In this respect, the diversity and quality of European labor is recognized by 82% of investors questioned for the *Ernst & Young European attractiveness survey 2011* as a world-class strength.

Investment in tomorrow

Research and development (R&D) displayed remarkable growth in Europe in 2010. It accounts for 8% of projects (+17% compared with 2009) and 8% of jobs created (+59%). Overall, 75% of investors cite Europe's research and innovation capabilities as a decisive element in their project decision.

Europe also attracted 204 renewable energy projects, an increase of 29%, accompanied by 6,782 jobs (+4% on 2009). Investors see this region of the world as a center of development for tomorrow's technologies: 23% of them believe cleantech will be a motor of future growth, a belief substantiated by the growth of projects in this field in 2010.

The Europe they seek: a leader, but more specialized

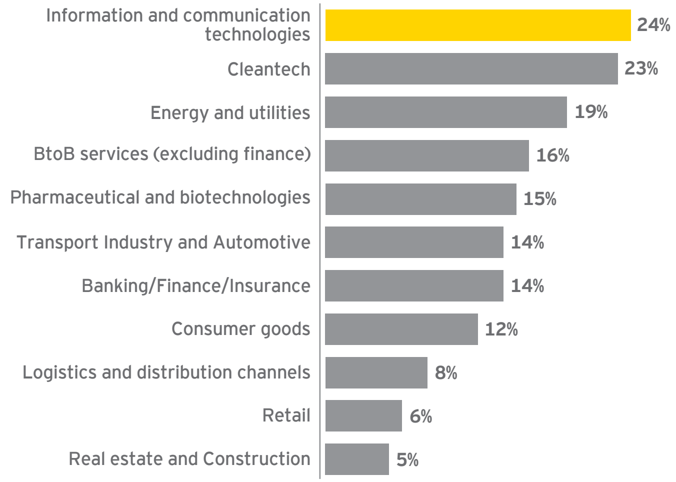
Investors appear confident in the future of Europe, when taking a three-year view. But Europe must continue differentiating itself along clearly defined features.

Western Europe is ranked first equal with China, while Central and Eastern Europe takes third place in the ranking. But the European continent will remain a leader in the multipolar world if, and only if, it defines, selects and implements new kinds of economic and technological leadership.

Investors surveyed for the *Ernst & Young European attractiveness survey 2011* see four areas of differentiation:

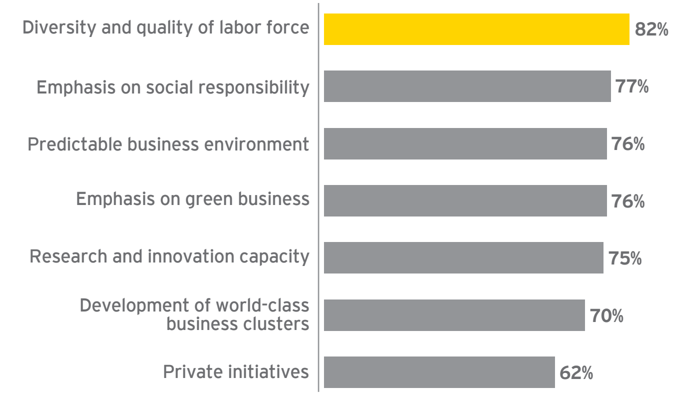
- **Green and digital:** investors see information technology (24%) and cleantech (23%) as the two top drivers of European growth over the next two years.
- **Competitiveness:** asked about Europe's strengths, 76% of investors acknowledge the predictability of its competitive environment. But they stress the need for Europe to lower taxes (34%) and labor costs (28%) if Europe is to retain or increase its share of the competitive world FDI market.
- **Cities:** when asked to list the key growth drivers of Europe's cities, investors said that major urban infrastructure projects (38%) and innovative business parks (31%) provided the strongest appeal for investment.
- **Talent:** 82% of our panel says that the diversity and quality of European skills is Europe's "world-class" feature when it comes to attracting FDI.

In the next two years, which sectors will be the drivers of European growth? (two answers possible)



Source: Ernst & Young European attractiveness survey 2011 (812 respondents)

What do you see as Europe's world-class features?



Source: Ernst & Young European attractiveness survey 2011 (812 respondents)

Viewpoint

Edward Glaeser,

Edward Glaeser, Professor of Economics, Harvard University, author of Triumph of the City

Human capital and European cities

Cities matter because they magnify humankind's greatest asset: our ability to learn from the people around us. Concentrations of urban talent create the onrushes of experience that forge human capital. Urban areas have long enabled the chains of collaborative invention — from Athenian philosophy to Viennese music to the creation of the skyscraper — that are responsible for our civilization's greatest hits.

The tectonic changes that impact our world, such as globalization and new technologies, have increased the returns to new ideas and innovation — and that has ultimately made cities more valuable than ever. Many European cities have come through de-industrialization because the same urban density that once made it easy to move textiles onto railcars now speeds the flow of ideas.

The cities of Europe will succeed if they manage to attract and train smart people and give them the freedom to become innovative entrepreneurs.

That requires wise investments in education and less regulation, but it also means making cities both more pleasant and more affordable.

History is both a blessing and a curse to great European cities. The beautiful buildings of cities from Bruges to Barcelona help attract mobile talent, but the urge to preserve often makes new construction almost impossible and that means that too many European cities have become unaffordable.

The great challenge for Europe's more successful cities is to provide more usable space in the attractive areas of the metropolis. The need for greater height is particularly obvious. The key is to find a middle ground that preserves that beauty and charm of the past, while still allowing enough new apartments and commercial space for the future to still be made in Europe.

Attractiveness "made in Europe"

Is the attractiveness of the European model, based on the excellence of the "Made in Europe" label, strong enough to make a difference and does it correspond to FDI decision criteria in periods of economic recovery? There is a risk that European investment is seen as a top-end option, reserved for high value-added products, and that Europe is seen as a place of consumption — a big market — and not of production. Doesn't the region need to find a path that allows it to maintain its quality while reducing its "price," so as to attract more "customers"? The question is critical.

International investment in France in 2010: a return to growth ... and of competition

With a recovery of 6% in the number of projects and 12% in associated jobs created, France defended its position well in 2010: it welcomed 562 FDI projects, generating 14,922 jobs.

As in Europe as a whole, it was business services, R&D activities and the automotive industry that led the FDI recovery in France. But although its geographical location and the size of its markets and business customers make it a necessary location for many firms, France now faces powerful competition from other dynamic European locations. For the first time, Germany is almost neck and neck with France.

Recovery of FDI in France

With 562 new FDI projects announced in 2010, France only just keeps its position on the European attractiveness podium.

In second place, but only just
France records growth of 6% compared with 2009, after three years of decline or quasi-stagnation. However, this growth remains below the average for Western Europe, which achieved 11% growth in project numbers and a 21% rise in related jobs between 2009 and 2010.

Number of FDI projects by country in Europe

	Countries	2009	2010	Change 2009/2010	Share of total projects in Europe in 2010
1	United Kingdom	678	728	7%	19%
2	France	529	562	6%	15%
3	Germany	418	560	34%	15%
4	Russia	170	201	18%	5%
5	Spain	173	169	-2%	4%
6	Belgium	146	159	9%	4%
7	Poland	102	143	40%	4%
8	Netherlands	108	115	6%	3%
9	Ireland	84	114	36%	3%
10	Italy	100	103	3%	3%
	Others	795	903	14%	24%
	Total Europe	**3 303**	**3 757**	**14%**	**100%**

Source: Ernst & Young European Investment Monitor 2011

Number of FDI jobs created by country in Europe

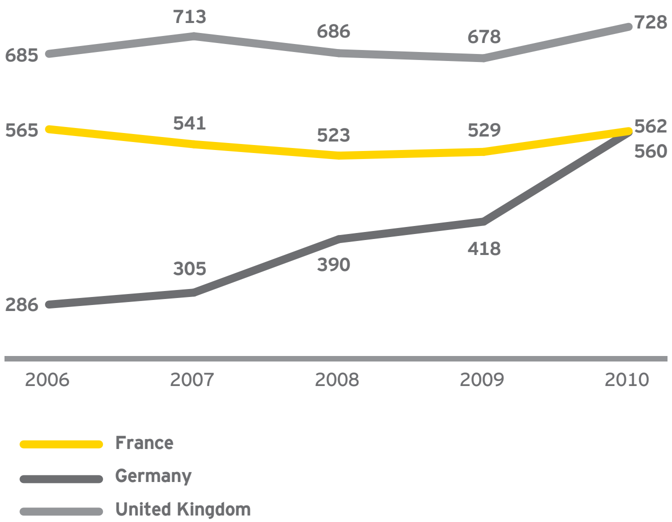
	Country	2009	2010	Change 2009/2010	Share of FDI jobs created in Europe in 2010
1	United Kingdom	20 022	21 209	6%	15%
2	France	13 314	14 922	12%	11%
3	Poland	7 491	12 366	65%	9%
4	Germany	4 928	12 044	144%	9%
5	Hungary	7 112	8 572	21%	6%
6	Serbia	3 248	8 519	162%	6%
7	Russia	11 834	8 058	-32%	6%
8	Spain	5 212	7 723	48%	6%
9	Slovakia	5 262	6 251	19%	5%
10	Ireland	3 461	5 785	67%	4%
	Others	43 310	31 888	-26%	23%
	Total Europe	**125 194**	**137 337**	**10%**	**100%**

Source: Ernst & Young European Investment Monitor 2011

A competition shaped by the performance of the United Kingdom and especially Germany

France faces strong competition from Germany, which now competes to challenge the long-standing European FDI leader, the United Kingdom. This is the most striking feature of 2010.

Numbre of FDI projects (2006-2010)



Source: Ernst & Young European Investment Monitor 2011

Germany achieves very strong FDI growth, with 560 projects – only two fewer than France – and more than 12,000 jobs created. The main driver of German FDI growth was business services, which increased job creation ninefold, while logistics for consumer goods created almost 2,300. In 2010, Germany attracted 48% more industrial projects than in 2009. Reforms favoring competitiveness and the shift in Europe's industrial gravity center, linked to prospects for stable and sustainable growth, underpin this remarkable performance by France's main partner.

After two successive years of falling FDI, the **United Kingdom** sees a 7% rebound in projects and a 6% increase in jobs. The financial crisis has certainly reduced the attractiveness of the UK service sector, but has not undermined the "fundamentals" that continue to draw decision-makers: employment flexibility, an attractive tax regime, a position at the crossroads of international financial flows and the status of London as a global metropolis. These attributes are still favored by international investors, notably in business services (22% of projects) and software (17%).

