



Standing tall

EY's Attractiveness Survey
Scotland

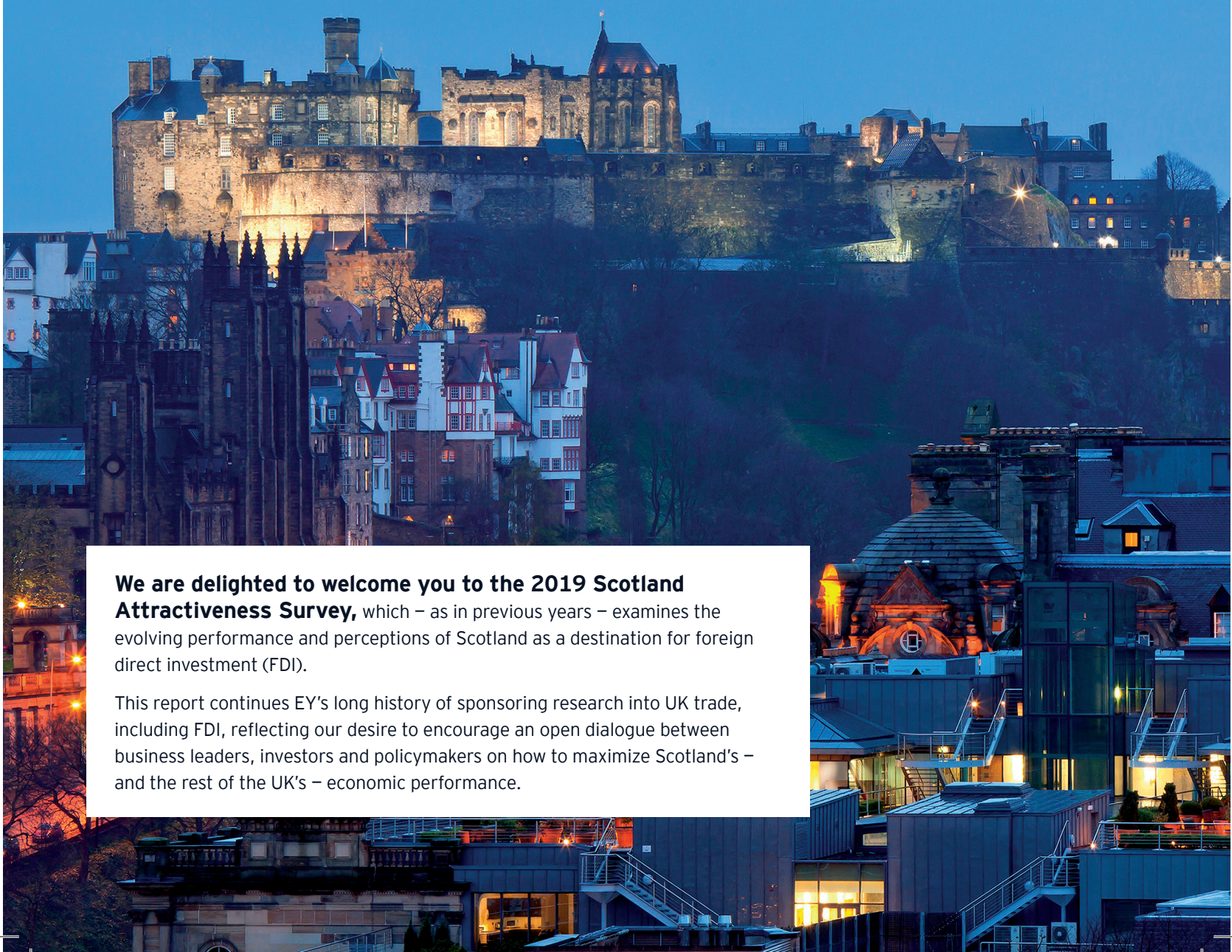
June 2019

EY

Building a better
working world

Contents

Foreword	1
Executive summary	3
Reality	4
Perception	13
Outlook	16
Methodology: how EY researched the report	17
About the attractiveness program	19



We are delighted to welcome you to the 2019 Scotland Attractiveness Survey, which – as in previous years – examines the evolving performance and perceptions of Scotland as a destination for foreign direct investment (FDI).

This report continues EY's long history of sponsoring research into UK trade, including FDI, reflecting our desire to encourage an open dialogue between business leaders, investors and policymakers on how to maximize Scotland's – and the rest of the UK's – economic performance.



Foreword



Ally Scott
Incoming Senior Partner
EY Scotland



Mark Gregory
Chief Economist
EY UK

Introduction

The 2019 EY Scotland Attractiveness Survey reveals a more cautious, subdued market for foreign direct investment than what we have seen in previous years. However, it also importantly demonstrates a resilient Scotland that remains the most attractive destination in the UK for both existing and new investors after London.

The total number of FDI projects in Scotland was 94, down by 19% from 116 the year before. This is a trend seen across the UK, particularly in the regions, and evidences a challenging environment in securing inward investment. In fact, every UK region apart from Northern Ireland attracted fewer projects in 2018 than 2017.

There is clear potential for Scotland to capitalize on its proven strengths; its record for attracting new investment, and the positive perceptions of Scotland as a UK investment destination amongst both established and not established investors, and to consolidate its position as the natural alternative to London. The headwinds facing UK FDI overall make it especially vital that Scotland seizes this opportunity with both hands.

Brexit

While FDI projects in London held firm in 2018, the decline in projects across most regions of the UK appeared to reflect the uncertainty surrounding the Brexit process, with 15% of companies in our 2019 survey of international investors saying they have put UK investment plans on hold as a result of the vote to leave the EU.

Reality

Despite a fall in the number of projects secured during 2018, Scotland has managed to sustain most of the strong progress made during an unprecedented run of record-breaking success over the last few years.

Many UK regions were dealt the same combination of falling projects and declining UK market share felt by Scotland during 2018. The 'Northern Powerhouse' fell more sharply, while the 'Midlands Engine' and South East England suffered smaller falls.

Scotland retains its position as the second most important 'region' for UK investment after London – a position it has held since 2014.

Perception

While a number of external factors can be cited for a more cautious market in real time, the study of global investor perception showed that when asked which region of the UK they see as the most attractive to establish operations, Scotland's attractiveness more than doubled.

Significantly, this bodes well for Scotland's future FDI flows, especially since – unusually – companies yet to invest in the UK are as keen on Scotland as those who have already done so. This perception is supported by Scotland's stronger result for new FDI projects in 2018, which declined by only one project on last year's results.

Cities and towns

Scotland's 'big three' cities remain in the UK top ten outside of London. While Edinburgh and Aberdeen retained their places in the ranking, project numbers have reduced. However, Glasgow has bucked the trend and has seen a 19% increase in projects from 2017. With only one project difference between Edinburgh and Glasgow. As Scotland's largest city, its economic performance has the potential to impact the overall performance of the Scottish economy.

Honourable mention goes to Dunfermline which, having secured three FDI projects last year, becomes Scotland's fifth most successful location for FDI.

Sizeable projects were also recorded in the Highlands and Islands and South of Scotland, which are predicted to see the combined creation of 450 jobs.

Sector performance

Digital and business services both generated the highest numbers of inward investment projects into Scotland in 2018. These were also the leading two sectors for the UK as a whole, accounting for 34% of investment into Scotland. Sales and Marketing projects performed the strongest in 2018 with an increase of 20%.

Most trends in sector project declines were mirrored across the UK as a whole. The sharpest decline in Scotland was seen in R&D, down 13 projects (59%).

