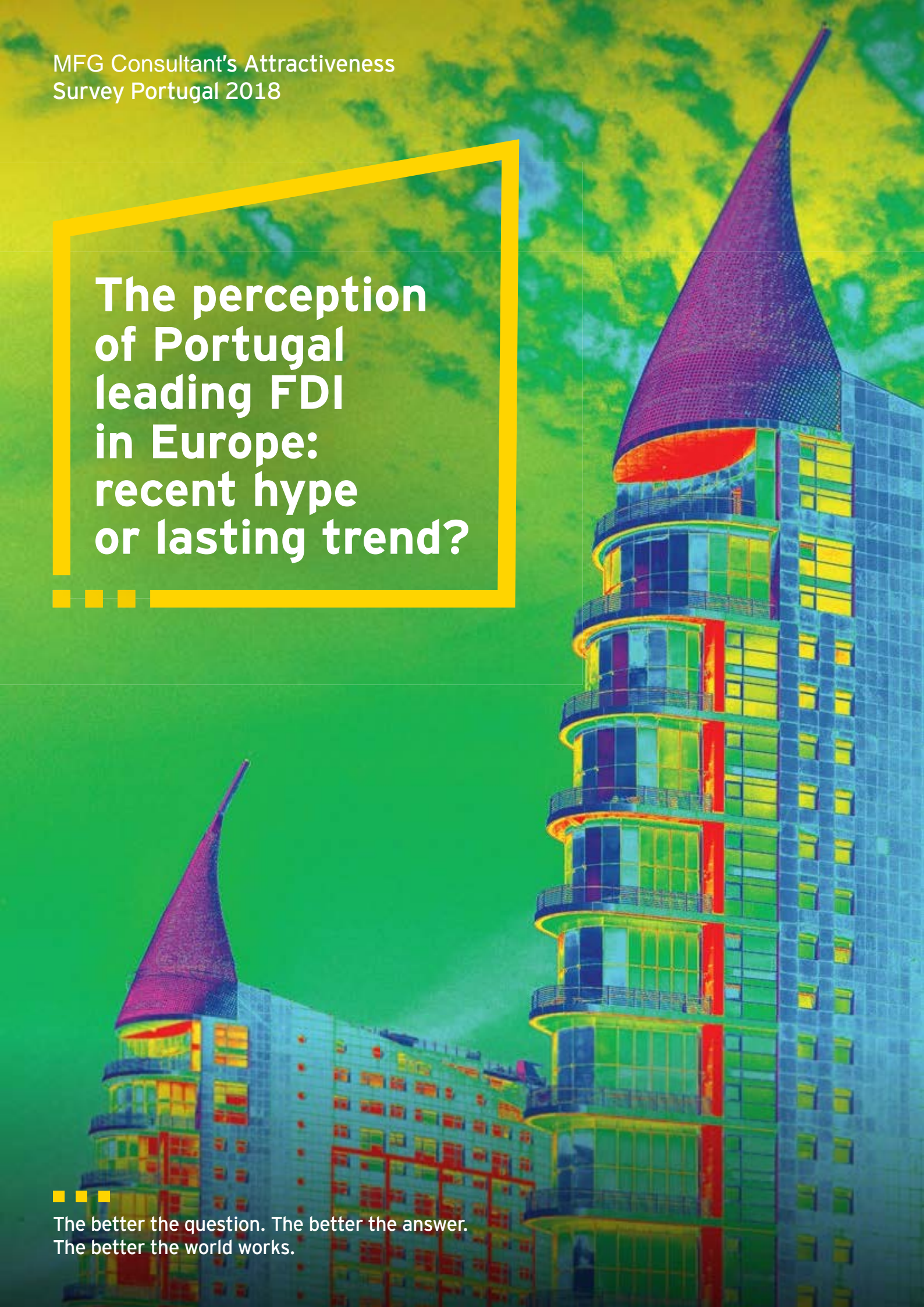
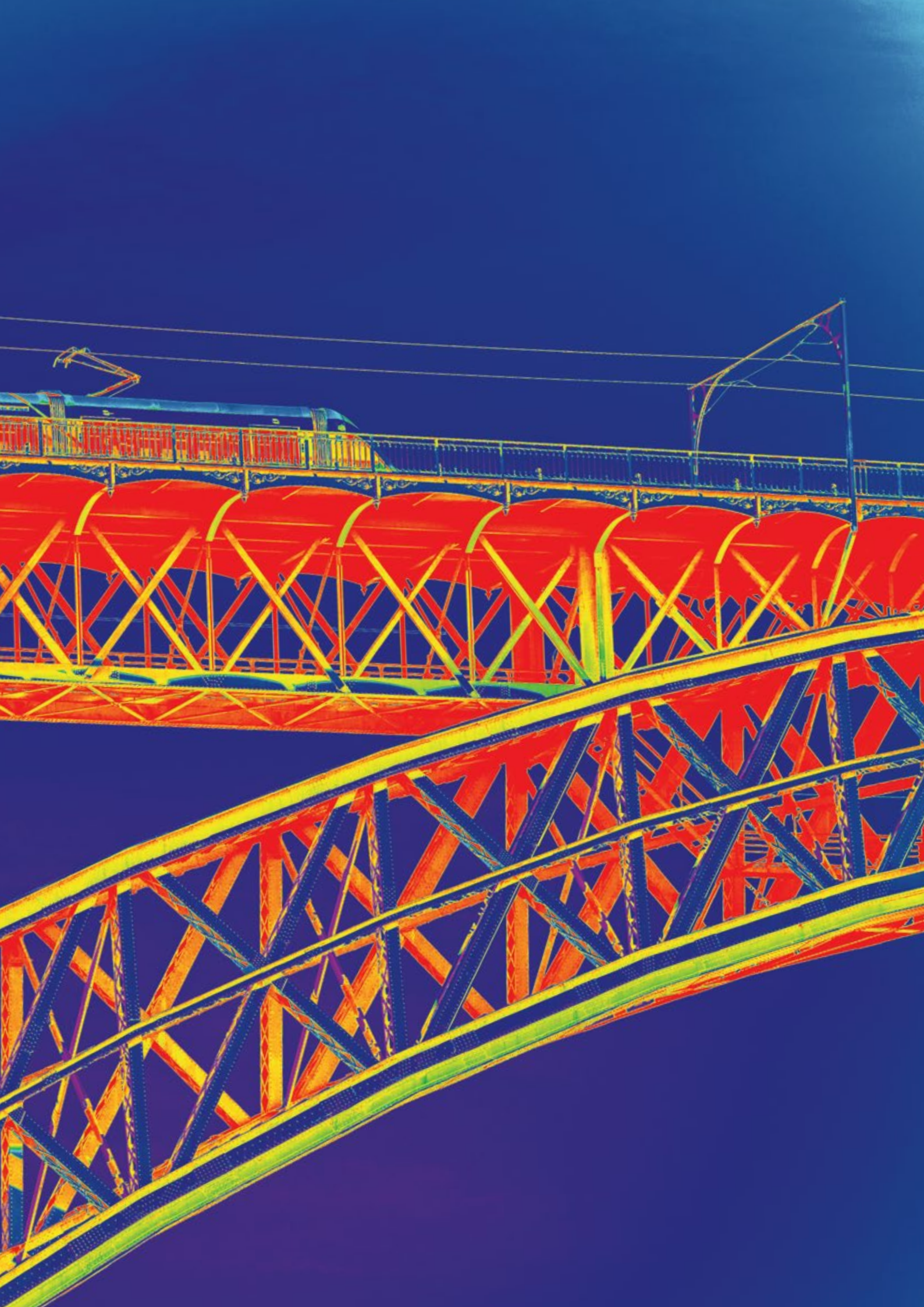


**The perception
of Portugal
leading FDI
in Europe:
recent hype
or lasting trend?**

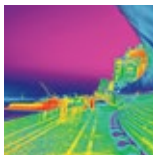
■ ■ ■
The better the question. The better the answer.
The better the world works.





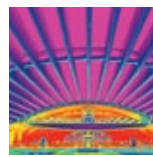
Contents

1



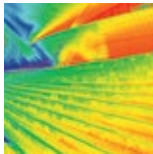
Page 4
Editorial

6



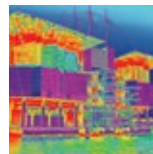
Page 26
**Portugal:
outpacing Europe**

2



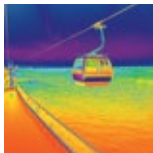
Page 6
Executive summary

7



Page 44
**Methodology: how MFG
designed the report**

3



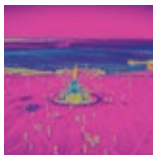
Page 8
About Portugal

8



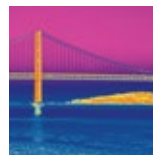
Page 48
How can MFG help?

4



Page 14
**Portugal unveils
its regions**

9



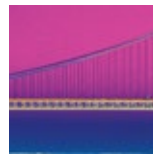
Page 50
**About MFG
Attractiveness
Program**