Among other striking performances are the projects drawn to Europe's frontiers (Poland and also Russia), while Spain, Italy and the Netherlands remain stable in a year that overall saw a strong recovery in European FDI.

Foreign investors employ two million people in France

More than 20,000 foreign companies are present in France, employing more than two million people,[4] equal to around 11% of salaried employees in the private sector in 2010. The stock of foreign investments equals 42% of French GDP.[5]

[4] *Source* : INSEE 2010.
[5] *Source* : UNCTAD 2011.

The drivers of French attractiveness

Despite intensifying competition, France was able to build upon some of the strengths recognized by foreign investors, notably its relative attractiveness in automotive, business services and research and development.

Number of jobs created by sector in France in 2010

	Sector	Number of jobs created in 2010	Change 2009/2010	Share of projects in 2010
1	Business services	3 042	316%	20%
2	Transport equipment	1 117	-17%	7%
3	Software	1 092	103%	7%
4	Industrial equipment	1 018	-16%	7%
5	Automotive	981	267%	7%
6	Food processing	759	6%	5%
7	Electricity	628	-18%	4%
8	Electronics	599	-49%	4%
9	Medical instruments	541	-34%	4%
10	Transport services	527	7%	4%
	Other	4 618	-12%	31%
	Total	**14 922**	**12%**	**100%**

Source : Ernst & Young European Investment Monitor 2011

Number of projects created by sector in France in 2010

	Sector	Number of projects in 2010	Change 2009/2010	Share of projects in 2010
1	Business services	87	40%	15%
2	Transport equipment	52	4%	9%
3	Software	49	9%	9%
4	Industrial equipment	34	-8%	6%
5	Automotive	30	-3%	5%
6	Food processing	25	4%	4%
7	Electricity	24	-11%	4%
8	Electronics	22	57%	4%
9	Medical instruments	21	250%	4%
10	Transport services	21	-25%	4%
	Other	197	-4%	35%
	Total	**562**	**6%**	**100%**

Source : Ernst & Young European Investment Monitor 2011

Viewpoint

Bet on entrepreneurship, industry and SMEs

I want the real economy, industry and small and medium enterprises (SMEs) to be center stage. We need to give our younger generations hope and a vision for the future through growth and jobs.

To restore confidence in the markets, leave the financial crisis behind us once and for all, and prevent economic and political decline, we need to close the gap with the spectacular growth of emerging economies. This will only be possible if we really bet on our entrepreneurship, industry and SMEs and on their capacity to adapt to global challenges and opportunities.

Every year, millions of new consumers emerge in China, India, Russia and Brazil. This is a great potential market for innovative, high-quality European products. But to win the inventiveness battle in our globalized market, our industry and SMEs need to restructure, modernize and invest in innovation. Our industry can compete on quality and innovation but changes such as these must be financed, and this requires financial markets to refocus on the needs of the real economy.

We also need to make it easier for SMEs to run their businesses. Some 99% of all European business are independent and have fewer than 250 employees. It is much easier to believe that we can create 23 million new jobs if our 23 million SMEs each employ just one more person, than to expect 3,800 new jobs to be created by each of our 6,000 blue chips.

Industry, despite everything

As in 2009, France is the leading European country for industrial FDI projects (manufacturing and logistics), with 220 investment decisions in 2010, ahead of the United Kingdom and Germany.

Industrial investments create 57% of FDI jobs in France, 8% more than the previous year. These figures confirm the surprising confidence in Europe's industrial future expressed last year by FDI investors: 70% of them expected in spite of everything to be manufacturing in Europe in 10 years' time.[6]

The increase is largely led by the automotive, industrial equipment and logistics sectors. In 2010, 981 jobs were created in the automotive sector, over 700 more than in the previous year, against the background of an 8% expansion of the automotive sector but also a "catch-up" after four successive years of declining activity.[7] Toyota, notably, set up an automobile seat manufacturing plant at Somain in Nord Pas-de-Calais, creating 230 jobs.

These encouraging statistics should nonetheless be seen in context: in 2010 alone, industry shed 60,700 industrial jobs in France.[8] The manufacturing sector has reduced employment by 500,000 jobs since the beginning of this century.

6 Ernst & Young Europe Attractiveness Survey 2010 – 814 respondents.
7 Source: Xerfi Industries automobiles françaises – November 2010.
8 Source: INSEE.

Antonio Tajani,

European Commission Vice-President, Industry and Entrepreneurship

That's why I've put improving the business environment, access to credit and internationalization of SMEs, through the strengthening of the Small Business Act, at the very top of my political agenda. We need to change our culture, to "think small first" when it comes to policy-making and regulation, and to make new generations excited about starting their own businesses.

Lastly, we are facing a new industrial revolution. Demographic growth and new consumers in emerging markets result in fierce competition for energy sources and raw materials, and increase speculative risks. Together, these could seriously threaten our industry and sustainable growth. But the need to use resources more efficiently could also be a great opportunity for our future competitiveness, if we make the right political choices and invest to promote our know-how and technological leadership, especially in greener technologies.

Business services and software in the vanguard

By number of projects, the leading FDI sector in France is business services, followed by software. Together they provided 4,100 jobs in 2010.

The ranking of the 10 biggest investors in France highlights the importance of the big service providers, whether in IT outsourcing, software or retail.

Top 10 FDI investors in France in 2010

	Investor	Country of origin	Sector	Number of jobs created in 2010
1	Airbus	France/ Germany/Spain	Transportation	900
2	Accenture	Ireland	Business services	875
3	Sitel France	Canada	Business services	620
4	Wipro Technologies France	India	Software	300
5	CSC France	United States	Business services	300
6	Dell	United States	Software	300
7	Amazon	United States	Services/ Retail	277
8	Entyrecycle	United Kingdom	Automotive/ recycling	243
9	Nestle Purina Petcare	Switzerland	Food processing	240
10	Logica	United Kingdom	Software	235

Source: Ernst & Young European Investment Monitor 2011

The strong resurgence of business services projects, up 40% in comparison with 2009, comes after two successive years of decline.

The return of growth in France and Europe, albeit still weak, favors a pick-up in outsourcing and subcontracting projects and a resurgence of large information technology (IT) projects, including for operational services such as call centers and industrial maintenance, as well as intellectual services such as advisory, communications and marketing.

International investors also display their interest in internet applications and mobile telecoms. The share of R&D projects in software increases markedly, from 10% to 21% of the total. International decision-makers have tracked the wider trend among software firms in France, focusing on R&D since the start of the economic recovery. For example, Philotech GmbH, a medium-sized German software company, announced that it is opening an R&D center in Toulouse employing 30 skilled staff.

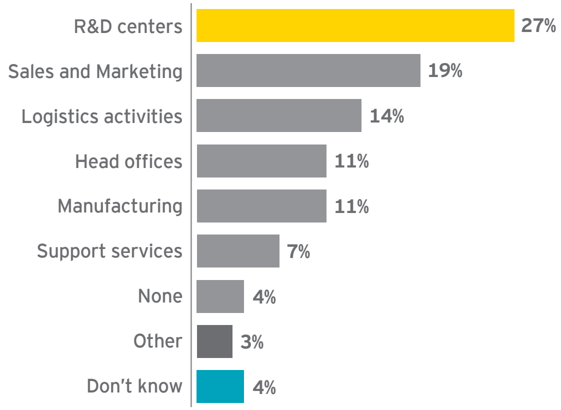
Multifaceted R&D

France has also succeeded in developing its attractiveness in research and activities with a high technology content. With 55 projects, R&D accounts for 10% of FDI, up from 8% in 2009, even though their average size, at 24 jobs, tends to be smaller.

IT, pharmaceuticals and chemicals are the sectors where these high-technology investments feature most. For example, in pharmaceuticals Britain's GlaxoSmithKline increased its French biotechnology R&D teams by 71 employees. The company also chose France to establish Viiv Healthcare (50 employees), a joint venture with the American firm Pfizer that aims to combine their capabilities in the industrially complex treatment of AIDS. This location enables them to benefit from a strong network of specialized research centers and the proximity of "knowledge factories" such as the French National Agency for Research on AIDS and Viral Hepatitis (ANRS), the Centre National de la Recherche Scientifique (CNRS) and the Institut Pasteur.

France's attractiveness for R&D centers is confirmed by 27% of investors questioned for the 2011 survey. They underscore that France knows how to differentiate itself for this type of activity. As a result, R&D by subsidiaries of foreign companies accounts for 22% of total R&D spending in France.[9]

For what type of activity is France an attractive investment location?



Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

France is especially noted for two kinds of R&D:

- Technology innovation: investors specializing in activities with a high technological content find the skills they need for their development in France, whether in R&D centers or, more and more, support service centers dedicated to these activities. In sum, 32 projects of this sort were set up, and more than 1,200 jobs created, a strong increase year on year.

- Management innovation: this leads to new ways of organizing processes, of conceiving products and of achieving desired changes. For example, France is a pioneer in eco-design, a research activity simultaneously technological and managerial. France has developed the use of eco-labeling and incentives to evaluate the environmental impacts of certain products and change ways they are produced and consumed. In December 2010, when the French Government invited tenders from companies to develop multicriteria labeling (including carbon footprint, impact on water quality and biodiversity) under its *Grenelle 2* Environmental Act, 168 companies responded.

Number of projects and jobs created in France by activity

Activity	Jobs 2010	Projects 2010	European ranking (projects)	Leading country
Sales and marketing	3 709	263	3	United Kingdom
Production activities	5 822	142	1	France
Research & Development	1 293	55	2	United Kingdom
Logistics	1 492	46	1	France
Support services for high-tech industry	1 252	32	1	France
Head offices	279	15	5	United Kingdom
Call centers	1 060	7	6	United Kingdom
Other	15	2	-	
Total	**14 922**	**562**	**2**	United Kingdom

Source: Ernst & Young European Investment Monitor 2011

[9] *Source*: Ministère de l'Enseignement Supérieur et de la Recherche (2010).

What the professionals say

Nearshoring: an opportunity to attract services

In the past decade, international companies that were previously "worldwide" have become "globalized." A relatively unintegrated international presence has been largely replaced by a structured and rationalized footprint that nonetheless often remains fragmented. This trend undoubtedly opens up many opportunities for Europe, and therefore for France, especially in services.

Service sector clusters in Europe have been reinforced, especially where high value-added jobs must be kept near clients. One can foresee back-office service models where the majority of employees will be located in Eastern Europe or India (or Turkey, which has promising potential) and a third of the workforce or less will remain close to the client.