What next?

Scotland's continuing resilient performance in securing FDI projects provides a solid base from which to navigate a path through it. Doing this successfully will require Scotland to build upon its proven strengths, and, not just maintain, but re-double its efforts to attract investors and FDI from across the world.

When we asked respondents to rate the factors that influence them to choose one region of the UK over another, the top criteria was the availability and skills of the local workforce. The availability of business partners and suppliers also remains an important consideration, as is the quality of infrastructure.

At an uncertain time nationally and internationally, companies want to be sure they are going into a region that offers an environment which is conducive to their investment. Our figures on both FDI projects secured and investor perception suggest that the Scottish Government's investment in its network of Innovation and Investment Hubs in recent years and its reorganization of Scottish Development International (SDI) may be both well-timed and bearing fruit.

Efforts now must focus on ensuring the talent pool is skilled and agile, fed by an appropriate pipeline, in order not just to maintain but step up Scotland's efforts to attract investors and FDI from across the world.

The opportunity is clear and Scotland needs to continue to seize it.



Executive summary

Key findings from 2018

- ▶ Scotland retains position as second to London in attracting new FDI projects
- ▶ 94 inward investment projects were secured in 2018, down by 22 (19%) from 116 projects the previous year
- ▶ Scotland's 'big three' (Edinburgh, Glasgow and Aberdeen) in the UK top ten cities outside of London for attracting projects
- ▶ Top countries for FDI in Scotland are United States, Germany and Switzerland (joint second), and Norway
- ▶ The top three sectors generating the highest numbers of inward investment projects are digital and business services, both seeing an increase of 16 projects, and Machinery & Equipment with an increase of 12
- ▶ The three sectors witnessing the sharpest decline are R&D which is down by 13 projects, logistics down by six projects and manufacturing down by five

Investor perception

- ▶ When investors were asked to cite which region of the UK they perceive as the most attractive in which to establish operations 7% named Scotland, more than double the 3% in both 2016 and 2017.
- ▶ Most important factors for investors are:
 - 1 Availability of skills and local workforce
 - 2 Transport infrastructure
 - 3 Availability of business partners and suppliers



Reality

In a tough year for Foreign Direct Investment (FDI) into the UK, Scotland put in a resilient performance ...

In 2018, Scotland continued to attract high numbers of FDI projects – albeit below the level achieved in 2017, reflecting a declining trend seen across the UK as a whole. During the year, Scotland secured 94 inward investment projects, down by 22 or 19% from the 116 projects recorded in 2017. Despite this decline, Scotland has retained second place behind London among the UK's leading FDI destinations – an achievement underlined by a strong rise in Scotland's attractiveness to investors from overseas, as shown in our 2019 EY Scottish Attractiveness Survey.

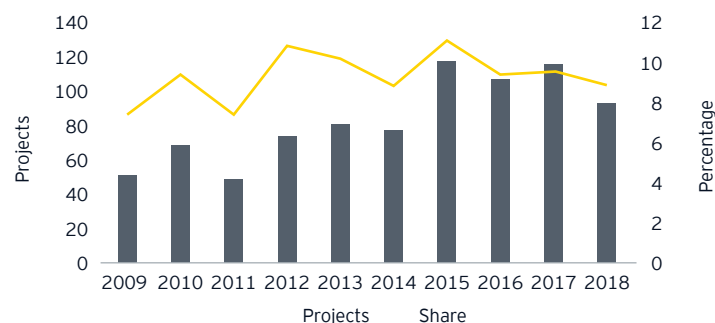
The 19% fall in FDI projects coming into Scotland was steeper than the decline experienced across the UK as a whole, with UK investment projects down by 12.5% in 2018 compared to a year earlier, falling by 151 projects to 1,054 from 1,205 in 2017. The fact that projects in Scotland saw a bigger fall than in the UK as a whole resulted in a drop in Scotland's share of all UK projects, to 8.9% from 9.6% in 2017. While FDI projects in London held firm in 2018, the decline in projects across most regions of the UK appeared to reflect the uncertainty surrounding the Brexit process, with 15% of companies in our 2019 survey of international investors saying they have put UK investment plans on hold as a result of the vote to leave the EU.

... retaining most of the ground gained in recent years ...

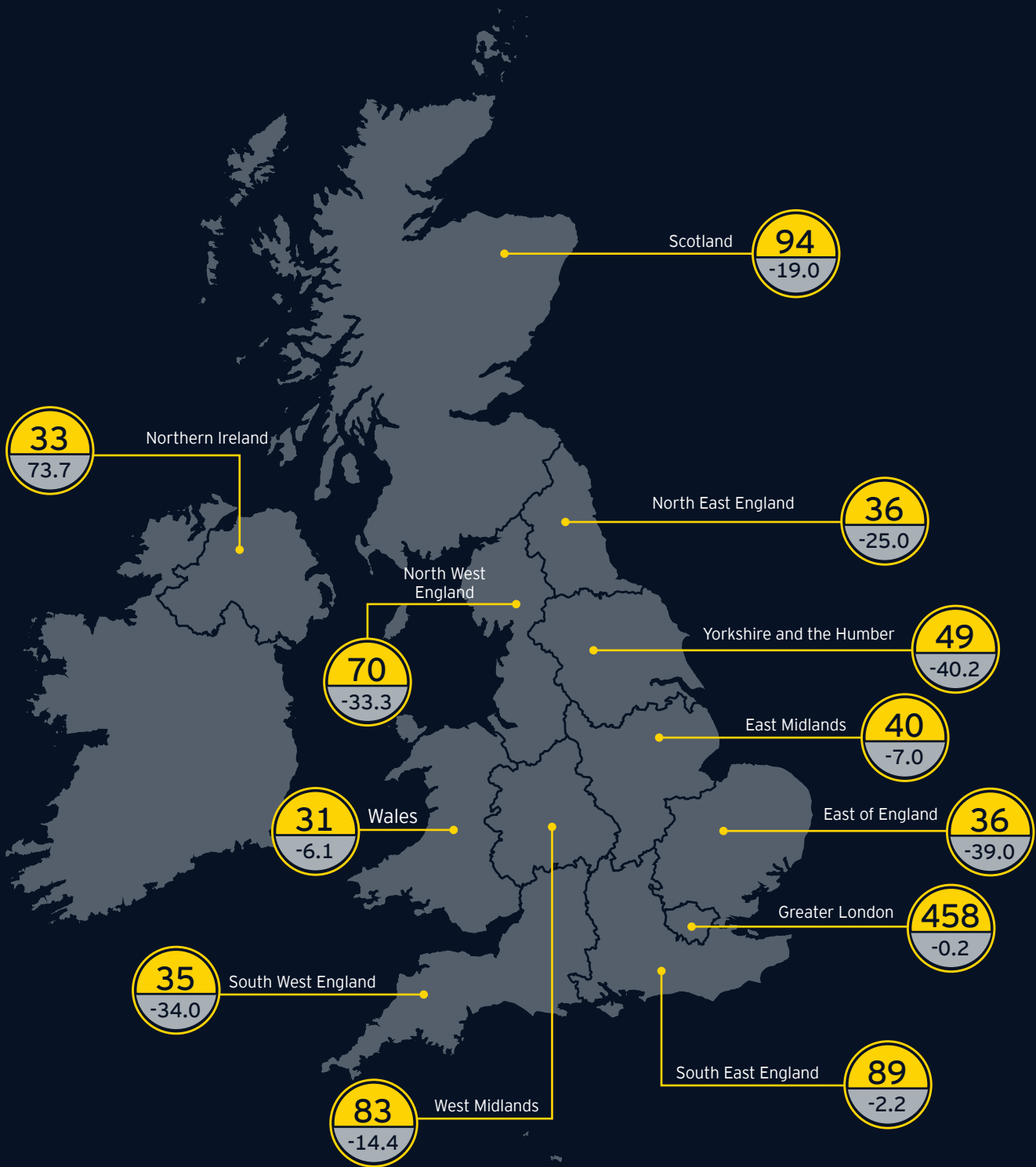
More positively, it is important to note that the decline in the number of Scottish projects in 2018 followed three successive years in which Scotland's number of FDI projects set new records for the past decade – an unprecedented run of success. And despite the fall, the number of projects secured by Scotland during 2018 was still higher than in any year apart from the period from 2015 to 2017, meaning Scotland has managed to sustain most of the strong progress made during that three-year period. And Scotland's 8.9% share of UK projects in 2018 is well within the general range seen over the past decade.