5

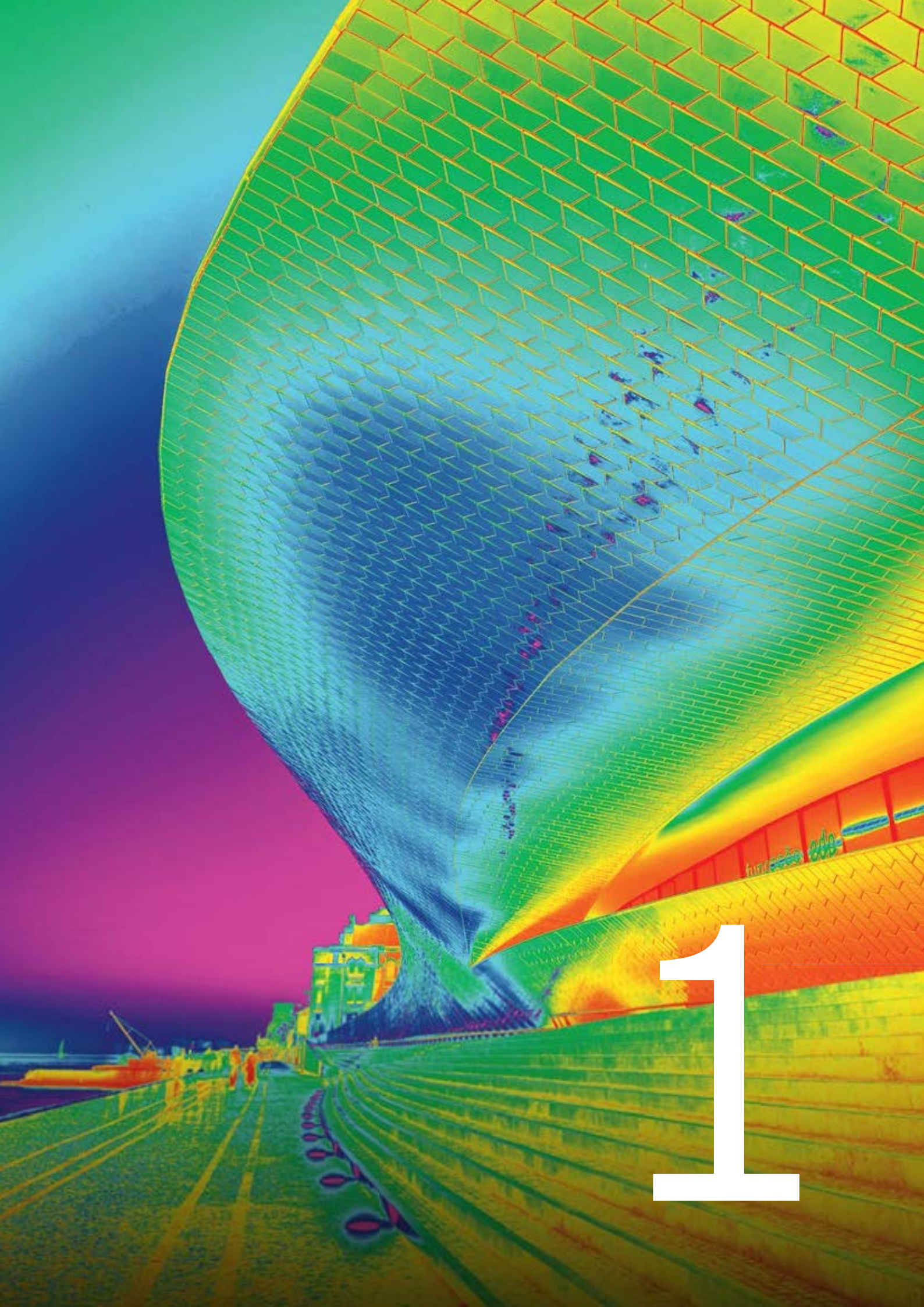


Page 20
**Foreign direct
investment
in 2017**

10



Page 51
Contacts



1

Editorial

João Cunha
Managing Partner and CMO

Carlos Alberto Gonçalves
Managing Partner and GD

Leading foreign direct investment (FDI) perceptions in Europe: increased opportunities or increased responsibility?

For the second consecutive year, Portugal leads Europe in investor's perceptions about attractiveness and their short-term investment plans. While this is an outstanding achievement in light of the recent past, it fits a wider picture of a strong positive momentum of the country's economy and outlook.

Once viewed as "Europe's best kept secret" for tourists and investors, Portugal is now in the limelight and reaping the initial economic benefits of the added exposure. For investors, this means that while some first-mover advantages may be no longer available, there are still substantial opportunities resulting in the availability of above EU-average infrastructure and qualified talent, at competitive costs.

The country's key macroeconomic imbalance, an excessive weight of public debt in percentage of gross domestic product (GDP), is now a central focus of public policy. As the return to investment-grade status from major rating agencies and a careful management of maturities is resulting in relevant savings, the declared objective is to achieve an ambitious reduction of the debt-to-GDP ratio, expected to reduce up to 28 percentage points by 2022, when the target ratio is 102% of GDP (Ministry of Finance).

This year's *MFG's Attractiveness Survey Portugal* places a special emphasis on Portugal's regions, what makes them unique and how they are keeping pace with technological disruption and fostering a startup mindset to incubate talent and attract investment. We illustrate some examples of large investment projects, from traditional manufacturing plants to highly specialized excellence centers, together with public-private partnerships focused on innovation, technology, and R&D.

Investors are showing increased confidence in Portugal's attractiveness factors. Stability, telecommunication infrastructures, legal and regulatory environment, and the overall incentives offered by the Government are identified as key differentiators in this year's survey, with higher results than in 2017.

Looking ahead, investors consider the key priorities should be to develop education and skills, to support small- and medium-sized enterprises (SMEs) and high-tech industries, and to reduce taxation, in this order. Investors continue to suggest that easier access to information on attractiveness factors would be beneficial for better-informed location decisions. The multiple programs and flagship events already underway to directly target potential investors should be closely monitored to ensure the country is maximizing the conversion of potential leads into new investments.

Looking at the big picture, investors have expressed a growing optimism on Europe's future attractiveness, with more than 50% of respondents considering it will continue to improve (from 35% in 2017). Portugal's result, with 65% of respondents confident in improved attractiveness over the next three years, exceeds those of Germany, the UK or France, and is a clear signal for investors to include the country in their shortlist for potential investment locations.

In this year's survey, one key conclusion is that the perception of Portugal's attractiveness and investors' short-term investment plans outpaces European countries.

Executive summary

Key findings

1st

Portugal is leading in attractiveness perception and short-term investment plans are the most optimistic in Europe.

About Portugal

2.7%

GDP growth was attained in 2017 and this was **above the EU average. Public debt is expected to decrease** 6.6 percentage points until 2018 (from 2016). **FDI stock rose** to €10b, weighting 61% in GDP.

7.9%

Was the export growth rate in 2017. Exports have become one of the most important engines of the economy and are expected to represent 50% of GDP for 2020-25.

A growing economy

Portugal's economy is growing and the country's good performance in international trade and FDI is among the best in Europe.

► Page 10

How it ranks

1st

Portugal ranked first in **International trade**. It is the **most peaceful country** in Europe and the best European **country for expats**.

29th

Among 190 countries in *Doing business* in 2018, Portugal ranks 29th. Also ranked **42 out of 136 in Global Competitiveness Index in 2017-18**.

Improvement in international rankings

Portugal's performance has been recognized internationally, thanks to its tech scene and innovation friendly policies.

► Page 11

Regions unveiled



International collaborations across regions



Increased specialization, technology, automation and efficiency



Supportive local networks

Portugal unveils its regions

Portugal is successfully attracting FDI for all of its seven regions. Although similar in scale, the diversity and differences among them is significant.

► Page 16

FDI in 2017

95

Projects have been captured, which beats all time records.

Top investors in Portugal: USA (17), France (13) UK (10) and Spain (10).

7,657

Jobs have been created.

Top employers in Portugal: France (2,106), USA (1,942) and Germany (730).

Beating records every year
 Significant increase with an all-time record in new projects, creating approximately eight thousand jobs.
 ▶ Page 22

Outpacing Europe

65%

Respondents increased their confidence in future attractiveness, reaching the highest amount since 2015.

31%

Short-term investment plans stabilized at high-level ranks.

Optimism is here to stay
 Expected improvements in attractiveness and short-term investment plans among investors are the highest in Europe.
 ▶ Page 28

Perception

Top three most attractive

(Percentage of very attractive and fairly attractive categories)

86%
 Stability of social climate

78%
 Potential for productivity increase

77%
 Labor costs

Top three less attractive

(Percentage of little attractive and not at all attractive categories)

39%
 Corporate taxation

35%
 Regional incentives

34%
 Portugal's domestic market

Since last year's results, the three most attractive factors to investors remain unchanged. Even though corporate taxation was one of the least attractive factors last year, it has improved its perception by 3 percentage points.

▶ Page 32

Who knows about it?

46% of the investors say they have access to information

Results about access to information are worsening among established and unestablished firms. Nevertheless, there are ongoing initiatives to improve Portugal's perception abroad. Almost 67% of the established companies say they have access to information, but only 16% of the unestablished say the same. ▶ Page 34

What needs to be improved to become an innovation leader and be more attractive?