Rather than fighting this trend toward the export of some back-office jobs to low-cost countries, France could invest more in sectors that have the greatest need for proximity or confidentiality, though it must also make an effort to improve labor flexibility and its regulatory framework. Instead of waiting for others, France needs to send strong international signals that it is capable of reform and of reducing labor and social costs, especially relative to Germany, which has already successfully done so.

While investors are clearly more and more demanding about risk management and the quality of services, marketing France's strengths can – and should – be underpinned by the positive and numerous testimonies that highlight the French quality of life, infrastructure, and trained and productive labor force.

Paul Wood (Partner, Ernst & Young Advisory, Performance Improvement) and Bertrand Quélin (Professor of Strategy and Business Policy, HEC Paris)

Question marks over promising sectors

Though the 2011 survey shows growth in FDI in France, it also highlights some concerns over sectors that are strategic to economic recovery, notably energy, health, head offices and FDI from emerging countries.

Renewable energy: strong players and regulatory stability needed

At first sight, projects linked to renewable energy seem to be on a growth trend, with a 2010 increase of 28%, year on year, in the number of projects in France.

This growth, however, is mainly driven by a few plants for making equipment, such as components for wind turbines. The number virtually doubles, delivering 273 jobs in 2010, an increase of around 100. But at the same time, the number of projects relating to equipment installation services and electricity distribution falls sharply, with 15% fewer projects and 56% fewer jobs.

This trend must be kept in context: profit prospects in clean energy remain highly dependent upon the regulatory framework, which is subject to sudden changes, such as the reduction in the solar power feed-in tariff. A survey in mid-2010 by Norton Rose and Cleantech Investor found that in cleantech, review of government commitments is the greatest risk factor for financial investors (40.3%), far ahead of the immaturity of some technologies (20.9%).[10]

France's weakness in renewable energy lies above all in the lack of structured sectors (biomass, wind, solar) and the shortage of international leaders in these sectors.

[10] *Cleantech investment and private equity: an industry survey,* Norton Rose and *Cleantech Investor,* July 2010. A survey of 446 respondents including investors, cleantech companies and sector specialists.

What the professionals say

More stability and visibility is needed in the regulatory environment for renewable energy

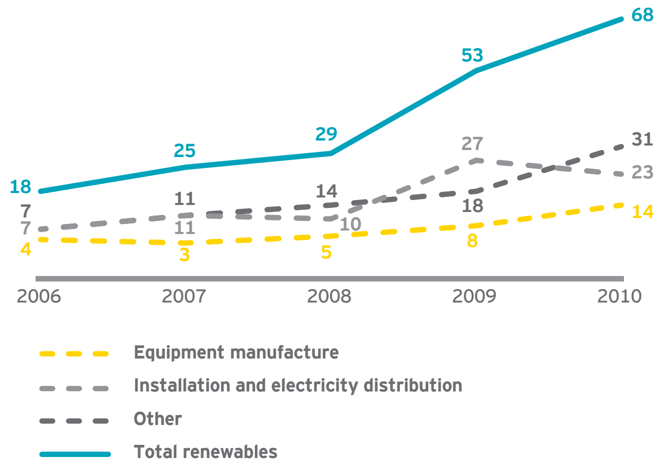
France does not send clear signals about the development of its renewable energy market. It temporarily suspended the photovoltaic power purchasing obligation and successively reduced the solar feed-in tariff, but launched other initiatives, including an invitation to tender to provide offshore wind parks. France needs a more understandable strategy regarding long-term support for renewable energy. Offering a stable regulatory framework would provide positive long-term signals to international investors.

Feed-in tariffs at competitive prices must be put in place via more appropriate arrangements.

Support for renewable energy innovation is another efficient lever: The *Grand Emprunt* future investment program now provides a technology development driver that could attract attention from investors keen to enter the renewable energy field, especially in areas where France is strong, including turbines, energy conversion, boilers and innovative materials. That would highlight French potential for foreign investors. France has the means to define its future position on energy.

Alexis Gazzo, Senior Manager, Ernst & Young Climate Change & Sustainability Services

Number of FDI projects linked to renewable energy (2006-2010)



Source: Ernst & Young European Investment Monitor 2011

Pharmaceutical industry: French health is fragile

The pharmaceutical sector, which enjoyed strong growth in FDI projects in 2009 with 21 projects, saw a fall to just 14 projects in 2010. Although the number of jobs created in 2010 was up by 40 to 370, it remains below the 700 plus jobs created in 2008.

Foreign companies have around two-thirds of the French pharmaceutical market and many plants in France. But growth of 4% in their revenues in France during 2010 has been much weaker than in the past two years.[11]

The sector is susceptible to trends specific to the industry, including patent expiry, reform of health care systems, public concerns and questioning of licensing rules for drugs.

Initiatives have been taken to relaunch France's attractiveness by the Strategic Council of Healthcare Industries *(Conseil Stratégique des Industries de Santé, CSIS)*. These include setting up a biotechnology investment fund and accelerating development of public/private research partnerships. The future investment program of the *Grand Emprunt* (national loan should also encourage new projects or, at the very least, retention of industrial and services capacity in France.

[11] *Source*: Xerfi Laboratoires pharmaceutiques – February 2011.

Viewpoint

Sophie Kornowski-Bonnet,
President of Roche France

Development of collaborative research is essential

For several years now, government initiatives have been in place designed to promote French research and accelerate innovation in health care. The creation of the National Alliance for Life Sciences and Health at the National Research Agency, a main conduit for action under the future investment program, is one. The university autonomy program, the health and biotechnologies program of the *Grand Emprunt* (national loan), the creation of a Strategic Council for the Healthcare Industries, international biomedical research meetings, and measures by state financing agency Oséo to facilitate financing of innovative projects provide other examples. These initiatives go in the right direction because they strongly favor collaboration between academic and industry researchers.

Life sciences continue to progress and offer new fields that improve our understanding of some illnesses. But if this better understanding of the molecular mechanisms of diseases is to be translated as quickly as possible into earlier diagnosis and treatments that are safer and more effective, it is essential that public and private sector researchers discuss and work together.

The development of collaborative research is primordial to tackle the challenges of tomorrow's medicine, which will be more individualized. Treatments will be able to target precise molecular abnormalities, while taking into account the biological characteristics of the patient. Roche's R&D is structured to meet this challenge. That's the purpose of new partnerships with various public institutions, such as the Gustave Roussy Institute.

Roche is reinforcing its research investments in France for two main reasons: our country has talented researchers, plus policies that favor innovation in therapies, despite a difficult economic context. We must make these efforts permanent.

Head offices: France loses ground

One of the big disappointments of the 2011 survey is that the number of head office projects increases by just one project,[12] making a total of just 15 for 2010. France, which ranked second in Europe for FDI head office projects in 2007 and 2008, slipped to fourth place in 2009 and to fifth place this year, behind the United Kingdom, Ireland, the Netherlands and Germany.

How can this poor performance be explained? France is home to the head offices of 39 of the world's 500 biggest international companies, behind the United States, Japan and China, but ahead of Germany and the United Kingdom.[13]

However, the economic crisis has increased competition, and new investors appear to seek optimal fiscal solutions, or an alternative closer to the new markets of Central and Eastern Europe.

[12] Headquarters of group, subsidiary or business units.
[13] Global Fortune 500, in 2010.

BRICS: construction needed

As in 2009 and previous years, the three leading countries of origin for FDI in France remain the United States, Germany and the United Kingdom.

The number of projects originating in the BRICS countries (Brazil, Russia, India, China and now also South Africa) increases nonetheless from 21 projects in 2009 to 29 in 2010, while the number of jobs created rises (+30%). But despite this increase, France remains significantly less attractive, notably for Indian and Chinese companies, than the United Kingdom and Germany, which together reap more than half of all BRICS projects in Europe (138 out of a total of 266 projects in 2010).

Nonetheless, among FDI from BRICS countries, services projects in France increased in 2010 (six additional projects compared with 2009, against two extra industrial projects). One example: Tata Consultancy Services announced a new investment project at Paris-La Défense, creating 40 jobs.

Number of FDI projects in France by country of origin in 2010

	Country of origin	2009	2010	Change 2009/2010	Share by country of origin in 2010
1	United States	111	106	-5%	19%
2	Germany	100	100	0%	18%
3	United Kingdom	44	49	11%	9%
4	Spain	19	34	79%	6%
5	Switzerland	32	32	0%	6%
6	Italy	32	30	-6%	5%
7	BRICS	21	29	38%	5%
	of which Brazil	*0*	*0*	*N/A*	*0%*
	of which Russia	*2*	*3*	*50%*	*1%*
	of which India	*8*	*8*	*0%*	*1%*
	of which China	*10*	*18*	*80%*	*3%*
	of which South Africa	*1*	*0*	*-100%*	*0%*
8	Canada	13	29	123%	5%
9	Japan	20	23	15%	4%
10	Belgium	19	21	11%	4%
	Others	118	109	-8%	19%
	Total	**529**	**562**	**6%**	**100%**

Source: Ernst & Young European Investment Monitor 2011

What the professionals say

Are the emerging economies discovering France at last?

The BRICS countries, joined this year by South Africa, represent 40% of the world's population and a fifth of the global economy. But these countries make fewer investments in France than in the neighboring United Kingdom and Germany. What explanation can our teams dedicated to attracting foreign investors offer?

Firstly, a mismatch between supply and demand: the sectors that interest them are "closed" by intense competition and scarcity of opportunities in the sectors where they wish to invest today. Secondly, the poor image of France as an investment destination among the uninitiated. Investors in some BRICS countries see France as a country that works little and taxes heavily, that protects its workers, that has a difficult language and where foreigners get a chilly reception.

But some, like the discreet leaders of Indian IT consulting firms, have discovered not only the 35-hour week, but also the flexible way it is applied and that it is compensated by an hourly productivity rate that is rarely equaled. Although social charges are high, they are accompanied by enviable social protection. A corporate tax rate of 34.43% has tax allowances that make a French location competitive and facilitate a real research and development strategy, while France also offers a springboard into Africa. These new investors recognize the support of effective public services in transport infrastructure, communication and training. And some note the size of our consumer market and our dynamic birth rate.

Finally, if the United States, which still fascinates the BRICS countries, has long been the biggest FDI investor in France, despite having a very different social model, it must be because France is less complicated than it seems, and more profitable.

FDI investors in France from emerging markets have discovered these advantages and can be our ambassadors. But let's not forget that, in their own countries, they more often meet German, British and Italian business executives than those from France.