The combination of falling projects and declining UK market share encountered by Scotland during 2018 was mirrored in many other regions of the UK. Every UK region apart from Northern Ireland attracted fewer projects in 2018 than 2017, with London increasing its market share because the fall in its projects was so small. Looking at the FDI performance of other regions of the UK in 2018, projects in the 'Northern Powerhouse' fell more sharply than in Scotland, while the 'Midlands Engine' and South East England suffered smaller falls. However, amid the general decline in UK projects, Scotland retained its position as the second most important 'region' for UK investment after London – a position it has held since 2014.

FDI projects announced in Scotland and percentage market share of UK projects 2009-18



UK FDI projects by region, 2018, and percentage change from 2017



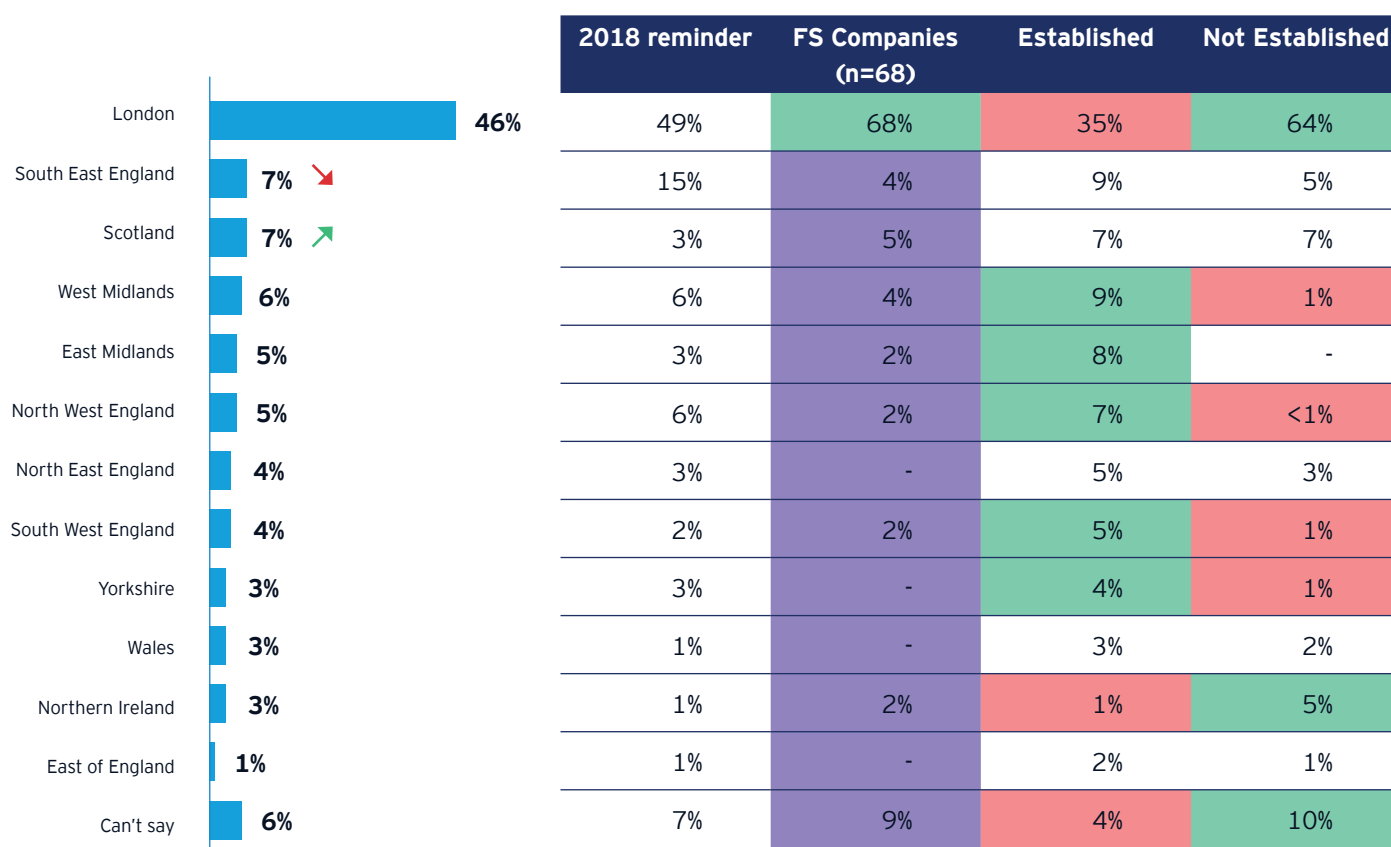
Source: EY's European Investment Monitor 2018

... and boosting its global FDI 'brand' among investors

Even more positively, our 2019 study of global investors' perceptions shows that Scotland has achieved a big rise in the past year in its attractiveness to FDI relative to other UK regions. Asked which region of the UK they see as the most attractive in which to establish operations, 7% of investors cite Scotland – more than double the 3% who did so for the past two years. This result puts Scotland on a par with South East England and joint second to London in terms of attractiveness.

Also, in contrast to all other regions except London and Northern Ireland, respondents who have not yet invested in the UK are as keen on Scotland as those who have already established operations in the UK. This suggests that Scotland's strong FDI 'brand' is attractive to potential first-time investors from around the world who do not yet have much experience of the UK – a factor that appears to have contributed to a relatively strong performance by Scotland in 2018 in attracting FDI projects from 'new' investors.

Which region in the UK do you see as the most attractive in which to establish operations?



Source: EY's UK Attractiveness Survey 2019, sample (n=446)

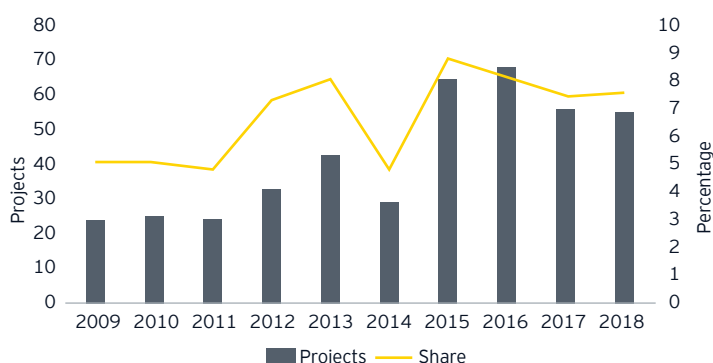
A higher market share of 'new' UK projects

Scotland's attractiveness to companies making their first investments in the UK is underlined by a close look at the FDI figures for 2018. Focusing specifically on 'new' projects – those contributed by first-time investors, as opposed to projects relating to the expansion of existing inward investments – Scotland's performance in 2018 is significantly stronger than for FDI projects as a whole.