41%
 Improve education and training in new tech

41%
 Develop education skills

30%
 Support high-tech industries and innovation

25%
 Invest in digital infrastructure

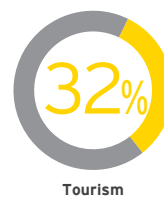
38%
 Increase tax incentives

31%
 Reduce taxation

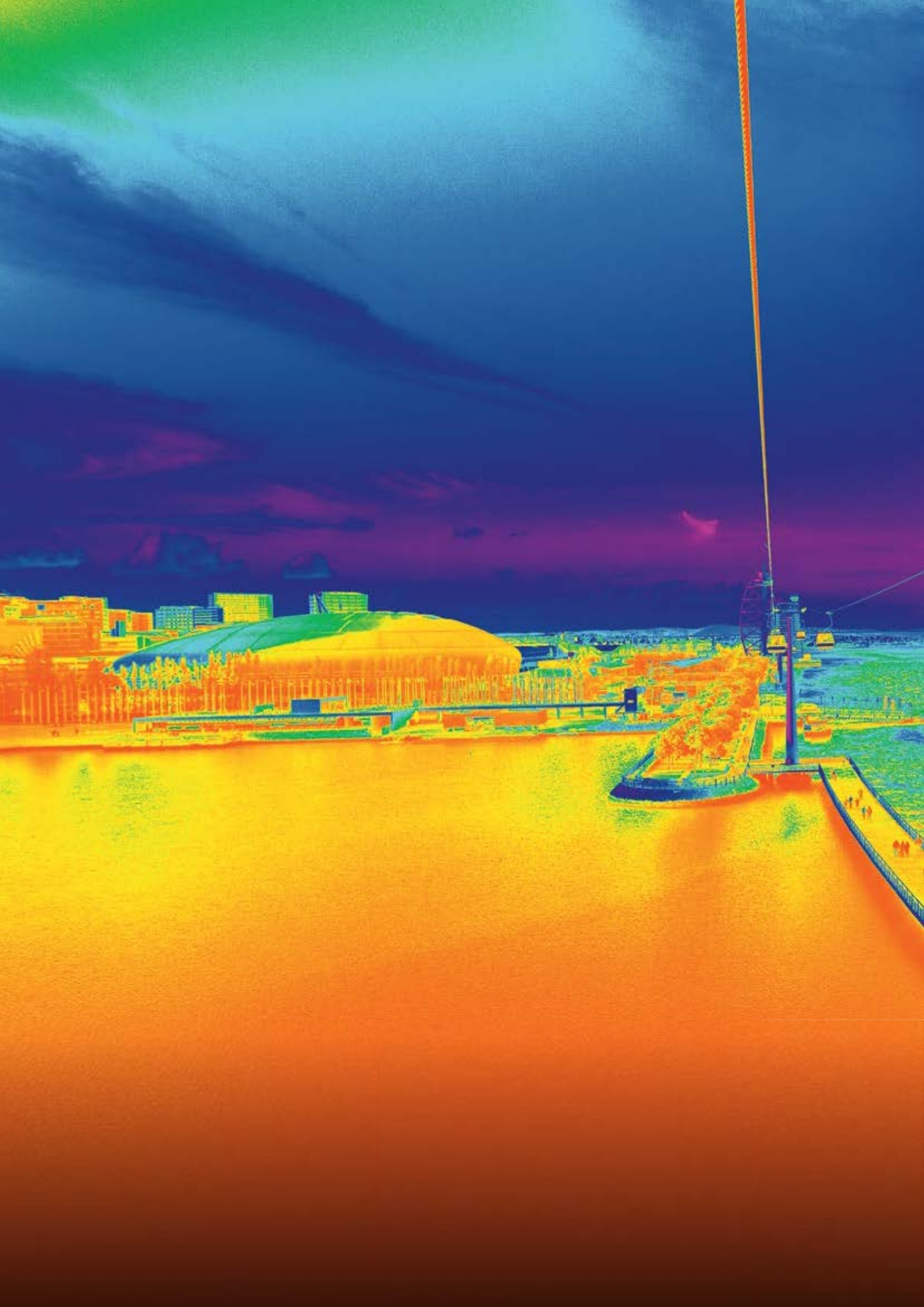
38%
 Support SMEs

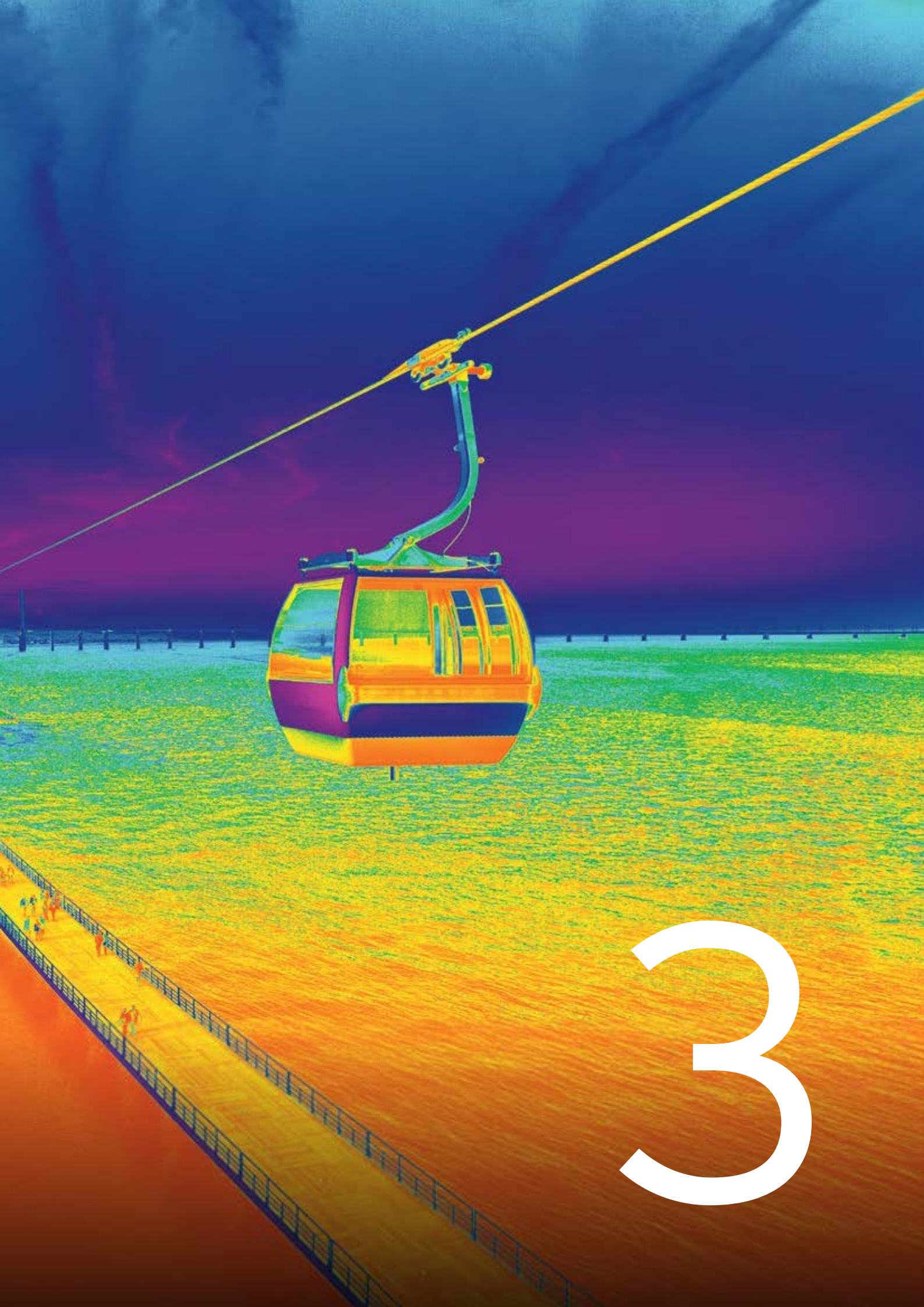
Portugal's innovation capacity is one of the most competitive in the EU. Although investors point out areas for improvement influenced by the global demand for talent, investors highlighted education and skills as being the top priority. The focus is to make competences and availability respond to the market's needs. ▶ Page 38

Which sectors will drive Portugal?



Unestablished investors view real estate and construction, and logistics and distribution channels, as the key engines of Portugal's development. However, the top two sectors for established investors are tourism and ICT. ▶ Page 36





3

About Portugal

A growing and innovating country

A growing and innovating country

Portugal has undergone a challenging financial and economic adjustment program between 2011 and 2013, in the aftermath of the European Union-International Monetary Fund (EU-IMF) bailout request. The austerity measures that the Government implemented during this period, in articulation with the recent economic upturn, have reduced the general Government deficit while improving its debt sustainability outlook.

After three years of EU-IMF Economic and Financial Assistance Program, in May 2014, Portugal recovered access to international debt markets and has been able to repay its IMF loan ahead of schedule. In 2017, the Portuguese Government budget deficit was 3%, according to Instituto Nacional de Estatística (INE) and Portugal officially exited from the Excessive Deficit Procedure in the EU Council in June that year. Additionally, both S&P and Fitch upgraded Portuguese sovereign back to investment grade. Overall, recovery is becoming well-entrenched.

GDP growth reached 2.7% in 2017. Exports and investments prevail as key drivers for this performance.

International trade

In the past two decades, exports increased more than GDP and became one of the most important engines of the Portuguese economy. In 2017, exports registered an average growth rate of 7.9% with new gains in market share. It was mainly driven by sales in the automotive sector, and spread predominantly to neighboring countries (Spain, Germany and France) but increasingly more so to distant destinations such as Japan and China.

Exports of goods are still leading the way, representing 64% of the total exports, according to the Gabinete de Estratégia e Estudos (GEE) and are increasingly showing more technological incorporation. Services, on the other

Main macroeconomic indicators

	2014	2015	2016	2017	2018E*
GDP (Annual growth rate)	0.9	1.6	1.5	2.7	2.3
GDP (Billion €)	173.1	179.5	184.9	192.6	199.4
GDP per capita (UE28=100)	76.7	76.8	76.8	77.5	77.7
Private consumption (Annual growth rate)	2.2	2.6	2.1	2.2	2.1
Public consumption (Annual growth rate)	-0.5	0.8	0.6	0.1	0.5
Gross fixed capital formation (Annual growth rate)	2.2	4.5	1.6	9.0	6.5
Exports (Annual growth rate)	2.6	6.1	4.1	7.9	7.2
Public debt (Against GDP percentage)	130.6	128.8	130.1	125.7	122.2
Inflation (Annual rate)	-0.1	0.5	0.6	1.6	1.2
Unemployment rate (Percentage)	13.9	12.4	11.1	8.9	7.3

Sources: INE; BoP, Economic bulletin, December 2017; BoP, Portuguese Economy Projections: 2018-20, March 2018; European Commission - Eurostat; Ministry of finance.

*E: Estimate

hand, account for 35% of the total exported (GEE), and are registering an upward trend.

The Government's intention is that the exports' contribution to the GDP should reach 50% between 2020 and 2025. While goods continue to weigh more in the trade scale, services have been gaining expression, contributing increasingly more to this positive performance. Tourism is one of the sectors which has contributed most to the recovery.

In addition to this, the specialization of the economy is also bringing some structural changes. Not only have traditional industries reinvented their production lines and approach to markets, but new businesses are also pioneering important research and changing entire value chains. Added value activities across the spectrum (traditional and modern) are becoming more technology-based, and geared toward the end client or user.

Enlarged market

Portugal is uniquely placed to function as a gateway to other markets.

Its historical ties with African, Asian and Latin American countries, the fact that Portuguese is the fifth most spoken language in the world and that Portugal has been a part of the EU for more than 30 years maximizes the size of markets that investors can reach through Portugal.

FDI

According to Bank of Portugal (BoP), FDI flows have also increased to a cumulative stock just under €10b, representing 61% of the GDP in 2017 (versus 52% in 2012). Portugal's FDI stock weight in GDP is one of the highest in Europe, above Spain (47%), France (29%) and Germany (26%), according to GEE. Additionally, in the Doing Business Index, Portugal has been ranked number one in international trade out of 190 countries.

Between 2008 and 2017, sectors claiming larger amounts of foreign investment were electricity, gas, water and construction. ICT activities have also experienced a substantial increase of 291%, growing from €2b to €6b during the same period (GEE).

Forecasted growth

By 2020, Portuguese GDP is expected to have kept its growth behavior, even though at a slower pace (2.3% from 2018 onwards, according to BoP).

Portugal's growth and signs of economic improvement (in terms of employment, sustainability and economic growth) are central to its Government and form part of the national stability program for 2018-22.