Stéphane Baller, Partner, Ernst & Young Société d'Avocats – Cross Border Business Services leader for France and Luxembourg

Projects for 2011: the hardest part is yet to come

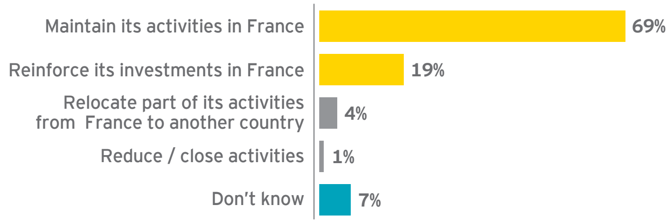
When the 207 business leaders of the 2011 survey are asked about their intentions, they express contrasting views: 69% of companies present in France expect to maintain their activities here whilst 88% of investors without a French presence have no plans for French investment in the short term.

There has been an 8-point increase in the proportion of investors already present in France who intend to maintain their French presence (up from 61% last year). That figure matters, since 37% of projects in France are extensions to existing investments, compared with 28% in the UK and 19% in Germany.

On the other hand, 88% of investors who have yet to set up in France have no plans to invest here in the short term. That is an increase of 20 points over the 68% that, in 2010, had no plans to invest in France.

Globally, does your group expect to ...?

Companies already present in France

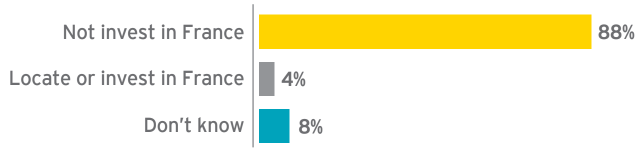


Source: Ernst & Young France attractiveness survey 2011 (139 respondents)

Considered a "safe haven"[14] during the economic crisis, France secured the loyalty of its "customers". But can it persuade investors seeking a new location today that it is also a "growth stock" by relying upon the same attributes and arguments?

[14] *Ernst & Young France attractiveness survey 2010.*

Companies not present in France



Source: Ernst & Young France attractiveness survey 2011 (68 respondents)

Viewpoint

Mr Rajan Kohli,

Chief Marketing Officer,
Global IT Business,
Wipro Technologies

Open the market and remove protectionist barriers

To be ''simpler, agile and bolder'' is the mantra not just for Wipro but increasingly for European companies too, and they have realized the value of tapping the power of technology — and partners like us - to improve their competitive advantage. By one estimate from being almost nowhere in 2000, Indian service providers started almost from scratch in 2000 and are now winning 20% of outsourcing contracts valued at €20m or more in the commercial sector.

At Wipro, we see an increasing interest in offshoring by European companies and, hence, we have been making significant investments in this market. We are in for the long haul and are building a significant local presence in some countries, including the UK, Germany and France.

Europe remains an attractive investment destination: you can't miss the fact that EU is the world's largest economic bloc. Europe's highly evolved R&D ecosystem is another key attraction for investors, as is the availability of a highly skilled talent pool (especially managerial). From an Indian standpoint, investing in EU countries such as Germany, France, Italy and Switzerland, with highly developed industries and leading design concepts and technologies, can help Indian companies benefit from their technologies, brands and industrial design knowledge.

But there are definitely challenges for global companies in Europe to overcome. One is around culture and exposure to offshoring. Second would be the general protectionist barriers — which could include extremely short or restrictive visas and the lack of clarity of taxation and cross-border transaction laws. The region also has complex, many layered labor legislation, and laws such as the European Data Protection Directive that prohibits companies from sending customer data outside the EU.

To attract more interest from Indian companies, European policy-makers should ease the visa process, have longer duration of visas and introduce an EU-wide work permit. Likewise, they should allow more free trade in the region; this will also help revive the economy faster. I think the ability to challenge any future regulations that might hamper Indian exports to the EU is also crucial. And for IT services, simply allow more access to the European services market. That will prove a win-win opportunity for European companies as well as players like us.

The perception of foreign investors in 2011: France attracts – but doesn't inspire

Thanks to the quality of its assets, its traditional strengths and its well-defined economic and cultural qualities, France is still seen in the 2011 survey as an attractive – even essential – location.

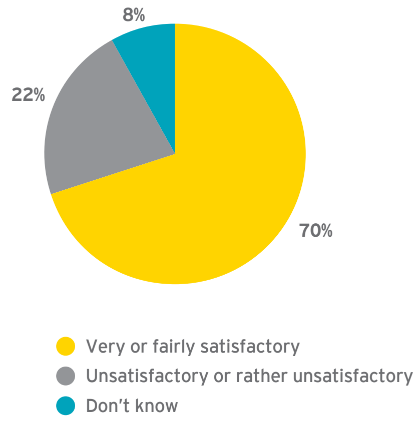
A large majority of investors surveyed (70%) are satisfied by France when they set up here. But investors regret that France doesn't offer a better-defined and more ambitious attractiveness, with a clear vision of the future, capable of persuading them to locate their investments here. Only one investor in three (31% to be precise) believes France's attractiveness will improve in the next five years, while almost half (47%) think our German neighbor will continue to become more attractive.

France meets investor needs – for now

Overall, 70% of investors are satisfied with France, but when questioned about the country's future attractiveness, they express doubts.

France meets the needs of investors, according to 70% of decision-makers. The performance of France, ranked second among European countries as an FDI destination in 2010, is confirmed by investors' experience. In early 2011, 70% of them judge France to be still a very or fairly satisfactory investment location, a score almost unchanged on the previous year (69%). Those who have invested in France are even more satisfied (or enthusiastic), with 82% making a positive assessment.

Generally, how do you see France as an investment location?



Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

Doubts over the long term

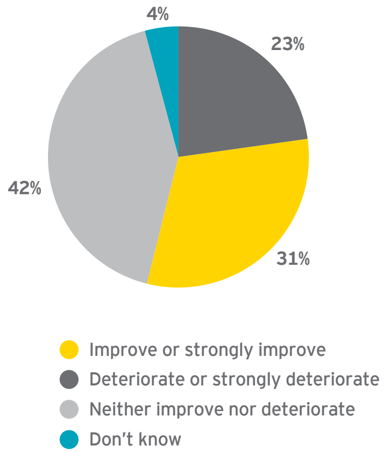
However, the scene is less bright if one looks closely at investors' perceptions, or if we compare their perspective on the attractiveness of our European neighbors. The survey portrays France as inspiring little confidence. That is a cause of concern for the future.

Against the background of economic recovery and progressive return to growth, the level of confidence in the future of France as a business location clearly declines: only 31% of investors, fewer than one in three, believe its attractiveness will improve during the next five years, compared with 45% the previous year.

This 31% who are optimistic about France should be compared with 47% who predict a favorable future for Germany. The gap is widening. A growing number of investors back Germany's competitiveness and attractiveness strategy: the proportion optimistic about Germany has risen from 35% in 2008.

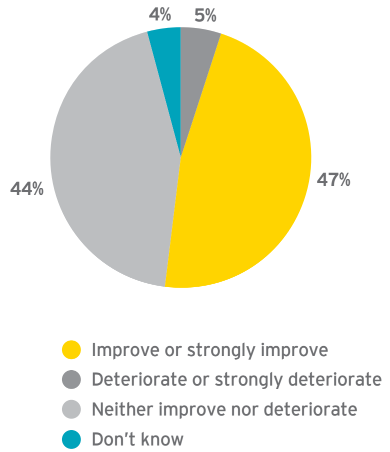
In the depths of the economic crisis, when investors appeared to appreciate the stability of France, the durability of its economic fabric and the support or stimulus initiatives, they were already flagging doubts over the capacity of the French model to become a "growth stock." These doubts seem to have hardened this year as growth recovers. They could weigh upon investor views when it comes to recognizing the long-term potential of France.

In the next five years, will the attractiveness of France for the location and development of foreign companies... ?



Source: Ernst & Young Attractiveness surveys 2011 (207 respondents in France and 202 in Germany)

In the next three years, will the attractiveness of Germany for the location and development of foreign companies...?



Source: Ernst & Young Attractiveness surveys 2011 (207 respondents in France and 202 in Germany)

Viewpoint

Philippe Varin,
Chairman of the Managing Board, PSA Peugeot Citroën

Put industry back at the heart of French growth

Our country offers many advantages to industrial companies: skilled labor, an effective policy framework and an efficient infrastructure network, as well as policy initiatives that have proved their relevance, such as the Research Tax Credit. But over the past decade, we have seen a worrying surge in labor costs. Over the past decade, one of the competitive advantages of French industry has been dramatically eroded. In terms of total hourly labor costs, we have lost 12 points of competitiveness, not only against China, but also against Germany. The cost of labor in France has risen 31% compared with only 19% in Germany, even though the net salary of a French worker is still significantly below that of a German. It is not the level of social protection, but the way it is financed, that is inappropriate today, because companies and employees carry most of the cost of family and health policies. We need a new social partnership to put industry back at the heart of French growth.

Beyond a reduction in social charges that weigh upon companies, which would give them the means to invest and thus favor job creation, the State must encourage companies to stay in the vanguard of global competition. The aim is not to make our country a low-cost region but, on the contrary, to promote research and innovation, and to improve the overall competitiveness of our economy – and especially industry. Despite the handicaps with which we are familiar, France succeeds today in attracting many foreign companies. Who knows what it could do if these obstacles were removed?

What the professionals say

France-Germany: the match

Germany has a far more developed network of small and medium enterprises (SMEs) that helps play a decisive role in its attractiveness, enabling investors to find suppliers, partners and clients with the critical scale and quality to conquer international markets. *Why is there such a gap between continental Europe's two economic and industrial powers?*

Industry and international: a winning double
In the European competition, France struggles: its economic growth is just 1.5% in 2010, against 3.5% for Germany.[15] Germany's dynamism rests upon its trade surplus of more than 150 billion euros, while France has a trade deficit of more than 50 billion euros in 2010. Germany's dynamism is explained by its industrial specialization. France relies more upon services and its domestic market – manufacturing provides 30% of value-added in Germany against 16% in France[16].

The strength of the German Mittelstand
Germany has more than 10,000 medium-sized companies with an average of 984 employees each, while France has only 5,000 with an average of 538 employees each.[17]

In total, SMEs employ 31.3% of workers in Germany against 21.5% in France.[18] These German companies are strong exporters: 25% of the smallest (TPE) companies export on average 33% of their turnover; their French peers export only half as much. Growing French companies to achieve critical mass is not easy; the growth of German SMEs relies more heavily upon international markets.