The number of new projects recorded by Scotland held firm in 2018, declining by just one project (2%) from 2017. This was smaller than the decline in new projects in the UK as a whole, resulting in Scotland's market share of new UK projects increasing from 7.4% to 7.6%. This rise continued a long-term upward trend in Scotland's share of new UK investment projects over the past decade, and its share in 2018 represented the third largest achieved during that period.

With 55 new projects secured in 2018, Scotland was also ranked second in the UK behind London in attracting new projects during the year, ahead of South East England and the West Midlands, each with 52. This represented a rise from third place in 2017, when Scotland was ranked behind London and North West England for new projects. In fact, 2018 was only the third time in the past decade that Scotland has achieved second place for new project investments.

New projects in Scotland and Scotland's share of new UK projects, 2009-18



Source: EY's European Investment Monitor 2018

A solid showing in employment creation from FDI ...

We have had to make some changes in the methodology used to collect data on the number of jobs created by UK FDI projects. As a result, it is not possible to absolutely establish long-term employment trends for projects in Scotland and the rest of the UK. However, what is clear from the data is that – for those projects that disclose the number of jobs generated – the average project size is variable in terms of employment creation.

In the UK as a whole, the average number of jobs created per project was relatively high in 2018 at 85, the second-highest figure in the past decade. The average number of jobs generated per project in Scotland – at just under 60 – was also larger than in the recent past, being the highest since 2014, but still lower than the UK-wide average for 2018.

The result was that Scotland was the fifth-ranked region of the UK for employment created from FDI projects during the year, down by one place from fourth in 2017. However, it is important to stress that in any given year the regional FDI employment ranking can change markedly, depending on the size and types of projects recorded and their impact in terms of jobs.

Number of FDI projects and project employment disclosed on a regional basis, 2018¹

	Projects	Disclosed jobs created
East Midlands	40	4,680
East of England	36	1,971
Greater London	458	4,676
North East England	36	646
North West England	70	1,390
Northern Ireland	33	1,408
Scotland	94	2,191
South East England	89	3,678
South West England	35	700
Wales	31	1,474
West Midlands	83	4,235
Yorkshire and the Humber	49	1,345
Grand Total	1054	28,394

Source: EY's European Investment Monitor 2018

¹ Note: not all projects disclose jobs. Average project size has been calculated only from those projects that do disclose employment levels.

... with nine projects generating more than 100 jobs each

Nine FDI projects secured in Scotland in 2018 created over 100 jobs each, compared to ten projects of this size in 2017 and six in 2016. While the nine projects came from a range of countries of origin, sectors and activities, six were from the

US. Also, six were expansion (as opposed to new) projects, demonstrating the importance of attracting further growth from existing businesses to the generation of jobs from FDI. Scotland's largest project in employment creation terms in 2018 was a healthcare manufacturing project in the West of Scotland.

FDI projects in Scotland in 2018 announcing an expectation to employ 100 people or more

Destination City Location	Origin Country	Jobs Creation	Sector	Activity	Project Type
West Scotland	Japan	400	Health and Social Work	Manufacturing	Expansion
Lothian	United States	250	Wholesale, retail and distribution	Contact Centre	Expansion
North East Scotland	United States	180	Digital	Sales and Marketing	Expansion
South Scotland	India	150	Business Services	Contact Centre	Expansion
North East Scotland	United States	100	Machinery and equipment	Manufacturing	Expansion
Highlands and Islands	France	100	Digital	Education and Training	New
North East Scotland	United States	100	Oil and Gas	Manufacturing	New
Highlands and Islands	United States	100	Business Services	Sales and Marketing	Expansion
Highlands and Islands	United States	100	Finance	Contact Centre	New

Source: EY's European Investment Monitor 2018

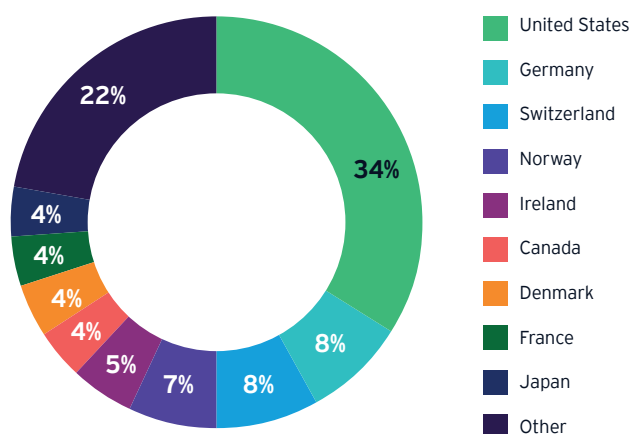
Origins of FDI projects in Scotland: the US retains its lead ...

In common with the UK as a whole, the US continued to be the origin of most FDI projects coming into Scotland in 2018. The US generated 32% of UK investments during the year, a four percentage point increase on its 28% share in 2017. The US has consistently been the most significant overseas investor in the UK since FDI records were first maintained in 1997.

Scotland was slightly more reliant on US FDI than the UK as a whole in 2018, with the US accounting for 34% of investments into Scotland during the year. This was despite the US recording a small decline in projects in Scotland (down by four projects, or 11%) compared to an increase in the UK as a whole (up 3%). Also in common with the UK as a whole, Scotland secured its second-largest share of investments from Germany, at 8%, again slightly above the UK-wide figure of 7%.

However, Scotland's other leading origins of investment in 2018 differed from those of the UK overall. While the UK received its third-largest number of projects from France, at 5%, Scotland secured 8% of its investments from Switzerland – from which the UK secured only 3% – while the number of French investments into Scotland declined. Scandinavian countries also made up a larger share of Scottish projects than elsewhere in the UK. It is also notable that all of the top nine countries investing in Scotland in 2018 were from Western Europe or North America, with the sole exception of Japan.

Top origins of FDI projects in Scotland, 2018

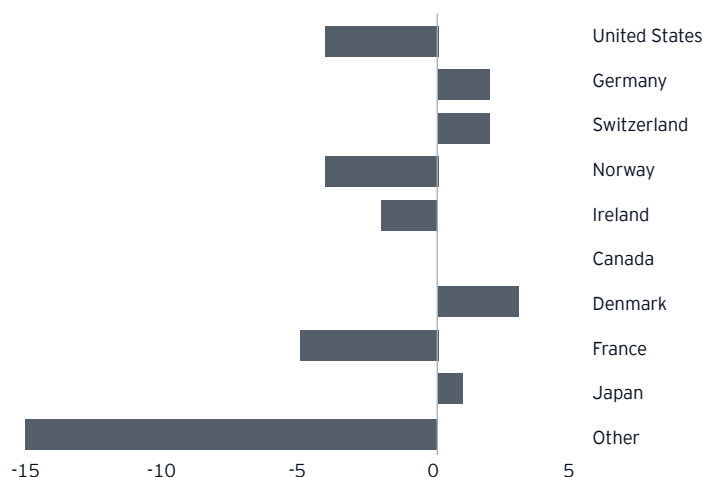


... while Danish, German, Swiss and Japanese projects all increase

While the US continued to contribute the most Scottish projects of any country in 2018, there were some interesting shifts lower down the ranking. Historically, Germany has generally been the number two origin for the UK overall, while France has more often ranked as number two in Scotland – a position it has held in six of the last ten years.