Portugal's positioning in independent international rankings

 **3rd**
from 5th

Global Peace Index Vision of Humanity
Vision of Humanity
163 countries in 2017 and in 2016

 **72nd**
from 77th

Index of Economic Freedom
The Heritage Foundation
180 countries in 2018 and 2017

 **24th**
from 19th

Best Countries for Business Forbes
153 countries in 2017 and 139 in 2016

 **29th**
from 25th

Doing Business
190 countries in 2018 and in 2017

 **42nd**
from 45th

Global Competitiveness Index
World Economic Forum
137 countries in 2017-18 and 138 in 2016-17

 **39nd**
from 39th

World Competitiveness Scoreboard IMD
63 countries in 2017 and 61 in 2016

 **30th**
from 31st

Bloomberg Innovation Index
50 countries in 2018 and 2017

Portugal shows a growing performance in the following areas:

- ▶ **The third-most peaceful country in the world and first in Europe:** Portugal is not only a very peaceful country, but also 10th in tolerance toward minorities and migrants - Organisation for Economic Co-operation and Development (OECD).
- ▶ **A moderately free economy:** Portugal is the 72nd freest economy according to the 2018 Index of Economic Freedom. It is considered to be an economy that provides individuals and private enterprises a moderate degree of economic freedom in order to have a greater economic development and prosperity.
- ▶ **Ranks 1st in Europe (and 3rd in the world) as per the Expat Insider ranking:** Among 65 countries, Portugal climbed 24 places since 2016. The rank looks at guidelines, such as quality of life, ease of setting in, working abroad, family life, personal finance and cost of living.
- ▶ **Holds 29th position in the Ease of Doing Business index:** Portugal ranks 29th out of the 190 evaluated countries for ease of doing business. Out of the various pillars, Portugal excels in international trade (number one in the group).
- ▶ **Ranks 24th in Forbes' ranking of "Best countries for business":** Among the 153 countries evaluated for "Best countries for business," Portugal ranks 24th. However, the country has had a decline in position for both the Ease of Doing Business index and Best countries for business index.
- ▶ **A competitive country:** Portugal climbed four positions to become the 42nd most competitive country in the Global Competitiveness Index. It showed improvements in its macroeconomic environment (namely, the Government budget balance and the gross national savings) and in gains of efficiency in the labor market (flexibility, reliance on professional management and country capacity to attract talent).
- ▶ **Ranks 18th in the Global Competitiveness Index for infrastructure, and health and primary education:** Portugal climbed four positions to become the 18th most competitive country in infrastructure (highlighting quality of roads and telephone landlines), and health and primary education (highlighting infant mortality and primary education enrollment rate).
- ▶ **Increasing competitiveness in technology readiness and innovation:** According to the Global Competitiveness Index, technology readiness and innovation are the other two pillars in which Portugal is increasing its competitiveness, occupying the 26th and 32nd positions, respectively.
- ▶ **Thirtieth most innovative country:** According to the Bloomberg Innovation Index for 2018, Portugal is the 30th most innovative country (one position above from last year's results). Within this index, Portugal is seventh in the pillar of higher education.
- ▶ **A soft power country (Monocle):** Portugal is perceived as a country that can use its softer side to influence others and get things done, coming in 12th out of 25 countries ranked. It has hedged its national brand as being an affordable place for startup businesses. However, still according to this source, more international recognition is needed toward the "made in Portugal" brand.
- ▶ **Investment, the Portuguese brand:** The large flows of FDI into Portugal led to a three-positions increase to become the 13th best country brand for trade among the 42 European countries considered (30th against the total of 193 countries), according to Bloom Consulting.
- ▶ **Higher education recognized internationally:** Currently, Portugal has three universities in the *Financial Times* European Business Schools rank. In 2017, Universidade Nova de Lisboa and Católica Lisbon were in the 25th and 26th positions respectively. ISCTE Business School of Portugal was ranked for the first time in the Masters in Management ranking, at 80th position (72nd position, in Europe).

Labor market and talent

The minimum wage has increased since last year to €580. However, our unit labor cost is still lower than the eurozone, Spain, France and Italy.

Human capital is expected to maintain a positive contribution to GDP per capita, as a consequence of the increase in the population's average qualifications. There were 361,943 enrolled students in higher education institutions (of which 36,231 will graduate in ITCs) (DGEEC/MEd - MCTES) and in the past seven years, the number of foreign students increased by 95% (AICEP Portugal Global).

Social sciences, commerce and law were the subject matters with the majority of students in higher education

▲ 15th

FDI and technology transfer

▲ 20th

Availability of latest technologies

▲ 22th

Quality of scientific research institutions

▲ 28th

Firm-level technology absorption

36th

University industry R&D collaboration

Global Competitiveness Report 2017-18 (137 countries)

institutions (32% in 2017) and of students who finished their graduation (30% in 2016).

Engineering, manufacturing industries, construction (21%), and health and social protection (18%) were the second and third among the most-chosen subjects by students, according to INE.

Portugal is also known for having a fairly high level of spoken English, occupying the 18th place among 80 countries in the EF English Proficiency Index. More broadly, 72% of the population aged between 18 and 64 years, speaks at least one language besides their own mother tongue. Sixty percent¹ knows English, 22%¹ have learned French and 15%¹ can communicate in Spanish.

According to this same source, out of 17 other countries, Portugal was the one with the highest increase in foreign languages knowledge.

Since 2016, labor market has been giving signs of positive improvement. There has been a steady increase of sustainable employment rate and decrease of unemployment rate – from 9.0% in 2017 to 7.8% in 2018 (INE).

Portugal, booming in innovation

Technology and innovation are a priority for Portugal's Government and increasingly more funds and efforts are being channelled toward international events and initiatives, encouraging the development of new technologies and importance of innovating. Web Summit, Lisbon Summit, Horizonte 2020, CITEC - Conectividade, Inovação e Tecnologia, 200M co-invest with the best and Indústria 4.0 - Economia Digital are just a few examples.

These policies and events are starting to reflect on several other international ranks, namely the *Global Competitiveness Report*. Within this

12th

Management education

IMD World Talent Report 2017 (63 countries)

17th

University education

IMD World Talent Report 2017 (63 countries)

18th

High proficiency in English

English Proficiency Index 2017 (80 countries)

20th

Skill labor rank

IMD World Talent Report 2017 (63 countries)

ranking, Portugal climbed up by four positions, ranking 15th in the FDI & Technology transfer pillar and three positions to 22nd in the Quality of scientific research institutions pillar. Availability of latest technologies and Firm level technology absorption are other pillars in which Portugal is showing an improvement, occupying the 20th, and 28th positions, respectively.

Additionally, during 2018, the International Innovation Scoreboard ranked Portugal as the "Innovation Champion."

¹ Capacitação de Recursos Humanos e Mercado de Trabalho, 2017; GEE

Infrastructures

Among the set of countries compared in the Global Competitiveness Index, Portugal ranks 18th in the quality of transports, electricity and telephony infrastructure.

Portugal's broadband fibre optic connection is above the EU average, as it covers 32% of the country, according to the OECD. According to the same source, Portugal is positioned at the 10th place in the EU with the highest subscription rate for high-velocity broadband per resident.

The road network is widely dispersed in the country, with the motorway network covering one-fifth of the total road network. It allows one-hour travel by car, on average, between Lisbon or

Porto and the main cities around. The railroad is also well served, providing north-south and east-west connections across the country.

Investments in the maritime sector, considering the capacity extension of Leixões and Sines Ports, as well as investments in the Lisbon area, are also covered.

Recently, the Government announced its intention to improve the shipping market, making it more competitive by introducing a more attractive taxation system (on the basis of tonnage instead of profits and additional benefits). This would help bring more ships to the merchant navy.