Clear and convincing reforms
These elements of German entrepreneurship are backed by a legal, political and fiscal environment "packaged" by German government reforms in recent years. Germany's reduction in social charges and increase in consumption taxes sent clear signals that investors have heard. Finally, with a deficit of 3.3% of GDP in 2010, reaching the Maastricht goal of 3% by 2013 looks much easier for Germany than for France, which will continue to struggle under the weight of a deficit that amounted to 7.4% in 2010.

France can do it
Entrepreneurship is a state of mind: France provides a lot of help to start companies, which is useful, but insufficient. The country must now promote the spirit of entrepreneurship within the educational system, communicating and recognizing success – and successes. Promotion of entrepreneurship also requires closer links between large companies and SMEs, some of which could accept external equity investment to speed their growth. Finally, an issue that is both cultural and competitive: we must develop our international mindset to seek growth beyond our frontiers.

Philippe Fourquet, Partner, Ernst & Young,
Head of Strategic Growth Market in France

15 *Ernst & Young Eurozone Forecast* – April 2011
16 Eurostat (national accounts) – 2008 data
17 Ernst & Young *Agir pour la croissance Performances des ETI patrimoniales en Europe* – 2010
18 Source: Coe Rexecode, *Mettre un terme à la divergence de compétitivité entre la France et l'Allemagne,* January 2011

Company size acronyms: TPE: 20-99 employees / PME: 250-999 employees / ETI: 250-5,000 employeess

Viewpoint

Ronald Kent,

Executive Vice President, NYSE Euronext and CEO, NYSE Euronext London

Support better access to public capital markets for Europe's SMEs and mid-caps

Some 80% of listed issuers on NYSE Euronext's European exchanges are companies with a market capitalization of less than one billion euros. It's a clear indication of the important contribution that small and mid-cap companies make to European innovation, growth and job creation.

To finance their growth and investments, these companies need access to affordable capital; they need available and functioning financing solutions from the financial markets. But following the financial crisis, many found their traditional sources of capital, such as bank lending and venture capital, have either dried up or that their terms became much less attractive.

Regrettably, EU public capital markets are not functioning as they should, especially for these smaller listed companies. Too few investors, brokers, research analysts and other participants are taking an interest in them. Many resources devoted to these market segments before the financial crisis have either exited or scaled back. Exchanges, other market participants, and some EU governments have sought to reinforce the liquidity, research and visibility of smaller companies. However, more action is required — at EU and national levels. It's essential that we create a more positive environment for small and mid-caps to access public capital markets, and for investors to invest in them. It's also time to revisit some regulatory proposals (such as Solvency 2 and Basel III) that have had the unintended consequence of making it more difficult to invest in the equity or longer-term bonds of European small and mid-caps, and so promote innovation and job creation.

There have been some steps in this direction. NYSE Euronext has shared in efforts to develop public capital markets for small and mid-caps in France and is encouraging similar initiatives in its other European markets in Belgium, the Netherlands and Portugal.

Encouraged by Finance Minister Christine Lagarde, French initiatives have included adapting the legislative and regulatory framework and market rules to the needs of listed small and medium enterprises (SMEs), including a proposal for a "Small Business Act of European exchange law" to support SME listing. Other measures include bolstering the presence of institutional investors on markets where SMEs are listed; promoting listing benefits to CEOs of small and mid-cap companies; improving investor information and creating a watchdog to monitor listed SMEs.

First results are encouraging: nearly 50 new SMEs joined our pan-European exchange platform in 2010 and nearly two-thirds of the IPOs on NYSE Alternext were backed by venture funds. This, to me, underlines the importance of linking private and public equity in the financing chain.

France's tangible and intangible assets

Investors have recognized France for its strong economic traits this year: international accessibility, capacity to innovate and sector specialization. Despite this recognition, France faces strong competition in innovative activities.

Attributes "made in France"

The findings of the 2011 survey confirm the elements that make up the "personality" of the French economy. International accessibility (29%), innovation capacity and quality of education (23%), and sector-specific factors (22%) now make up the main "fundamentals" of France's attractiveness, ahead of the quality of life (21%).

Within an international context of trade recovery and the growing internationalization of talent and capital, it is unsurprising that accessibility is a cornerstone among expectations. In France these are reinforced by projects for high-speed rail lines, including the East European corridor, the Lyon-Turin link, and the Bordeaux-Spain project, as well as by the promise of the Grand Paris enlargement of the capital.

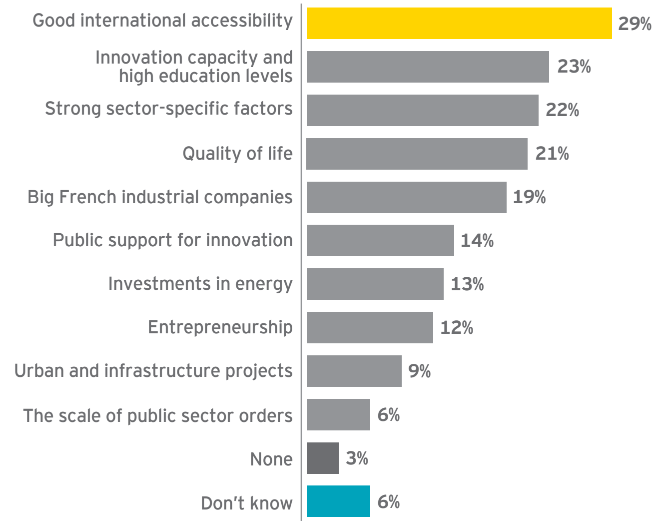
The capacity for innovation and the level of education are also unanimously recognized. Overall, 41%[19] of 25-34 year-olds have a degree or diploma, against a European average of 32%. For innovation, the French support mechanism, which seems permanent, and the Research Tax Credit *(crédit impôt recherche)*, even after its recent review remain anchors of France's attractiveness.

The development of sector-specific factors and the presence of big industrial groups in leading sectors including automotive, banking, pharmaceuticals and luxury provide a shop window for French excellence. Profits of blue-chip companies that make up France's CAC 40 Index almost doubled in 2010 to reach 83 billion euros. These companies employ 1.7 million people in France, equal to 10% of private sector employment.

Finally, the aesthetic and cultural elements that make up the "quality of life," together with the French "social model" (decried by some, admired by others) inspired the economist Joseph Stiglitz to this analysis: *"If we did a global survey and asked Chinese people in which society they would like to live, they would vote for a model similar to yours rather than that of the United States."*[20]

[19] OECD, Education at a Glance 2010 (2008 figures).
[20] Joseph Stiglitz, interview with Romain Gubert, Le Point.fr, no. 2000 – Société p. 73, 13 January 2011.

What attributes of "made in France" can France rely upon in a changing world? (two answers possible)



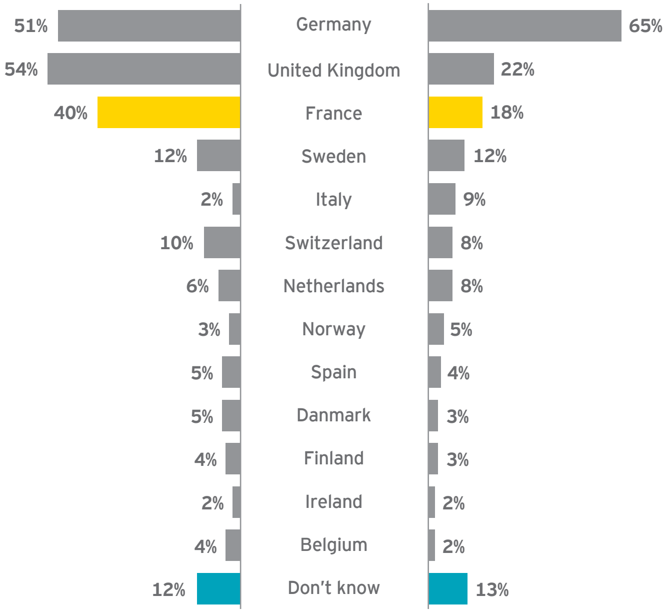
Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

Competition for innovation in Europe

In terms of innovation capacity only Germany stands out in the 2011 survey ranking, with an approval rating of 65%. France ranks third, but is only considered a high performer by 18% of those questioned, fewer than one in five. The Innovation Union Scoreboard 2010 consistently ranks France well behind the innovation champions, which it identifies as Sweden, Finland, Denmark, Switzerland and Germany. In this ranking, France is placed 11th, with particular weakness in innovation by SMEs.

Which are the three best countries in Europe for higher education?"

Which European countries are most effective at innovation?" (two answers possible)



Sources: Ernst & Young European attractiveness survey 2011 (812 respondents) and Ernst & Young France attractiveness survey 2011 (207 respondents)

Viewpoint

Claude Sassoulas,
Managing Director, Europe and Africa, Tata Communications (communication services for companies)

Everyone must be extremely vigilant on costs

For Tata Communications, that France is the breeding ground for its big companies – those of the CAC 40 and, beyond that, the top 150-200 French groups – is, of course, the first criterion that justifies our presence here. The second is indubitably the quality of French engineers, especially those specializing in telecom networks, who offer an exceptional blend of training and experience. It is this quality that, in relation to our needs (we tend to hire experienced professionals) spells the difference in France, compared with Germany or the United Kingdom.

However, the major attractiveness handicap for investors remains the weight of social charges and the lack of flexibility in the labor market. In this field, despite the declarations of intent from numerous economic and political leaders, little or nothing changes. And we experience the consequences every day on the ground. When I list our group's 350 staff in Europe, the French are far and away the most expensive. Like for like, a French salesperson will cost me 20% more than their German or British peers. Yet in gross pay, our British employees earn more than our French ones. This additional cost is a heavy handicap at a time when everyone must be extremely vigilant about costs.

The second problem is the rigidity of the labor market. We have a small customer support operation in France: I have decided to transfer it to England to benefit from lower labor costs, but also a better social and fiscal framework. Our French operation is today an SME with fewer than 50 people, and it will not create as many jobs as it would if the environment was more attractive.

Attitudes in France must change and decisions must be made quickly concerning social charges and labor flexibility. That's the message we must continue to send to policy-makers.

Higher education and innovation

Upstream from innovation, investors shared views on comparative performance in higher education, ranking France third (with a 40% approval rating) behind the United Kingdom (54%) and Germany (51%). Various rankings using objective data show a smaller gap, with a closely spaced top three. The *Global Competitiveness Index (GCI)*[21] 2010-11 ranks France 17th, the United Kingdom 18th and Germany 19th out of 139 countries studied. In management education French business schools stand out: in the *Financial Times* 2010 Masters in Management ranking, four French business schools (ESCP Europe, HEC Paris, EM Lyon Business School and Grenoble Graduate School of Business) head the top five, pushing the London School of Economics into fifth place.