However, 2018 saw a significant reduction in French investments into Scotland, with projects falling to five from nine in 2017, causing France to slip to equal sixth among origins of Scottish FDI. Conversely, projects from Denmark and Japan increased. And Swiss and German projects were both up by 40% in Scotland, but fell by 6% and 30% respectively in the UK as a whole.

Changes in number of Scottish projects recorded by country 2017-18 (leading origins)



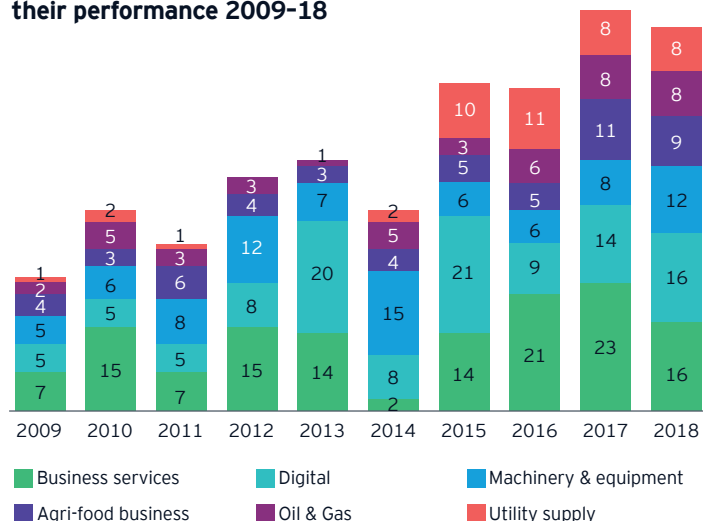
Scotland's leading FDI sectors are digital and business services ...

The two sectors generating the highest numbers of inward investment projects into Scotland in 2018 were digital and business services, with an equal number of projects. These were also the leading two sectors for the UK as a whole, together accounting for 34% of investment into Scotland and 45% of investment into the UK. However, while these were Scotland's two biggest FDI sectors in 2018, they performed in contrasting ways relative to 2017 – with business services projects falling from 23 to 16, but digital projects rising from 14 to 16.

Unlike for the UK as a whole, the sector that generated the third-highest number of investments into Scotland was machinery and equipment, which recorded 12 projects, its highest total since 2014. In the UK as a whole, machinery and equipment was ranked fourth behind finance, which was third for the UK overall in 2018 but did not make the top six sectors for FDI into Scotland.

As experience in previous years has shown, the leading sectors generating investment in Scotland tend to be somewhat variable. Over the past decade, digital and business services have each consistently been ranked one and two in the UK as a whole, but in Scotland this has only been the case in four years out of the past ten.

The six leading sectors for FDI into Scotland in 2018, and their performance 2009-18



Source: EY's European Investment Monitor 2018

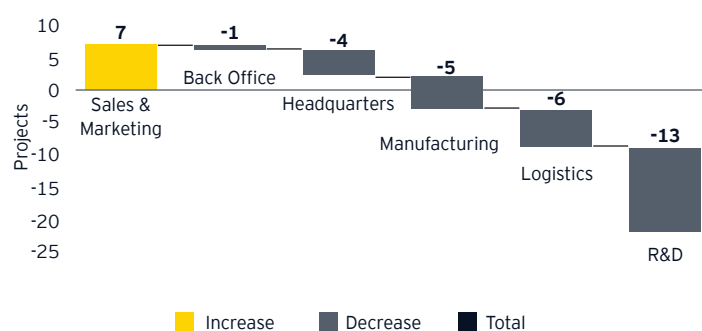
... while sales and marketing and manufacturing FDI remain resilient

The overall decline in Scottish FDI projects between 2017 and 2018 was reflected in all but one of the six broad activities of FDI. Only sales and marketing projects increased in Scotland in 2018 – up by seven projects or 20% – while back office, headquarters (HQs), manufacturing, logistics, and research and development (R&D) projects all declined, to varying degrees.

The sharpest decline in terms of number of investments was in R&D projects, which were down by 13 projects or 59%. But HQs (down 66%), logistics (down 66%) and manufacturing (down 17%) also contributed to the overall fall.

Most of these declines were mirrored in the UK as a whole, with UK-wide R&D projects down by 17%, HQs down by 49%, and manufacturing down by 35%. Logistics projects for the UK overall rose by 7%. A comparison with these UK-wide figures shows that Scotland has been relatively more resilient than the rest of the country in attracting manufacturing investments – suffering only half the percentage decline of the UK as a whole – but has seen sharper declines in HQ and R&D projects.

Change in Scottish FDI projects by activity, 2017-18



Source: EY's European Investment Monitor 2018

UK FDI cities: Scotland's 'big three' are in the UK's top ten ...

Over the years, the annual figures for the UK's FDI performance outside London have shown consistently that cities remain a strong and often vitally important focus and driver for inward investment activity in their surrounding regions. The key role played by cities is underlined by the FDI figures for Scotland in 2018, with the 'big three' Scottish FDI cities – Edinburgh, Glasgow and Aberdeen – continuing to make the top ten FDI cities for the UK overall, as they did last year.

However, these three Scottish cities exhibited contrasting performances compared to 2017 in terms of securing FDI projects. Both Edinburgh and Aberdeen recorded declines of over 30% in their numbers of projects, with Edinburgh's 20 projects and Aberdeen's 9 being below their respective five-year averages. Glasgow had a more successful year, increasing its number of projects by almost 19% to sit only one place and one project behind Edinburgh, as well as being fractionally ahead of its own five-year average performance.

UK's top 10 FDI cities, 2018

		Projects	Change 2017-18 (%)	Five year average projects
1	Manchester	37	-17.8	39.6
2	Birmingham	22	4.8	22
3	Leeds	21	10.5	20
4=	Belfast	20	100.0	18.4
4=	Edinburgh	20	-31.0	24.8
6	Glasgow	19	18.8	18.6
7	Reading	12	20.0	8.4
8=	Bristol	10	-23.1	11.2
8=	Cambridge	10	-28.6	9
10	Aberdeen	9	-35.7	12

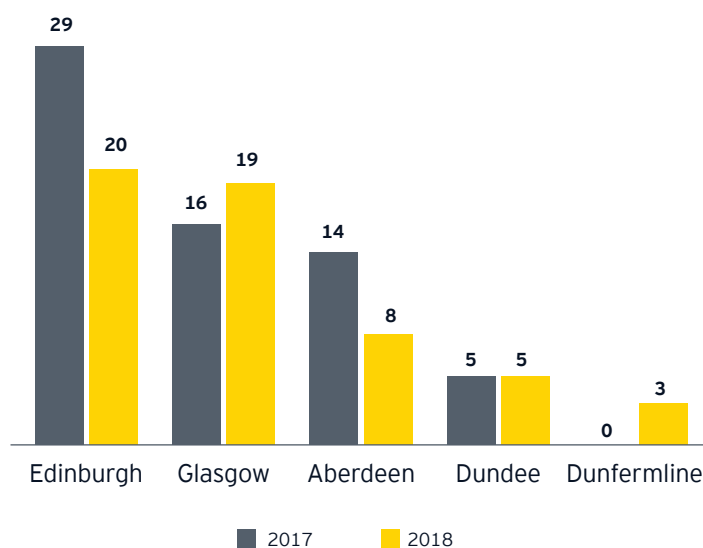
Source: EY's European Investment Monitor 2018

... as Dunfermline flies a flag for Scotland's towns

In the top five Scottish cities and towns for FDI projects in 2018, Edinburgh, Glasgow and Aberdeen are joined by Dundee and Dunfermline. The city of discovery, Dundee, remains steady matching its total in 2017 with five projects, while Dunfermline increases from zero projects in 2017 to three in the last year. The rise of Dunfermline appears to reflect the findings of a joint report published by EY and the Centre For Towns in November 2018 – [Bridging the Gap](#) – which states that Scotland's towns have been especially successful in securing projects compared to those in the rest of the UK.