▲ 8th
Quality of roads

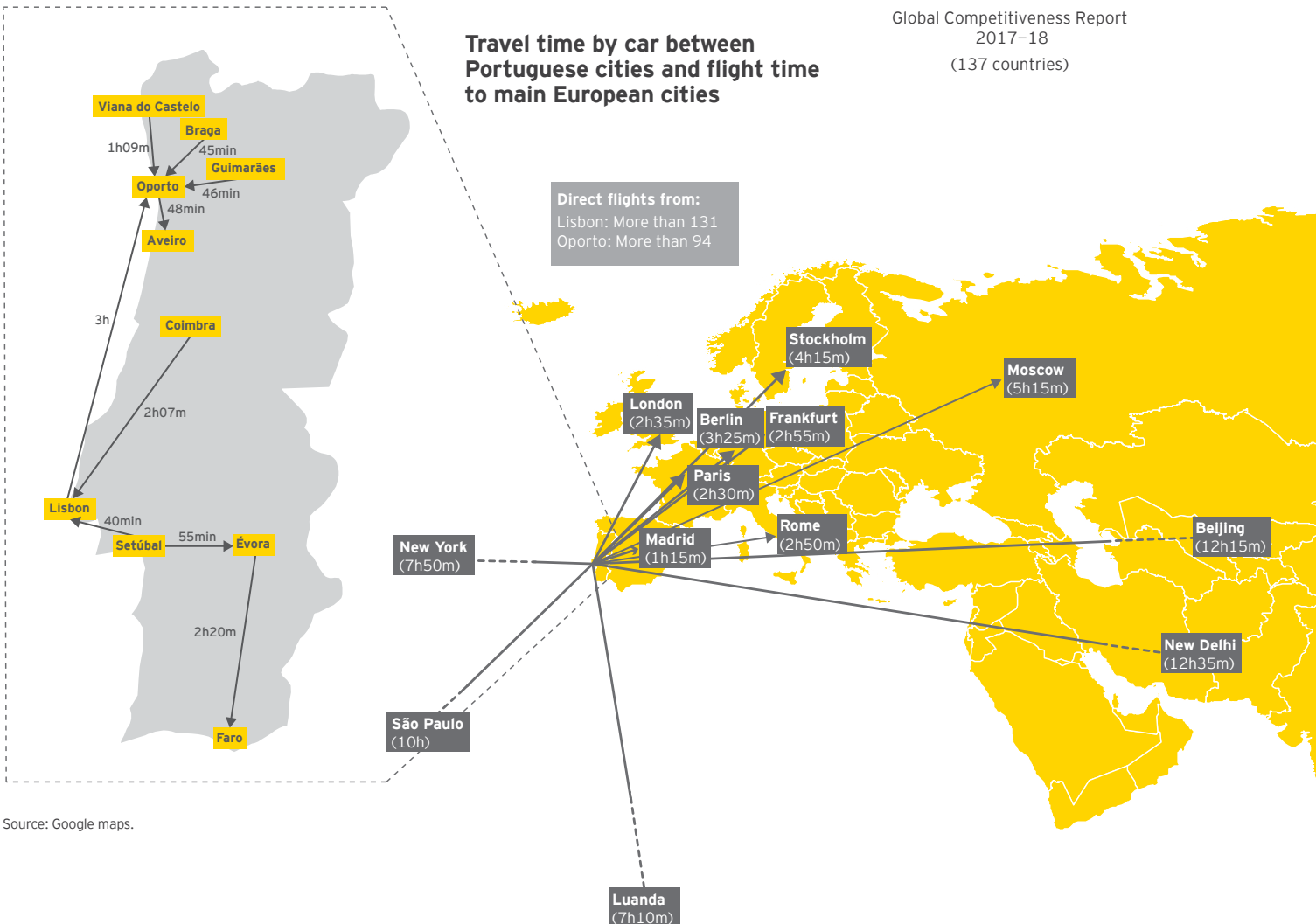
▲ 18th
Quality of infrastructures

▲ 25th
Quality of ports

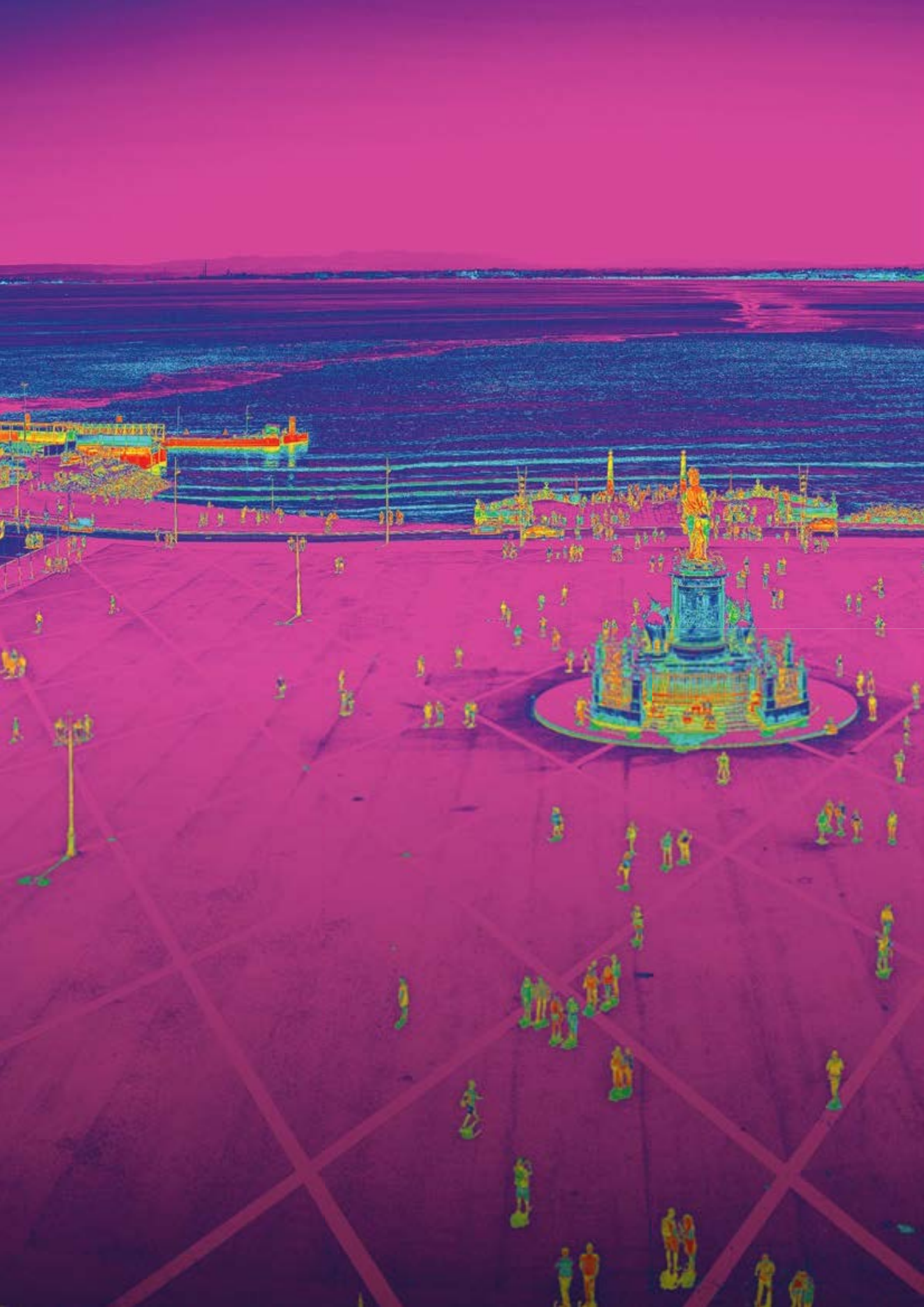
29th
Quality of air transport

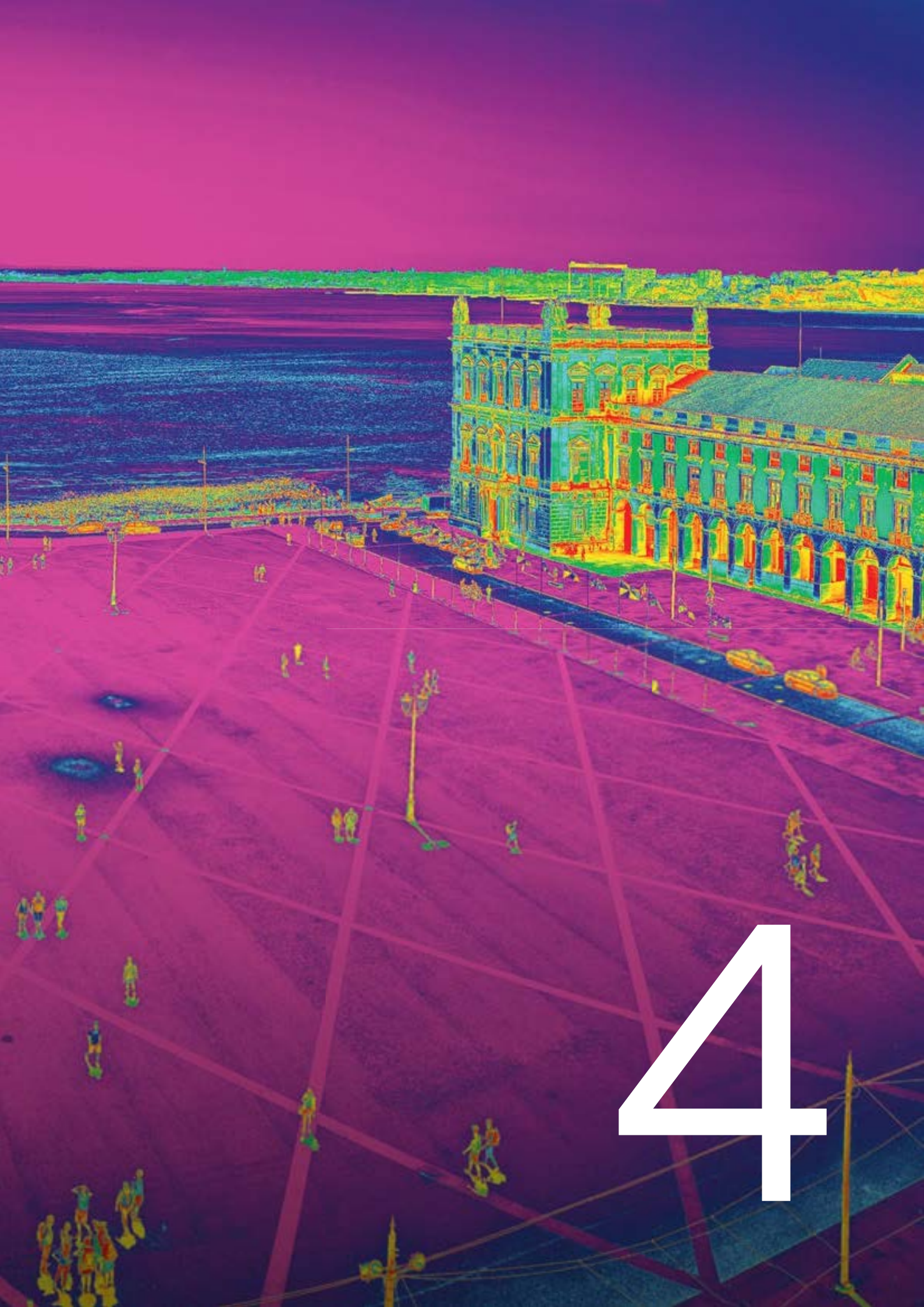
36th
Quality of railroad

Global Competitiveness Report
2017-18
(137 countries)



Source: Google maps.





4

Portugal unveils its regions

Discover regional attractiveness

The distinctiveness of each region

Portugal has seven main geographic areas. Although similar in scale, the diversity and differences among them is significant from a demographic, environment and landscape perspective, as well as from an economic specialization.

North

- ▶ **GDP** of €54.5b (**29%** of Portugal) and **Gross Value Added (GVA)** of €24.6b (**29%** of total country)
- ▶ **Thirty-five percent** of working age population with **0.2 foreign residents** per 100 habitants
- ▶ **Thirty-four percent of higher education institutions** (48 out of 142), of which Porto Business School is the 62nd best school in Europe
- ▶ **Industry-driven** region (represents 45% of the country's industrial GVA)
- ▶ Key sectors: **textile, apparel, footwear and clothes industries; business services are becoming increasingly more relevant**
- ▶ Ranks as **Moderate+ innovator** by the European Regional Innovation Scoreboard
- ▶ Relevant partnerships: the **DONE Lab** (Braga) and **iFactory** - between Bosch Car Multimedia Minho and Minho University, **Parque Industrial de Lanheses** (entrepreneurship and innovative R&D projects), **SIZE** (entrepreneurship and employment support system) and Urban rehabilitation strategic program
- ▶ International companies in the region: **Euronext, Natixis, Bosch Car Multimedia, Vestas, Zalando, SEG Automotive and Devexperts**

Center

- ▶ **GDP** of €35.3b (**19%** of Portugal) and **GVA** of €13.8b (**16%** of total country)
- ▶ **Twenty-two percent** of working age population with **0.3 foreign residents** per 100 habitants
- ▶ **Industry-driven** region with clusters of **metal, ceramics and non-metallic minerals** (including paper); **services gaining relevance**
- ▶ Ranks as **Moderate+ innovator** by the European Regional Innovation Scoreboard
- ▶ Relevant partnerships: the **Altran's Nearshore Center** (Fundão) - provides IT and telecommunications engineering to other international companies, **Proside Academy** (Castelo Branco municipality and Proside), **TecBis incubator**, and **EuroAce Attraction**
- ▶ International companies in the region: **Yasaki, Faurecia, Altran, Luso Finsa, Shared Services JAVA**

Lisbon

- ▶ **GDP** of €66.5b (**36%** of Portugal) and **GVA** of €38.3b (**45%** of total country)
- ▶ **Twenty-seven percent** of working age population with **0.8 foreign residents** per 100 habitants
- ▶ **Thirty-seven percent of higher education institutions (94)**, with three universities in the Financial Times Ranking; 157 investigation centers
- ▶ **Specialized in tertiary economy.** Services are the business sector most representative with 21% of the working force in financial activities and other business services
- ▶ Among European's most prominent tech hubs, which contributed to the development of the initiative and campaign *Made of Lisbon*
- ▶ Ranks as **Moderate+innovator** by the European Regional Innovation Scoreboard
- ▶ Relevant partnerships: **Digital Academy by the Association of Portugal Outsourcing, Lisbon Empreende, Made of Lisbon**
- ▶ International companies in the region: **IKEA, Claranet, Vodafone, BNP Paribas, Cisco, Altice, Siemens, Adidas, Nestle and Alphabet (the parent company of Google)**

Source: INE, Global Innovation Index, AICEP Portugal Global

Porto won the Best Startup Friendly City of Europe.