The weaknesses in French innovation must lie in the poor university-industry collaboration on the development and application of R&D. On this latter measure, France ranks 44th in the Global Competitiveness Index, far behind the UK (4th) and Germany (9th). That should motivate France to highlight its policy of reinforcing, concentrating and internationalizing its competitiveness clusters.

[21] Source: World Economic Forum

What France should be: competitive, innovative, regional

In 2011, France is undeniably sending some positive signals to the FDI community. Overall, 62% of decision-makers find projects associated with the *Grand Emprunt* (national loan) alluring and 51% believe scrapping the *taxe professionnelle* (business tax) fits with the objective of improving France's attractiveness as a business location.

However, investors continue to wish for strong signals on labor flexibility, reduction of social charges and above all innovation support. Furthermore, their views suggest that big regional conurbations can play a role in dynamizing and diversifying the attractiveness of France.

Competitive

Future investments: France on the right track

The Government has implemented or announced several reforms. But the *Grand Emprunt* (national loan) attracts most interest from foreign investors.

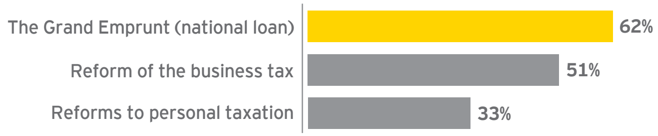
The *Grand Emprunt* (national loan[22]) wins approval from 62% of decision-makers surveyed. They appear to appreciate its focus on coherent projects, concentration of investment on projects with critical mass, geographical organization around viable and effective competitiveness clusters and emphasis upon academic research more closely directed at industrial applications in key sectors including health, biotechnology, aerospace, nuclear and zero-carbon energy.

Just over half the panel (51%) approves replacement of the *taxe professionnelle*, a business tax levied on assets, by the *contribution économique territoriale* (based on property ratable values and value-added by the business) as positive. Investors believe the change will help improve the attractiveness of France as a business location by reducing the fiscal burden on industrial companies.

However, the reform of personal taxes, which involves scrapping the cap on personal taxation and changes to the wealth tax, is deemed helpful by only a third of investors surveyed. Action to reduce public deficits is also seen as positive by financial markets. But government steps to reduce France's deficit are seen as neutral by 50% of those questioned for the 2011 survey.

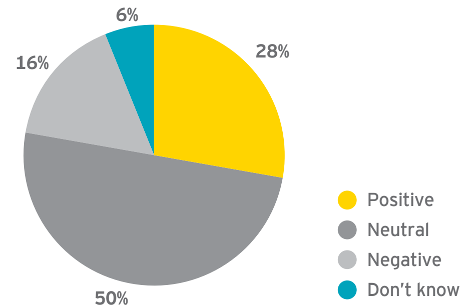
[22] 35 billion euros to be invested in five priority areas: higher education (11 billion euros), research (7.7 billion euros), industry and SMEs, digital economy and sustainable development.

Among measures launched by the Government, which are best-adapted to improve the attractiveness of France? Those answering: "very or fairly well adapted"



Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

What impact do efforts to cut public deficits have on the attractiveness of France?



Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

Investors insist: more flexibility, fewer charges

International decision makers say it again: they want more flexibility (44%) and lighter social charges (34%). On the other hand, they don't think corporate tax is an obstacle to French attractiveness.

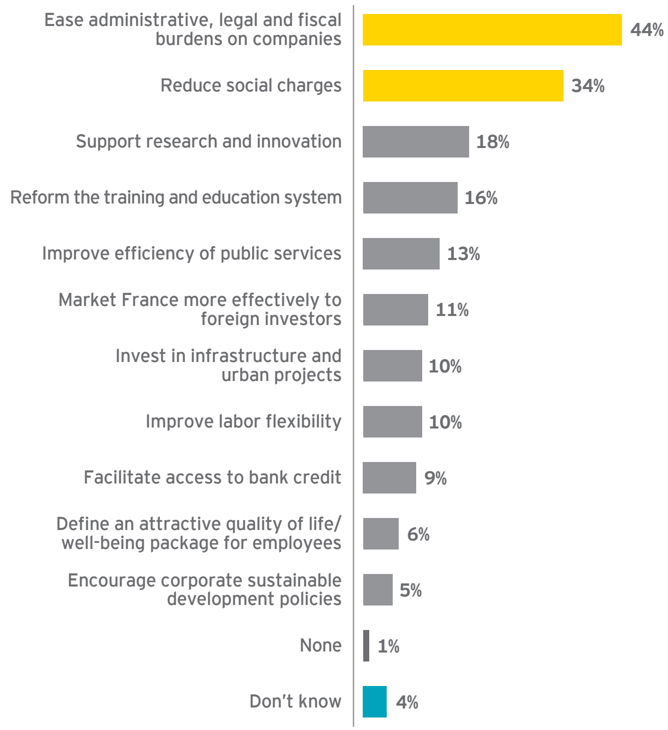
Lightening the burden to facilitate growth
Once again, international investors restate their desire for more flexibility and a reduction in social charges: 44% believe France should prioritize the flexibility, stability and transparency of the administrative, legal and fiscal environment for companies. This advice is also supported by the World Economic Forum,[23] which ranks France 105th worldwide on this measure and recommends an improvement in the flexibility of its labor market.

More than a third of decision-makers call for a reduction in social charges (34%, down two points on 2010), which are consistently ranked as one of the biggest brakes on the attractiveness of France.

Weak growth and the loss of competitiveness of French companies are also cited by one investor in four as factors capable of gravely harming the attractiveness of France. The trend in profitability of French companies fuels these fears: the gross operating profit of French manufacturing industry fell by 24% in the period 2000–08; meantime, in Germany, it rose by 42%.[24]

[23] Global Competitiveness Index 2010-11
[24] Eurostat (national accounts, quarterly, by sector)

What priority measures should France take to strengthen its FDI attractiveness? (two answers possible)



Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

Competitive

Tax: are investors resigned to it, or simply ill informed?
The fiscal regime is not seen as the biggest brake on the attractiveness of France: 45% of investors surveyed see French taxes as competitive, or average. But the burden of corporate tax and social charges equals 41.9% of GDP in France, against 37% in Germany, 34.3% in the United Kingdom[25] and an OECD average of 34.75%. The way these charges are redistributed matters, of course – using them to finance high-quality public services may give France an advantage compared with the United Kingdom.

The French corporate tax rate of 34.43% is the third highest in the world, after that of Japan (41%) and the United States (35%). But to compare the fiscal attractiveness of countries, other factors have to be taken into account, including the taxable income (base of taxation), reduced rates such as those on intangible assets, and tax reliefs – factors often overlooked by investors when choosing an investment location.

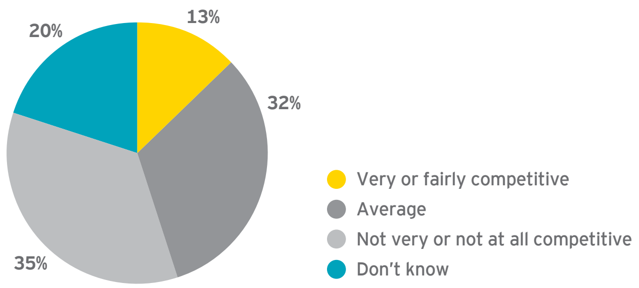
However, France has many tax-efficient mechanisms that need to be taken into account in any assessment and which make France an attractive location for some. These include France's *crédit impôt recherche* (research tax credit), tax incentives for intellectual property, tax regimes for holding companies, a favorable tax regime for employees from overseas, the ease of online tax return at a dedicated tax office for large companies, and the spread of tax conventions with African states.

However, some may regret legal uncertainty and the lack of long-term visibility over even some of the most effective measures – including the research tax credit, which was a subject of debate during discussions over France's 2011 Finance Law.

Note also that 20% give no opinion on this topic, a proportion that rises to 43% among foreign investors whose companies do not have a presence in France.

[25] Tax and social charges – 2009 (as a percentage of GDP), Observatoire des politiques budgétaires et fiscales 2011, Ernst & Young Société d'Avocats.

Compared with its European rivals, how does France rate on corporate taxation?



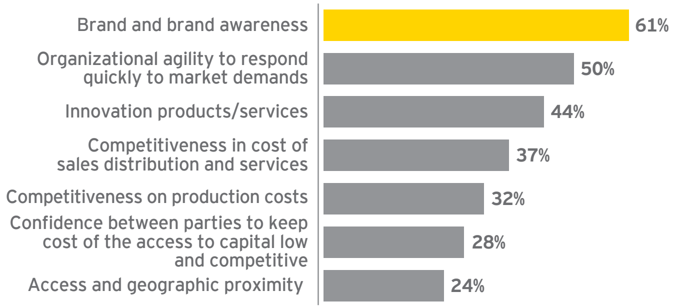
Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

Factors of competitiveness: an intangible question

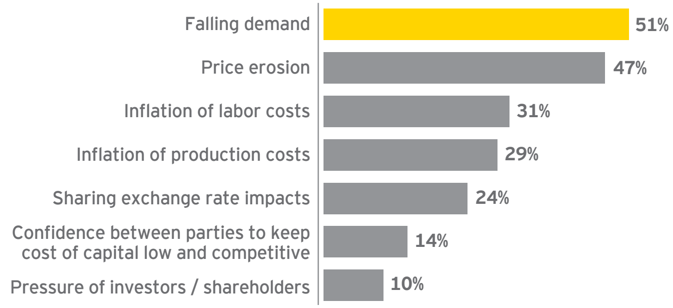
In Ernst & Young's *Competing for Growth* survey at end-2010, 1,400 international executives questioned about the critical competitiveness factors for their business put brands, innovation and adaptability top of the list. Distribution and production costs ranked only 4th and 5th.

Asked more precisely about factors that put pressure on their costs, the cost of labor ranked third, cited by 31%, behind falling prices and falling demand.

What factors are most critical for the future competitiveness of your company, in the coming two years ?



What is the biggest pressure on the costs of your business?



Source: Competing for Growth, Winning in the new economy; survey by Ernst & Young in collaboration with the Economist Intelligence Unit (EIU) between 1 September and 15 October 2010

Viewpoint

Patrick Artus,

Head of Research at Natixis, Professor at the Ecole Polytechnique and at the Université of Paris I Panthéon-Sorbonne, Member of the Council of Economic Analysis

Make it easier for companies to raise capital

An attractive France is first and foremost a France that no longer strangles companies with excessive social charges. Everyone agrees that this ruins competitiveness and jobs, even if there are lighter social charges on low salaries, as is the case in France. That is why reform of social security financing is, for me, the absolute priority. It is essential to transfer part of the financing burden onto capital income. It is entirely legitimate to distinguish between social security spending on insurance (pensions, sickness, workplace accidents and unemployment), which should be financed by social contributions paid on salaries, and the spending arising from social solidarity (dependency, family allowances, serious and long-term illness and the state minimum pension), which should be financed by taxation on all revenues.