The report finds that Glasgow and Edinburgh are successful core cities, accounting for 38% of all FDI projects attracted to Scotland in the past two decades. However, in the same period, Scotland has managed to attract the highest number of projects to small towns, communities and villages compared to the English regions and Wales. Dunfermline's strong performance in 2018 is a case in point.

Scotland's top five FDI cities and towns in 2018



Source: EY's European Investment Monitor 2018

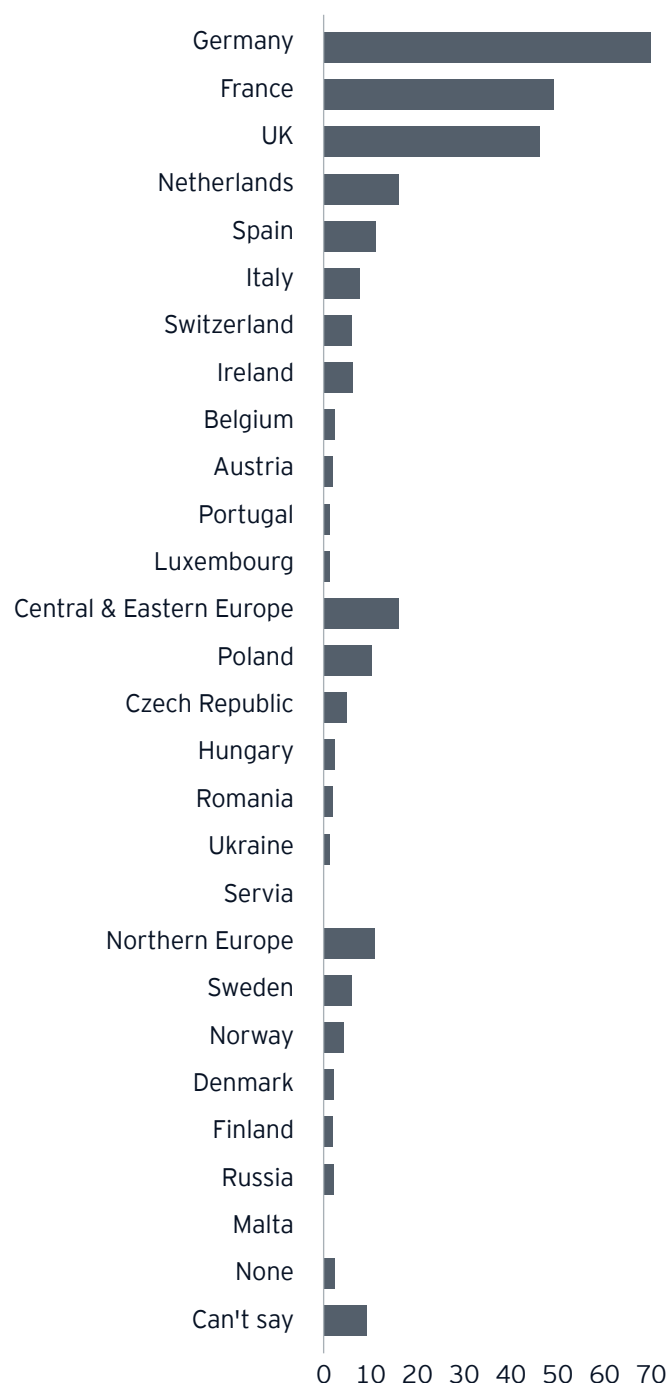
Perception

Scotland's resilience in attracting FDI is underlined by investors' perceptions ...

While Scotland saw a decline in its number of FDI projects secured in 2018, this was against the background of an overall fall in investment into the UK – and followed a three-year run of record-breaking Scottish FDI performances that was bound to come to an end at some point. The clear message is that Scotland is standing tall amid the current welter of international uncertainties affecting FDI flows, of which Brexit is just one. And the view that Scotland's FDI future remains bright is strengthened by the findings from our annual survey of investors' perceptions of the UK at both a national and regional level.

In our 2019 Scottish Attractiveness Survey we interviewed 446 decision-makers from foreign companies, of whom 64% already invest in the UK. Worryingly, the findings show that the UK's overall attractiveness is seen as having declined relative to its competitors in Europe. Asked to name their top three countries for FDI in Europe, investors put Germany first on 69%, up by three percentage points from last year. Behind Germany, France falls seven percentage points to retain second place with 49%, while the UK remains in third place, falling by six percentage points to 46%. The 2019 decline for the UK follows on from a three percentage point fall in 2018, when France overtook the UK to take second place.

Which is the most attractive country for FDI in Europe?

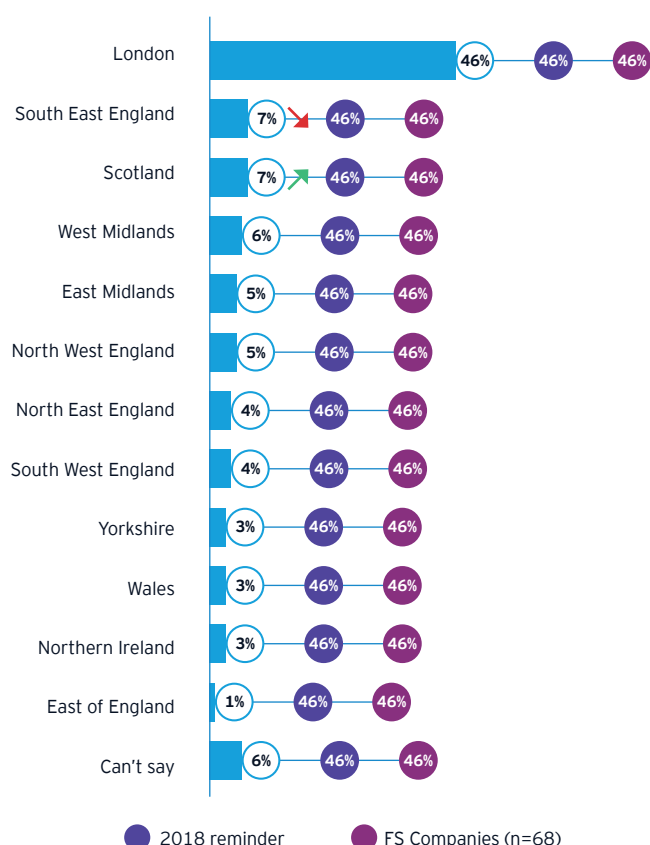


Source: EY's UK Attractiveness Survey 2019

... which have improved markedly this year ...