Established investors say strategic location and transport infrastructure are key when investing in the region.

Lisbon is the third-best city for culture and creativity, and the best destination for city break.

Alentejo

- ▶ **GDP** of €12.2b (**7%** of Portugal) and **GVA** of €3.7b (**4%** of total country)
- ▶ **Seven percent** of working age population with **0.4 foreign residents** per 100 habitants
- ▶ Key sector: **agriculture** (employs 19% of population and responsible for 26% of the country's agriculture output)
- ▶ **Aeronautics**: a strategic cluster
- ▶ Relevant infrastructures: **Sines Port, Beja airport and Alqueva dam**
- ▶ Ranks as **Moderate innovator** by the European Regional Innovation Scoreboard
- ▶ Relevant partnerships: agreement between **Embraer** and the **Portuguese training and employment institute (IEFP)**, **Technology Incubators Network of the regional's technology transfer system (SRTT)**, **Alentejo Scientific and Technological Park**, **Sines Tecnopolo**, and **ADRAL**
- ▶ International companies in the region: **Lauak, Cap-Gemini, Embraer, Mecachrome and Air Olesa and Fairfruit**

INNOBRIDGE promotes bridges between innovation gaps.

Algarve

- ▶ **GDP** of €8.3b (**4%** of Portugal) and **GVA** of €2.6b (**3%** of total country)
- ▶ **Four percent** of working age population with **1.8 foreign residents** per 100 habitants
- ▶ **Tourism and related infrastructures globally recognized**; accommodation and food services: employ 25% of the population, generate 30% of the region's wealth; other services (health, religion, food and sports) as complements; **sea cluster** emerging.
- ▶ Ranks as **Moderate innovator** by the European Regional Innovation Scoreboard
- ▶ Relevant partnerships: the **Cresc Algarve 2020 program**, **Inova Algarve 2020 program**, **Innovation Barometer**, and **CRIA** - entrepreneurship and technology transfer division of Algarve University
- ▶ International companies in the region: **Nova Data and Nova Cortiça**

Agro food, renewable energies, ICT and creative industries are emerging in the region.

Azores

- ▶ **GDP** of €3.9b (**2%** of Portugal) and **GVA** of €1.1b (**1%** of total country)
- ▶ **Two percent** of working age population with **0.1 foreign residents** per 100 habitants
- ▶ Specialized in **primary sector** (meat, milk and dairy products) and **tourism** (nature); **emerging sectors include sea economy, logistics and business services**
- ▶ Relevant partnerships and stakeholders: **AIR Center, Azores network of business incubators**
- ▶ International companies in the region: **Grupo BEL, Tekever and Thales**







Madeira

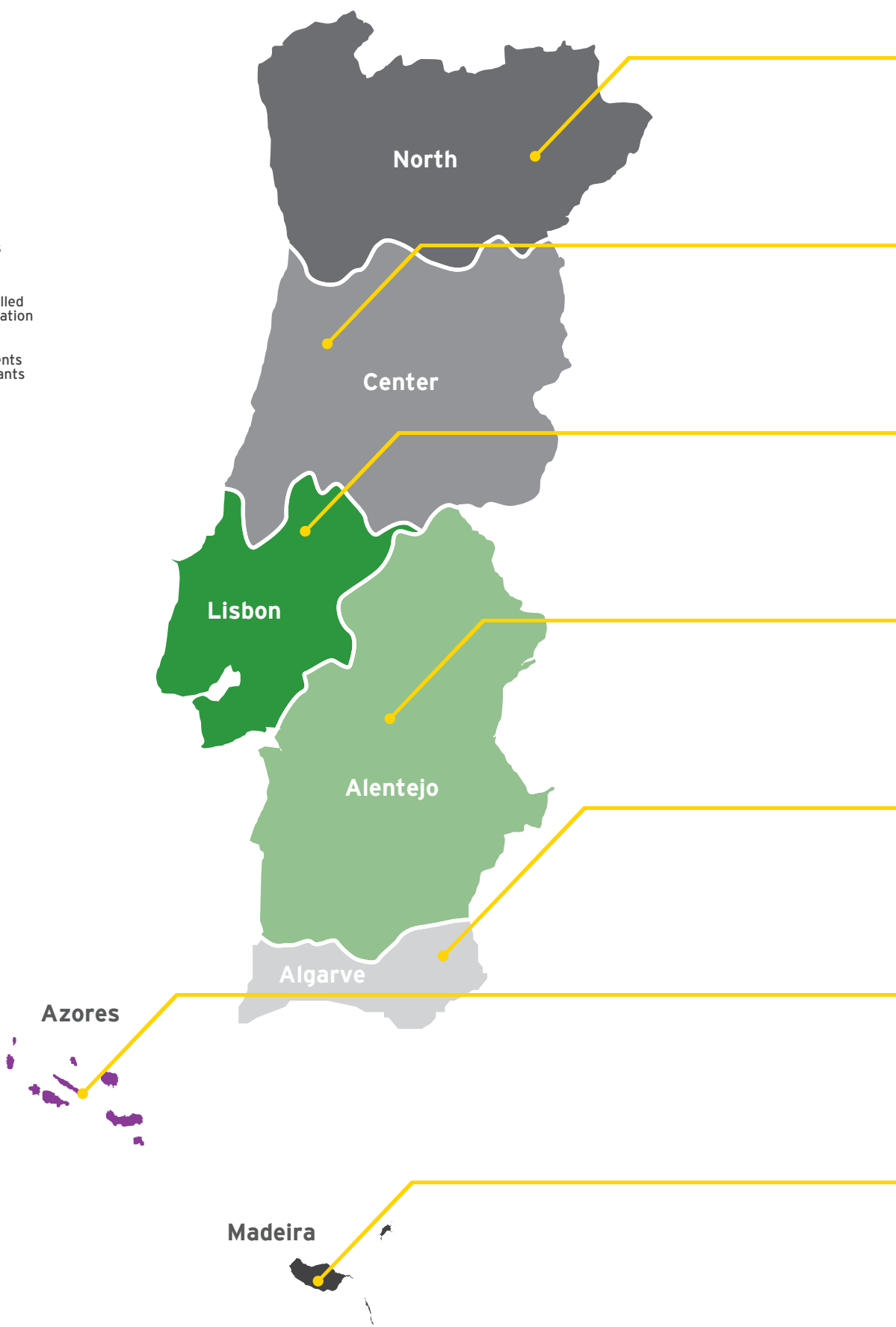
- ▶ **GDP** of €4.4b (**2%** of Portugal) and **GVA** of €1.3b (**2%** of total country)
- ▶ **Three percent** of working age population with **0.3 foreign residents** per 100 habitants
- ▶ **Tourism** top sector; other relevant sectors include **agribusiness** and **sea economy**
- ▶ Relevant partnerships and stakeholders: **Startup Madeira, IDERAM, International Business Center**
- ▶ International company in the region: **TV APP Agency**

Both regions have special tax regimes. Madeira has the Submarine Cable Station and two international schools.

Main economic and social indicators by region

Legend

-  GDP
-  Working population
-  GVA
-  R&D expenses (2015)
-  Students enrolled in higher education
-  Foreign residents per 100 habitants



Source: INE, March 2018. Data referring to 2016.

North



Center



Lisbon



Alentejo



Algarve



Azores



Madeira







FDI in 2017

FDI in Portugal surged 61%

We have seen in the first chapter that Portugal's performance in FDI is among the best in Europe ahead of top tier countries such as Spain, France or Germany. Since 2008, the EIM-IBM database has registered an increase in the number of projects (except for the slowdown in 2015) and rose significantly from 2016 to 2017, with a record number of 95 projects. It is the biggest increase over the years in analysis. FDI grew more than 61%.

FDI projects in 2017 generated 7,657 jobs. This is, in part, a result of different types of FDI having different job requirements, as well as with the fact that out of the total FDIs recorded, 68 are new investments and 23 are expansion projects.

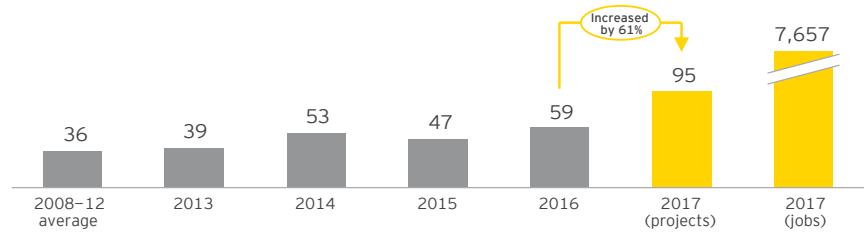
Manufacturing and R&D are the main sources of projects and jobs

As per previous years, manufacturing activities remain the most relevant source of investment in Portugal. These investments represent 48% of FDI projects and 41% of the total jobs created.

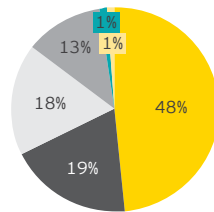
The second most important activity in terms of job creation is R&D, which alone was responsible for 18 new projects creating 1,420 jobs. Not only the increase in numbers is significant, but also the profile of these projects demand a highly skilled workforce.

Shared services and contact centers also represent a relevant number of jobs created with medium-high level of qualifications. Sales and marketing, on the other hand, despite being less impactful in terms of jobs created, is one of the activities responsible for a larger number of new projects (after manufacturing and R&D).