I propose we replace today's social charges with the *Contribution Sociale Généralisée*, a uniform tax on all revenues. That would send a strong signal to both French and foreign entrepreneurs and be good news for employment and purchasing power. In addition, such a reform would be progressive, and would clarify the respective roles of insurance and solidarity in social security.

An attractive country is also capable of drawing investors in companies' capital. But France is dreadfully short of them. Three figures say it all: in the United States there are about 400,000 business angels; there are 40,000 in the United Kingdom; but in France just 4,000. With too much debt and too little capital, the financing structure of French companies is far from optimal. We see the consequences every day: companies with mid-market products and services, and therefore without substantial profit margins, financed by debt, that can scarcely take the risks necessary to develop.

It is essential to stop judging the situation of French companies from the results of the CAC 40. Nowhere else in the world is there such a contrast between the two groups. In reality, the French corporate fabric is getting still poorer beneath the effect of an explosive cocktail comprising weak profitability and excessive debt. We must urgently find ways to favor investment in companies' capital and restore their profitability.

Innovative

Innovation 2011: share, open, support

France now has innovation support mechanisms that are simultaneously recognized and increasingly well known. But investors and observers believe there is still considerable room for improvement in three main areas: education, commercialization of research and seeding innovation.

What measures are needed to enable French companies to become leaders in innovation and creativity? (Very or fairly well adapted)

Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

The improvement of educational levels and training linked to new technologies is seen as the most important way to strengthen innovation by 87% of investors questioned. Overall, 73% believe France must develop a culture of innovation and begin doing so in secondary schools.

Investors also recommend actions linked to the activity of companies, such as support for applied research and commercialization of innovations (79%), support for implementation of innovative practices in companies (76%) and the development of clusters (76%, up eight points on 2010).

In general, they expect France to promote a culture of innovation and break down barriers between public and private research, doing so by valuing research more highly and supporting innovation in companies.

What the professionals say

For a more hands-on approach to innovation support

The French system of supporting and financing innovation has three elements. First, a risk capital mechanism, the *Fonds Commun de Placement dans l'Innovation (FCPI)* totaling about one billion euros a year enables banks to raise retail funds that they commit to invest in innovative companies.

Second, France has several mechanisms to finance and support innovation. These include the research tax credit (covering 30% of research spending) support for innovative SMEs via *Oséo* (a State SME financing organization), financing of academic research projects via the *Agence Nationale de la Recherche (ANR)* and through support for sustainable development projects provided by ADEME (an agency for the environment and energy saving).

Third, the increasing autonomy of French universities opens the way to private financing of research likely to become less academic and more applied. Like US universities, French universities should be able to finance projects beyond their own walls, including taking capital stakes, while helping to commercialize promising research ideas.

These arrangements are vital, but incomplete. To encourage investors, existing measures must allow more operational commercialization so that projects in the incubation phase can remain in laboratories until they have been successfully tried by customers and can be marketed as innovations. That suggests an urgent need to strengthen competitiveness clusters and create professional commercialization support.

Finally, ways of financing projects during their early years are sorely needed: lack of finance is often fatal at this stage. Stronger measures are needed to nourish innovation, and that remains more an issue for the public than the private sector.

Philippe Grand, Partner, Ernst & Young Advisory, Performance Improvement

The future lies in cities

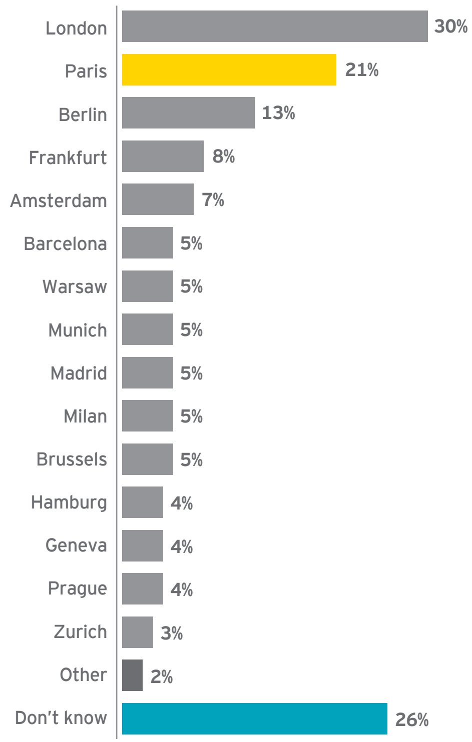
The 2011 survey shows that the attractiveness of France is tied to that of its big conurbations, and their ability to challenge the dominance of Europe's leading cities. To do so, they must continue to develop structural improvement projects and campuses of international standing.

London and Paris crush the competition
The ranking of the most attractive cities shows that attractiveness is also — and perhaps above all — a question of critical mass and of assets built up over years by the coming together of talent and investment. At the European level, London (30%) and Paris (21%) are easily the most attractive cities for those surveyed, and each has gained some ground since 2010. They are followed by Berlin, Frankfurt and Amsterdam. The domination of London and Paris in the eyes of international investors is confirmed by the FDI projects they attract. London drew 289 projects, 10% of the Western European total, and Paris 162, or 6% of the total.

In France, investors can scarcely see beyond Paris (Lyon ranks 19th, though alongside Dublin, Stockholm and Rome), whereas Germany has four cities among Europe's 15 most attractive.

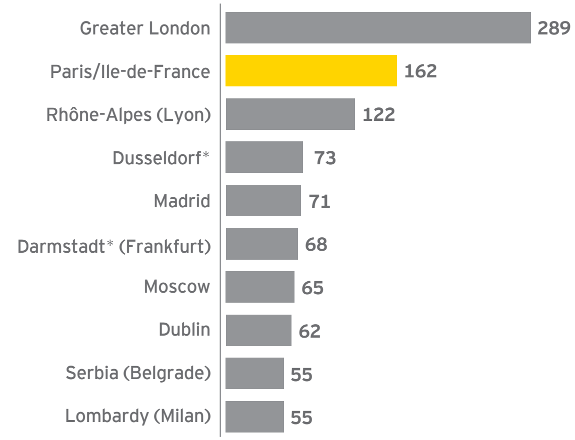
London, the only British city mentioned in the top 10 most attractive, is often seen, unlike Paris, as the most pro-business and the most open to the world. For those who invest there, these qualities promise easier integration in a globalized economy.

Which European cities are the most attractive to establish operations? (three answers possible)



Source: Ernst & Young European attractiveness survey 2011 (812 respondents)

FDI projects by city/region in 2010



** County*

Ernst & Young Analysis based on Nuts2/Nuts3 European classifications
Source: Ernst & Young European Investment Monitor 2011

Regional

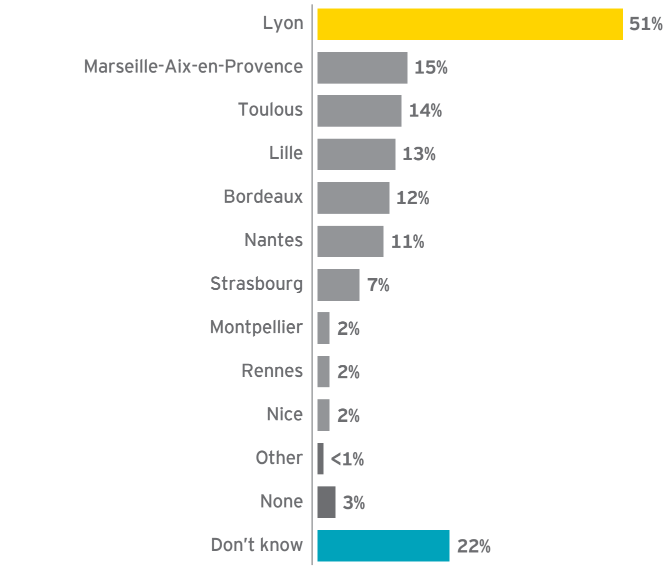
As a global city, foreign investors expect Paris and its region to be efficient, creative and balanced. They expect investments in sectors that are globally competitive, the creation of wealth, a concentration of economic players and scientific and artistic talent. The key issues for the capital and its region are addressed by the *Grand Paris* project. By creating several "centers," investing in transport systems to facilitate movements of people and vehicles, and by attracting the activities of the future, Paris will enable itself to remain in the global first division.

At the national level, more visible and attractive conurbations

For half of the international investors questioned, Lyon strengthens its status as the nearest challenger to Paris and carves out a place as France's entrepreneurial city of tomorrow, with 10 points more than in 2010.

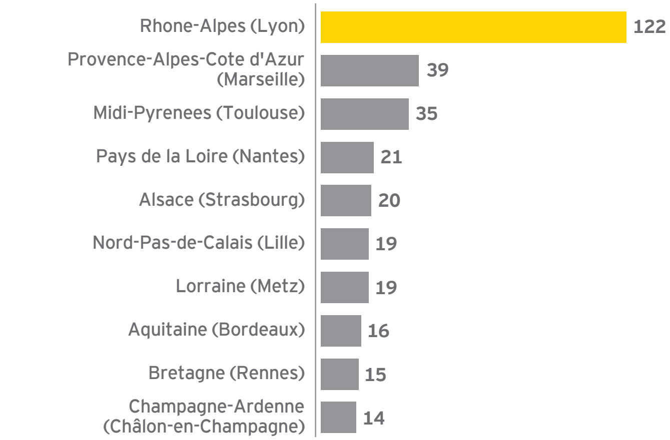
The panel seems to have a clearer vision of French cities than in 2010. The number without an opinion has diminished sharply, a sign that regional marketing by French cities is starting to bear fruit.

Which French city among the challengers to Paris will be the entrepreneurial city of tomorrow? (2 answers possible)



Source: Ernst & Young European attractiveness survey 2011 (812 respondents)

Number of FDI projects in the top 10 French regions 2010 – Excluding Ile-de-France (Paris region)



Source: Ernst & Young European Investment Monitor 2011

Accessibility, connectivity and educational clusters are the main levers of international attractiveness

At the national level, regulatory, political and fiscal criteria may dominate investors' thinking. But today, cities are better placed to highlight their differences in terms of operational criteria, especially accessibility, outstanding facilities and sector clusters to attract international investors.