But while the UK may be seeing an overall decline in perceived attractiveness for FDI, perceptions of Scotland are on the up. As we noted earlier in this report, when we asked investors to cite the region of the UK they perceive as the most attractive in which to establish operations, 7% named Scotland – a sharp increase on Scotland's 3% score in both 2016 and 2017. This bodes well for Scotland's future FDI flows, especially since – unusually – companies who have yet to invest in the UK are as keen on Scotland as those who have already done so. Scotland's strong showing in attracting new (as opposed to expansion) investments underlines its attractiveness to first-time investors. Also, despite finance projects not making Scotland's top six FDI sectors in 2018, Scotland's attractiveness is rated as second only to London by financial services respondents.

Which region in the UK do you see as the most attractive in which to establish operations?



Source: EY's UK Attractiveness Survey 2019, sample (n=446)

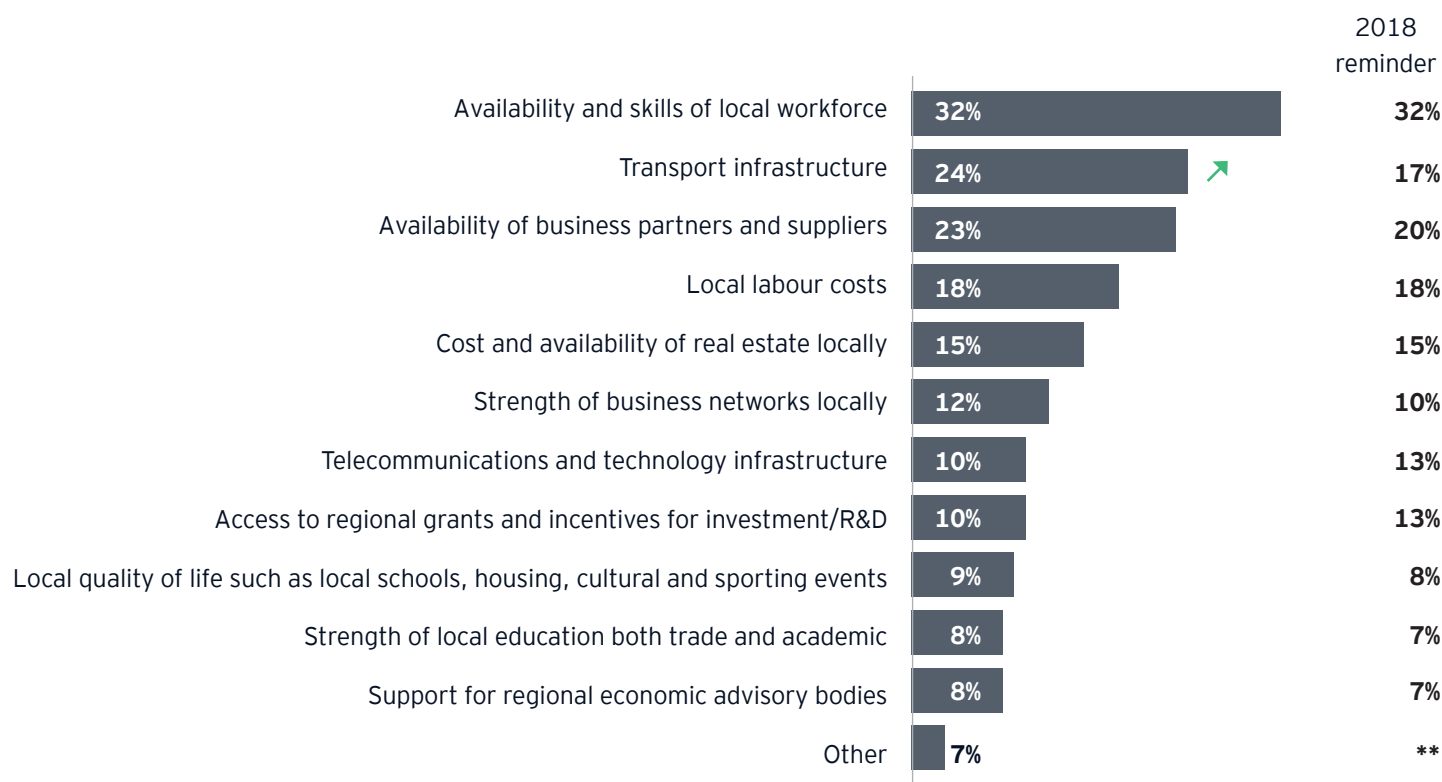
... and provide Scotland with valuable insights into which attributes to focus on

Our 2019 EY Scottish Attractiveness Survey provides further useful messages for Scotland around the attributes that investors are looking for when evaluating a UK region as an investment location – and that Scotland should look to focus on continuing to win FDI in the future. When we asked respondents to our 2019 survey to rate the factors that influence them to choose one region of the UK over another, the top criterion last year – the availability and skills of the local workforce – retained top spot, with its rating easing slightly from 33% to 32%. This plays to Scotland's widely perceived strength of having a skilled workforce.

The availability of business partners and suppliers also remains an important consideration, as is the quality of infrastructure. Added together, the two related factors of transport infrastructure, and telecommunications and technology infrastructure, produce a combined score of 34% that would take first place. Transport infrastructure is especially influential, with its rating increasing from 17% to 24%. So these are all elements of the offer to investors that Scotland should look to major on.

There are also increases in the importance of other factors related to the business and operating environment in a region – including the strength of business networks locally and support from regional economic advisory bodies. At an uncertain time nationally and internationally, companies want to be sure they are going into a region that offers an environment which is conducive to their investment. Scotland should be looking to provide investors with assurance that this is the case. In this context, our figures on both FDI projects secured in 2018 and investors' perceptions in 2019 suggest that the Scottish Government's investment in its network of Innovation and Investment Hubs in recent years and its reorganization of Scottish Development International (SDI) may be both well-timed and bearing fruit (see information panel).

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



Source: EY's UK Attractiveness Survey 2019, sample (n=446)
NB: Two answers possible

The Scottish Government's Innovation and Investment Hubs and reorganization of SDI

Since February 2016, the Scottish Government has set up Innovation and Investment Hubs in Dublin, London, Brussels, Berlin and – as of late 2018 – Paris, as part of its wider efforts to support trade, investment, innovation and intergovernmental relations with Europe. The Hubs' main purpose is to provide a platform for collaborative activity to increase exports and attract investment to Scotland.

Each Hub is tailored to the opportunities in the market in which it is located. As well as promoting trade and inward investment, the Hubs also cover broader economic opportunities, including promoting Scotland's research, innovation, industrial, social and cultural strengths, and exploring collaborative research and innovation opportunities.

The Scottish Government has also established a directorate of International Trade and Investment and appointed a Minister for Trade, Innovation and Investment, whilst reorganizing its international enterprise agency arm, Scottish Development International (SDI), including separating it into specialist divisions for supporting exports and attracting investment.

Sources: gov.scot/policies/europe/innovation-and-investment-hubs/ and gov.scot/publications/scotland-a-trading-nation/6-strategic-choice-4-how-we-will-align-export-support-in-scotland/6-0-introduction/

Outlook

Scotland continues to punch above its weight in a challenging environment

The figures on FDI projects secured by Scotland in 2018, taken together with the findings of our 2019 EY Scottish Attractiveness Survey, confirm that Scotland is succeeding in maintaining its attractiveness for FDI.

Scotland can draw many positives from this report, including:

- Despite a decline in projects after three successive record years, Scotland is still second only to London in attracting FDI projects
- Perceptions of Scotland as an FDI location have risen strongly, again putting it in second place behind London, level with South East England
- Scotland increased its project flow in 2018 from major economies including Germany and Japan

These findings all point to the clear potential for Scotland to keep capitalizing on its proven strengths, and to consolidate its position as the UK alternative to London. The headwinds facing UK FDI overall make it especially vital that Scotland seizes this opportunity.