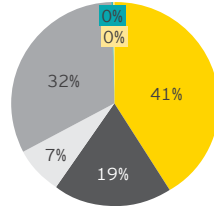
FDI projects and jobs created in Portugal



FDI projects and jobs created by activity



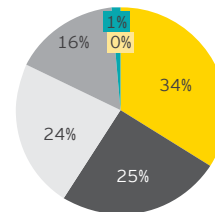
Projects



Number of jobs

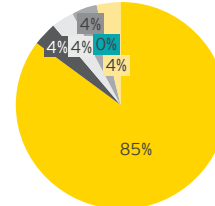
■ Manufacturing ■ Sales and marketing ■ Headquarters
■ R&D ■ Shared services centre and contact center ■ Logistics

FDI projects per type of project and activity



New projects

▲ **72%**
(42% in 2016)

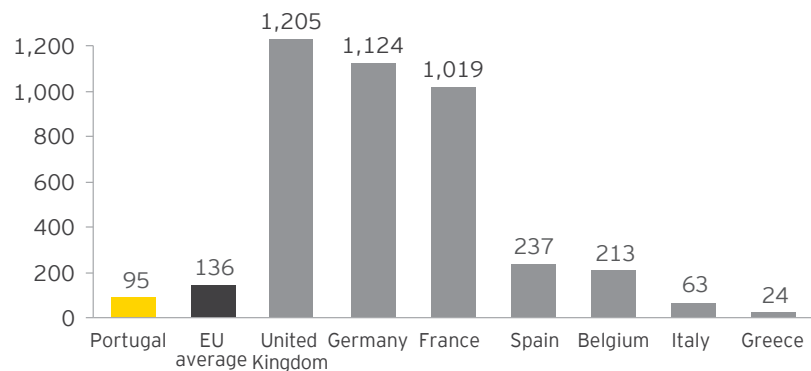


Expansion projects

▼ **28%**
(49% in 2016)

Source: Analysis based on IBM database, 2017 - EY European Investment Monitor, 2016.

Benchmark of number of projects



Source: Analysis based on IBM database, 2017.

In 2017, Portugal attracted more new projects

In 2016, the majority of the FDI projects were expansion projects, representing 49% of the total invested (vs. 42% new projects). In 2017, new projects lead the investment projects with 72% of the total invested. Although there was a significant decline from 2016, expansion projects are still occurring, representing 28% of FDI's total projects.

The USA, France, the UK and Spain are leading FDI in Portugal

The main investors in Portugal are the USA, France, the UK and Spain (in parallel), which are responsible for 18%, 14%, 11% and 11% of the investment made, respectively. These four countries represent a total of 49 projects and are responsible for 5,091 jobs. In line with 2016's results, Germany, France and US are the top three most important employers in 2017 too.

Portugal vs. other European countries

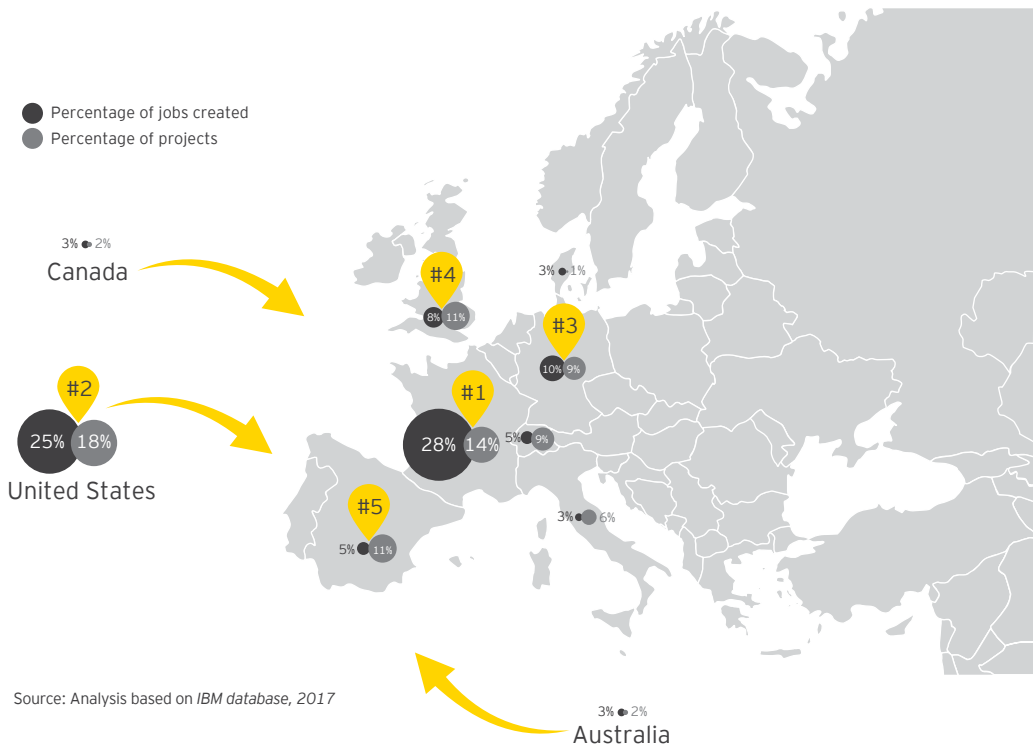
Within Europe, Portugal represents a smaller percentage in FDI captured.

Nevertheless, the country is among those with highest scores, occupying the ninth place, with a 61% increase in FDI projects and a 207% increase in jobs created since last year's results (against the EU average of 10% and 32%).

Regarding the increase of jobs created, Portugal occupies the 11th place in Europe and the growth rate is higher than the EU average.

In general terms, Portugal's growth in FDI is greater than the growth of Europe itself. Attractiveness factors are improving and so are investors' confidence and optimism.

FDI projects and jobs created by origin in the European context



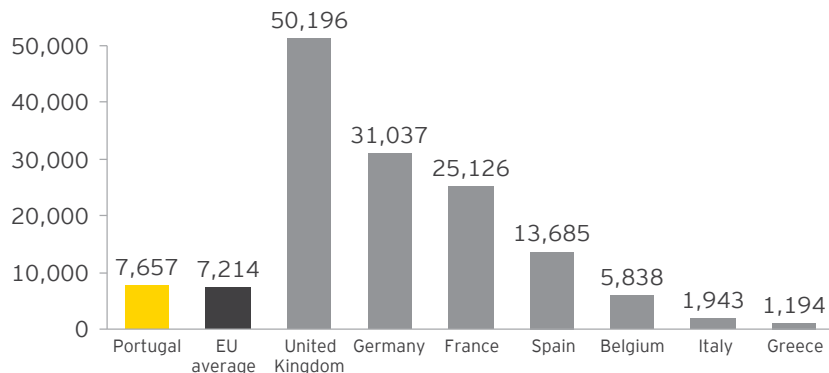
Source: Analysis based on IBM database, 2017

Projects' growth: Portugal vs. Europe (2016 to 2017)



Source: Analysis based on IBM database, 2017.

Benchmark of number of jobs created



Source: Analysis based on IBM database, 2017.

FDI by region

Portugal, a top location for foreign investment

Portugal's attractiveness to FDI has been improving year on year, to reach its record level in 2017. Over the years, an increasing number of relevant partnerships between main stakeholders, from both the private and public sectors, facilitated the location of flagship investment projects in the country. This encouraged the development of more technological and innovation-driven policies (which, one can argue, have been critical to the attraction of more investments).

This strategy has been consistently adopted in the country and with positive results. All Portuguese regions, but Alentejo, show an improvement in the latest results, having increased their number of FDI projects.

North continues to attract more investors

In 2017, the North region continued to be first in the number of projects landed (36) and was responsible for the largest share of jobs created (3,199), followed by Lisbon and Center regions.

Investment cases in the North include Euronext and Devexperts in the financial software and services fields, PSA Group throughout its accounting shared services, Vestas with its new R&D center - all installed and expanded during the course of 2017.

North and Lisbon have 70% of total FDI projects

Lisbon, well-known for the acceleration of startups and innovative projects, registered the highest increase in FDI numbers counting with an additional 20 projects and 3,062 jobs since 2017. Commonly addressed to as Europe's new tech hub, Lisbon has been prone to locating innovative and slightly more disruptive investment projects. Siemen's Cybersecurity Operation center, Nestle's

Shared Services center, British Marionete, Thales, Uber, Bimtech or the German Zalando and Grunenthal GmbH (IT and Shared Services centers) are just a few innovation, technology, and R&D focused examples.

Located in the North region, after Lisbon and Porto cities, Viana do Castelo shows the highest number of FDI projects and is the second city creating more jobs (825). The city invested in the development of a business cluster (Parque Industrial de Lanheses) around entrepreneurship and innovation for established companies and technological spinoffs, which have been using it as an incubator for innovative initiatives and R&D projects. Besides boosting this region's attractiveness, it is promoting synergies in the automotive cluster. Examples of recent relevant investors include the German Time Frame AG, French multinationals Bontaz, Eurostyle, Steep Plastique, and the Spanish Aludec and Europac.

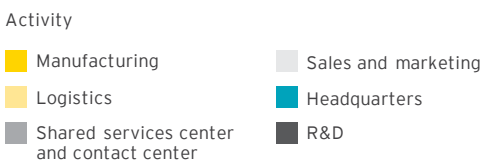
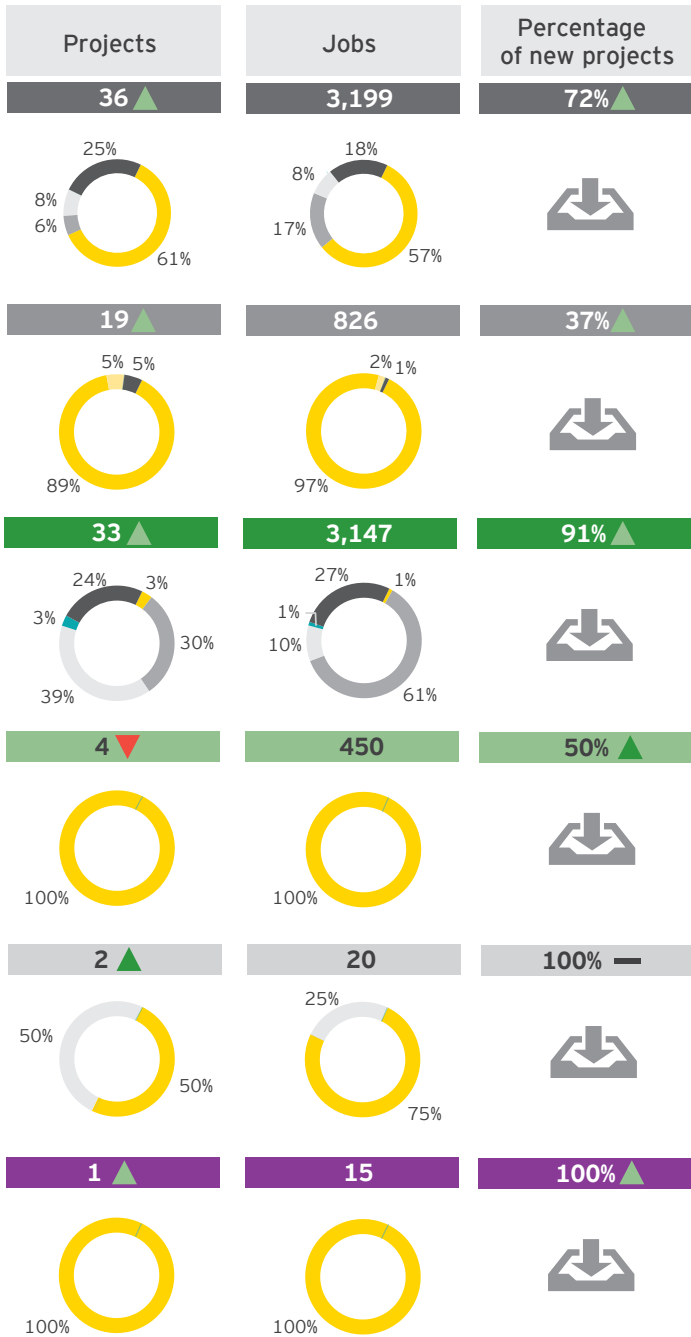
Center, Alentejo and North lead expansion projects