For French conurbations, the advice from 41% of foreign investors is to focus on high quality transport and telecommunications infrastructure. For 38%, though, higher education is the anchor for the attractiveness of cities. French regional conurbations have understood that: leaders in city ranking are all beneficiaries of France's *campus d'excellence* higher education funding initiative.

A quarter of decision-makers also wish for innovative business parks and suitable real estate. Big real estate projects offer a strong attractiveness lever for conurbations that are still hard to spot on the European radar screen. This can be seen in the planned renovation of the Part-Dieu station at Lyon for 2020, the extension of the Euroméditerranée II project at Marseilles, and in all the investments in business districts spawned by high-speed rail links at Bordeaux, Rennes and Strasbourg, modeled on what has been achieved at Lille.

Investment in real estate, transport and telecommunications is the key to modernization and hence to the attractiveness of French conurbations. It is encouraged and accelerated by the development of public-private partnership arrangements. In total, some 430 such contracts have been signed since 2004, and the number has grown every year, except in 2008.

In conclusion, it is too risky for France to base its attractiveness solely upon the capital region. Big international companies should no longer be driven to leave the regions because these do not provide the accessibility or international visibility they rightly expect. It is therefore imperative for France to equip itself with a choice of regional conurbations that can compete on the European stage and offer the essentials of economic development: sector clusters, committed and better-known leaders, outstanding higher education, urban facilities and projects, and competitiveness in both industrial and service sectors.

What strategies should French conurbations adopt to develop their competitiveness?

Source: Ernst & Young France attractiveness survey 2011 (207 respondents)

Viewpoint

Jacques Bigot,
President of the Communauté Urbaine, City of Strasbourg

Develop a territorial brand to harness local energies

Four French conurbations do well in the latest *ECER-Banques Populaires* ranking of European regional cities that are "good places to do business." There are twice as many German cities, which number 8 out of the 37, but our cities have progressed since the last ranking. Nonetheless, we can and should improve this attractiveness further. I suggest we mobilize all our energy on a series of coordinated actions. First, structure the economic fabric around centers of skills and competitiveness rooted in geographic locations and able to highlight our strengths, while developing suitable infrastructure. Second, we must strengthen regional innovation agencies to encourage innovation in each conurbation. Third, we must increase our commitment to entrepreneurship, which must be both simplified and structured (using the *Oséo* state financing agency, for example). And finally, we must extend urban Enterprise Zones, offering tax-breaks and social charge advantages, across the country.

It is from this analysis that greater Strasbourg has put in place Strasbourg Eco 2020, an ambitious strategy centered upon innovative sectors (notably medical technologies and new therapies) and upon top-end international services (with our big international business district project, among others).

Strasbourg can also count upon the reach of its university, the largest in France by student numbers, and the leader in attracting foreign students. In higher education, Strasbourg's geographical location. close to three international frontiers, helps tie it into the Upper Rhine zone with its Eucor higher education network, a tri-national campus with 11,000 researchers and teaching staff.

Strasbourg has also developed a strong territorial brand, Strasbourg the Europtimist, to clearly position its identity values – Europe, entrepreneurship, dynamism and innovation – in the contest between leading European cities. Strasbourg is now easily identified abroad, and the future international business district, the *Grand Emprunt* (national loan), and the Plan Campus for university financing will benefit from the leverage of the new brand. The brand will also be a valuable instrument for attracting scientific and industrial projects, and highlighting the advantages of the city to potential partners, both public and private.

The future is written in the present tense

In recent years, the rapid growth of emerging markets accelerated the end of big monopolies: around the planet, wealth, opportunities and centers of influence have been redistributed.

Today, the investment cake must be sliced into many more parts, and France can no longer be content to live off its historic strengths and its "natural" position as Europe's second biggest FDI destination. More than ever, France must take its destiny in its hands, be proactive, act and invest to convince of its attractions. Especially when confronted by the dynamism of Germany, now within a whisker of overtaking France on the second step of the podium.

France has outstanding qualities with which to fight off its challengers, including the newcomers.

But for all that, experience must not rhyme with conservatism, nor stability with sclerosis. France today must tackle the challenges faced by all economies as they mature. In some ways, the importance of France in Europe makes it impossible to ignore. Yet it is also an obstacle that can weigh upon its vitality.

The signals sent by the Government in recent years and the reforms it has launched have convinced to varying degrees. The *Grand Emprunt* future investment program and scrapping the business tax have improved foreign investor sentiment. But reform of personal taxes has been less well received, and the

battle against public deficits has only partly convinced. Above all, much remains to be done to offer both foreign and French investors a regulatory, legal, economic and social framework that is simultaneously dynamic and stable, and likely to be more supportive of wealth and job creation.

That 22,000 foreign investors are already established in France suggests an encouraging outlook. Yet the strong doubts expressed by those who have yet to be convinced speak of the urgent need for a more dynamic national project, a more selective investment proposition, and more resolute commitments to modernization. That is especially true in respect of improving labor flexibility, now seen by all involved as a necessity, and no longer simply an option. France must implement the investments it needs for the future. It must also thoroughly review what it has to offer investors from throughout the world in terms of attractiveness. That is the only way to demonstrate France's commitment to be among the winners in a global economy whose geography has been transformed since the beginning of this century. We have to invent the future, now.

Methodology

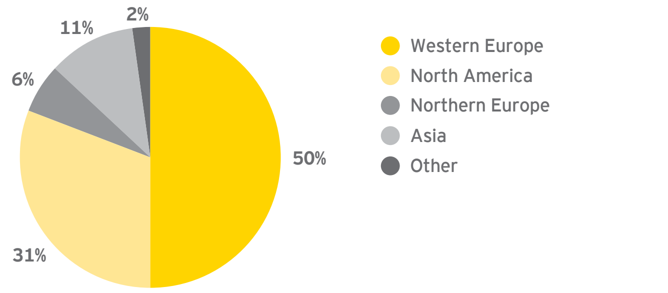
The *Ernst & Young 2011 France attractiveness survey* is based on a twofold, original methodology that reflects:

- First, analysis of trends in FDI in Europe and France. The Ernst & Young European Investment Monitor 2011 database tracks FDI projects that have resulted in new facilities or the creation of new jobs, or both. To assist analysis, respected additional sources are also used, including UNCTAD, Eurostat, INSEE and Xerfi

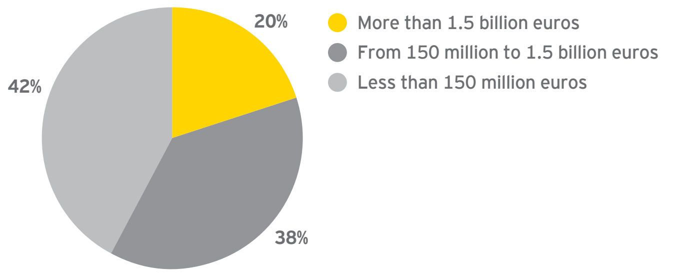
- Second, the "perceived" attractiveness of Europe and its competitors in the eyes of foreign investors through a survey. This was conducted by the Institut CSA, which questioned 207 company directors in 23 countries and five languages, 2–18 February 2011

A representative sample of international investors

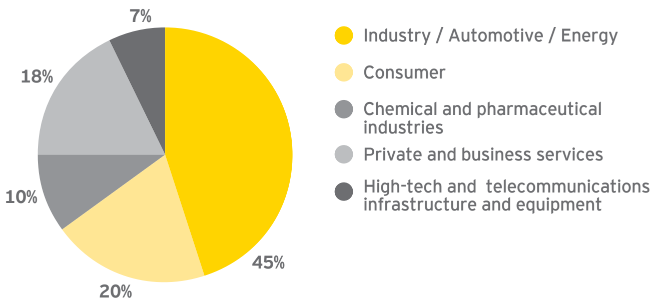
The companies questioned were from a diverse range of countries, but half originated in Western Europe, providing a relevant sample of the French economy and its leading sectors.



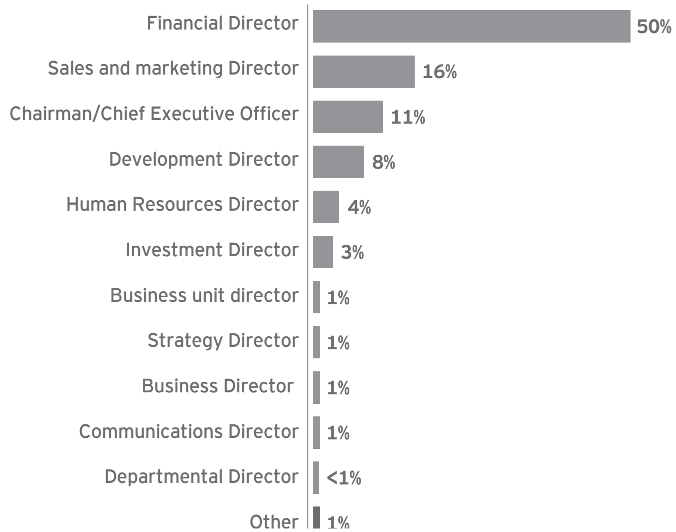
Size of the companies surveyed (by turnover)



Sector of activity



Function of those questioned



Methodology for tracking FDI projects and job creations

Ernst & Young, in collaboration with Oxford Intelligence, has been tracking the number of cross-border investment projects in Europe and each European country since 1997. Our European Investment Monitor (EIM) takes into account only firm projects that have been announced publicly, and that create new jobs.

Other methods can be used to track projects of this kind. The Invest in France Agency (AFII), an arm of the French Government, tracks jobs "safeguarded" by foreign investment in France as well as those created by FDI. Furthermore, it counts jobs created and safeguarded over a projected three-year period, whereas the EIM focuses on data at the outset of projects and does so in all European countries. Differences between results of the two methodologies also arise from the nature of projects recorded by the AFII, which include hotel, restaurant and distribution projects that may not be included in the EIM. Overall, quality control tests and cross-matching with companies undertaken to compile the EIM database enable us to guarantee a level of accuracy and comparability that is unique in Europe.

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Contacts

Stéphane Baller
Partner, Ernst & Young Société d'Avocats
Cross Border Services Leader
Tel.: 33 1 55 61 13 19
E-mail: stephane.baller@ey-avocats.com

Marc Lhermitte
Partner, Ernst & Young Advisory
Tel.: 33 1 46 93 72 76
E-mail: marc.lhermitte@fr.ey.com

Christophe Hémery
Marketing & Development
Cross Border Services
Tel.: 33 1 46 93 85 94
E-mail: christophe.hemery@fr.ey.com