At the time of writing, with the uncertainty surrounding Brexit continuing, it appears inevitable there is a degree of turbulence ahead, both for Scotland and the UK as a whole – and Scotland's continuing resilient performance in securing FDI projects provides a solid base from which to navigate a path through it. Doing this successfully will require Scotland to build upon its proven strengths, and not just maintain but step up its efforts to attract investors and FDI from across the world. The opportunity is clear, and Scotland needs to continue to seize it.

Methodology:

How EY researched the report

The 'real' attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on EY's *European Investment Monitor* (EIM) for 2018. The EIM database tracks those FDI projects that have resulted in the creation of new facilities and new jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent.

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

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

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

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

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

The following categories of investment project are excluded from the FDI figures:

- ▶ M&A and joint ventures (unless these result in new facilities or new jobs being created)
- ▶ License agreements
- ▶ Retail and leisure facilities, hotels and real estate*
- ▶ Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- ▶ Extraction activities (ores, minerals and fuels)*²
- ▶ Portfolio investments (pensions, insurance and financial funds)
- ▶ Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- ▶ Not-for-profit organizations (charitable foundations, trade associations and government bodies)

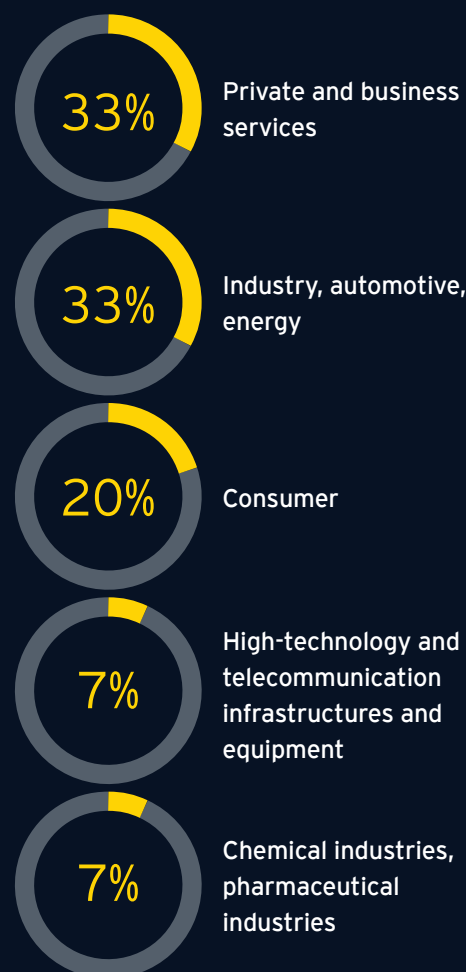
² Investment projects by companies in these categories are included in certain instances. For example, details of a specific new hotel investment or retail outlet would not be recorded. But if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

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

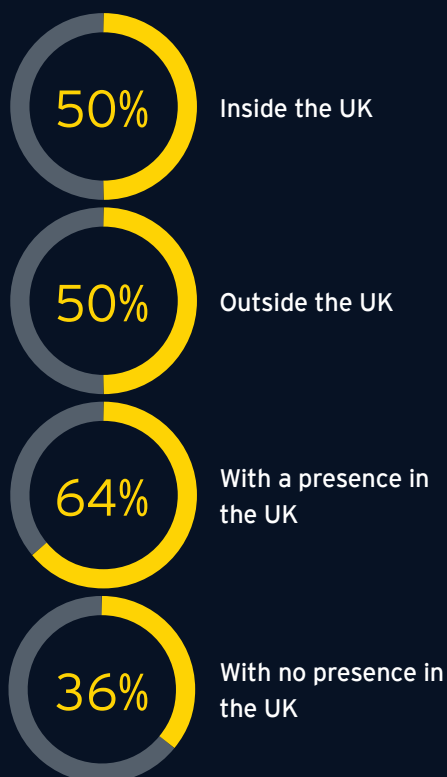
We define the attractiveness of a country or area as the combination of its image, investors' level of confidence in it as an investment destination and the perception of its ability to provide the most competitive benefits for FDI.

The research on perceptions of the UK's attractiveness was conducted by the CSA Institute from January to February 2019, via telephone interviews with a representative group of 443 international decision-makers.

Sector activities



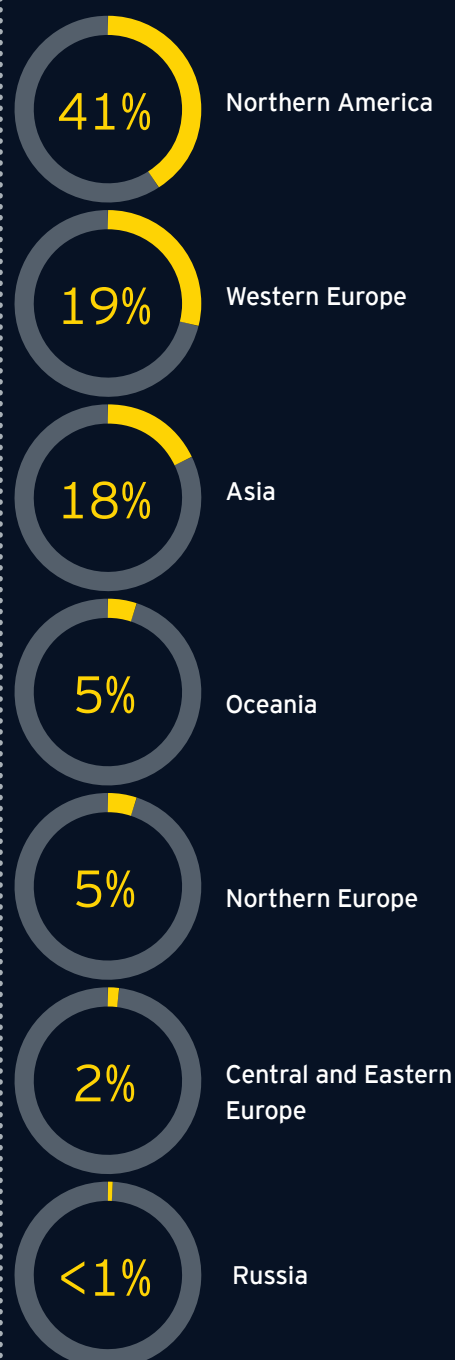
Location of interviewees



Size in annual sales



Global headquarters



About the attractiveness program

EY's *Attractiveness* surveys are widely recognized by EY clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI), and examine the attractiveness of a particular region or country as an investment destination. The surveys are designed to help businesses to make investment decisions and governments to remove barriers to future growth.

A two-step methodology analyzes both the reality and perception of FDI in the respective country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has an 18-year legacy and has produced in-depth studies for Europe, a large number of individual European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:

ey.com/attractiveness

#EYAttract

.....

The Scotland Attractiveness Survey is part of the EY Economics for Business program, which provides knowledge, analysis and insight to help businesses understand the economic environments in which they operate.

ey.com/uk/economics

ey.com/uk/as

economics@uk.ey.com

Follow:

markgregoryeconomics.ey.com

linkedin.com/in/markgregoryuk

@MarkGregoryEY





About EY

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

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

© 2019 EYGM Limited.

All Rights Reserved.

EY-000096421.indd (UK) 06/19.

Artwork by Creative Services Group London.

ED None



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

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com