Lisbon region counts with the highest number of new FDI projects (91%) started in 2017. Out of the 68 new projects in Portugal, 26 are in Lisbon. While the Center and North regions excelled in attracting new FDI projects in 2016, these regions (together with Alentejo) registered the highest amount of expansion projects in 2017, with 63% and 28%, respectively. Optimism suggests that business performance of 2016's projects was successful enough to have paved the way for expansions in 2017 and setup of R&D and centers of excellence connected to their premises (geographically or not) where innovative solutions with the state-of-the-art technology and specialized teams were to be developed.

One of the most well-known shared services project - Altran's Nearshore Center, is located in Fundão, in the Center region. As a technology innovation center, it provides IT and telecommunications engineering services to other international firms.

FDI projects and jobs created by region





Within the same region, a partnership for a coding academy between Castelo Branco council and Proside created the right conditions to attract further investment, especially investment demanding digital and more technological skills. Other examples include the Canadian Tilray and the British DS Smith.

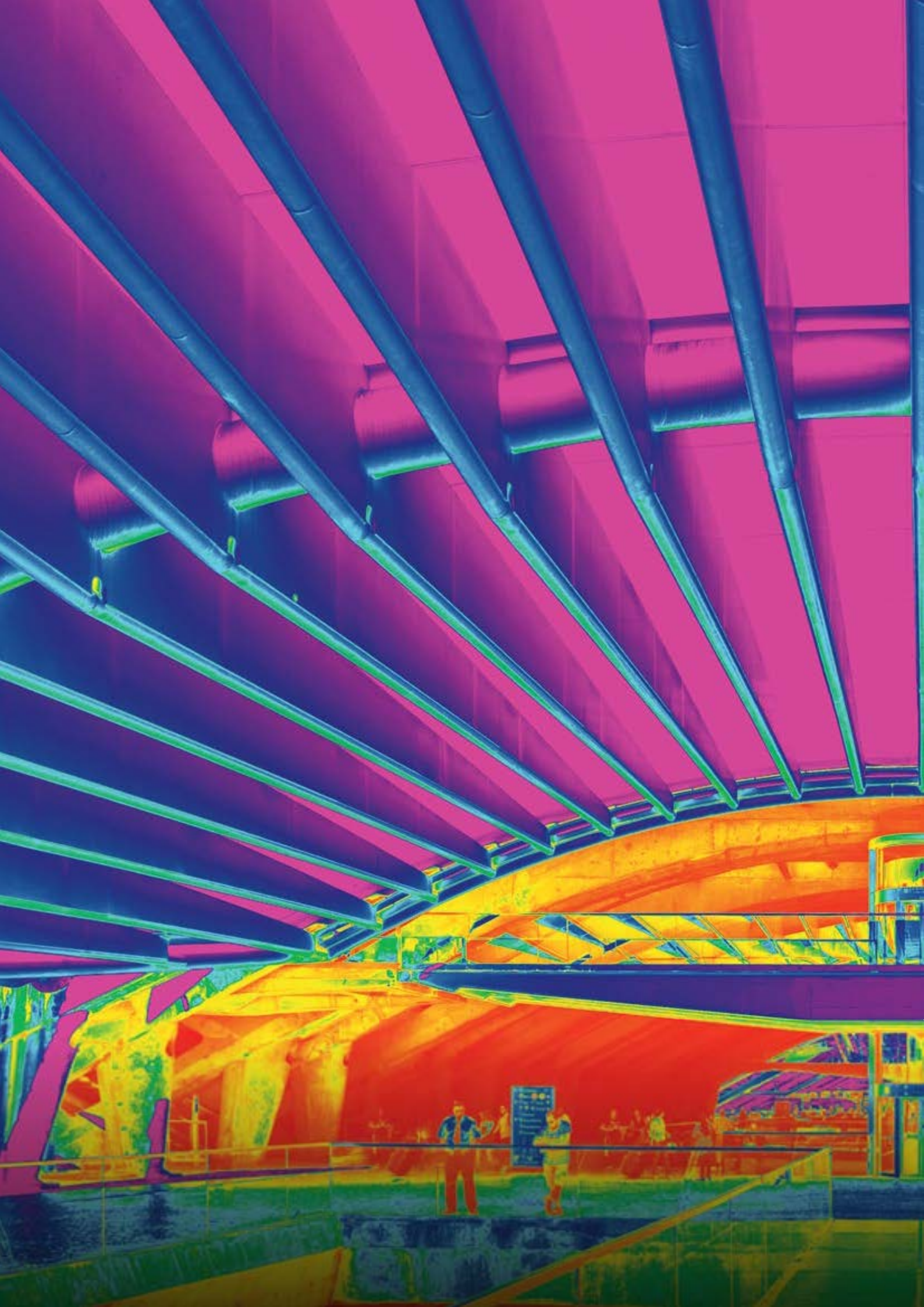
Alentejo is the region with the third-highest increase in jobs creation (340) since 2016. Even though it records less projects, several foreign companies have chosen this region to set up their base, especially from the aeronautics industry. Embraer, Lauak, Mecachrome and Air Olesa, together with Endress+Hauser are the main examples. The Brazilian Embraer picked Évora to install two of its plants, investing a considerable amount of capital over recent years. As the operations expand, the company recruits larger numbers and has been doing it successfully with the support of the Instituto do Emprego e Formação Profissional (IEFP).

Manufacturing is landing more projects and employing more

As in 2016, manufacturing is the activity attracting the highest number of projects (48%) and the one creating more jobs (41%) in 2017. Alentejo, Azores and Center are the main regions sustaining these results.

In a country increasingly more committed to innovate and improve its competitive advantage in its technological readiness, these results are not deceiving. Instead, they show that traditional sectors are becoming more specialized and hence more competitive at a worldwide level, adding value and attracting more investment. Recent examples include investments in a wide range of sectors from aeronautic and automotive components, to ceramics, paper, metal, jewelry, packaging, agriculture, textile, fashion and electronics by J3L, OKE, Howa Tramico, Multicuir, FM Industries, D'arta and Guido Zocchi, among others.

R&D comes next (19%) in FDI projects, mainly observed in the North and Lisbon. In terms of jobs created, shared services center and contact center are second (32%) with larger numbers.





6

Portugal: outpacing Europe

Confidence in Portugal's future attractiveness remains strong with growing perspective in established and unestablished investors

Confidence in Portugal's future attractiveness is on a growth path, with 65% expecting a positive evolution compared with last year's 62%.

Established investors show a consistent response to previous years (78% vs. 77%).

Unestablished investors show an increase to 47% from 39%.

However, there is still a big gap between established and unestablished investors

The key conclusion is that even though there is an improvement in responses by both investors, we can still see a large gap between companies who are in Portugal (and have easier access to information and relevant stakeholders) and the ones that are further away. The positive perception of Portugal's future attractiveness from established investors is 78% vs. the 47% of the unestablished, whereas short-term investment plans intentions diverge from 48% to 6% when the two groups are compared.

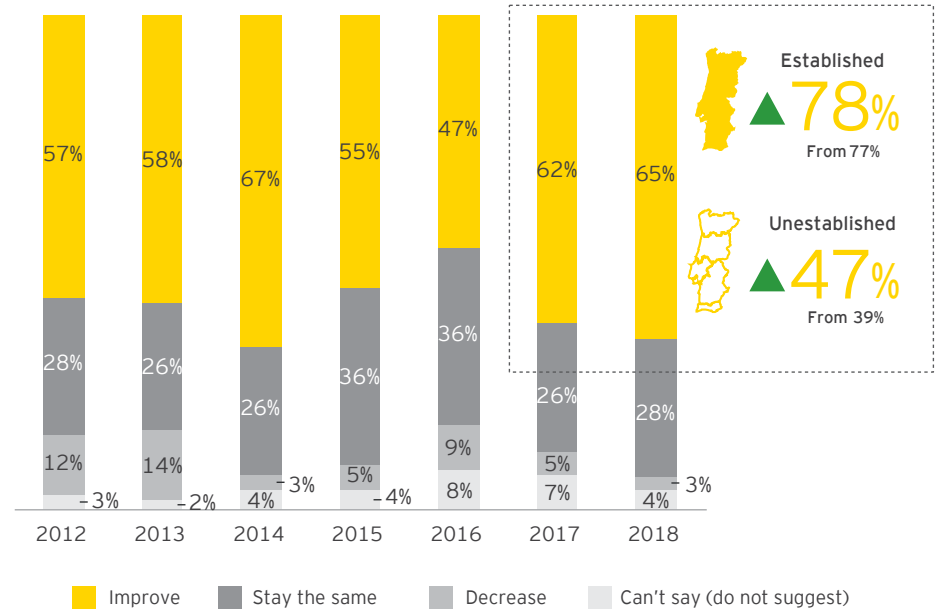
These results show there is a long way to go to facilitate the knowledge sharing between these two types of investors.

Portugal outpaces European countries

Both Portugal and Europe present good results, in line with the improvement in confidence that is coming back amid the major political and economic changes that happened recently.

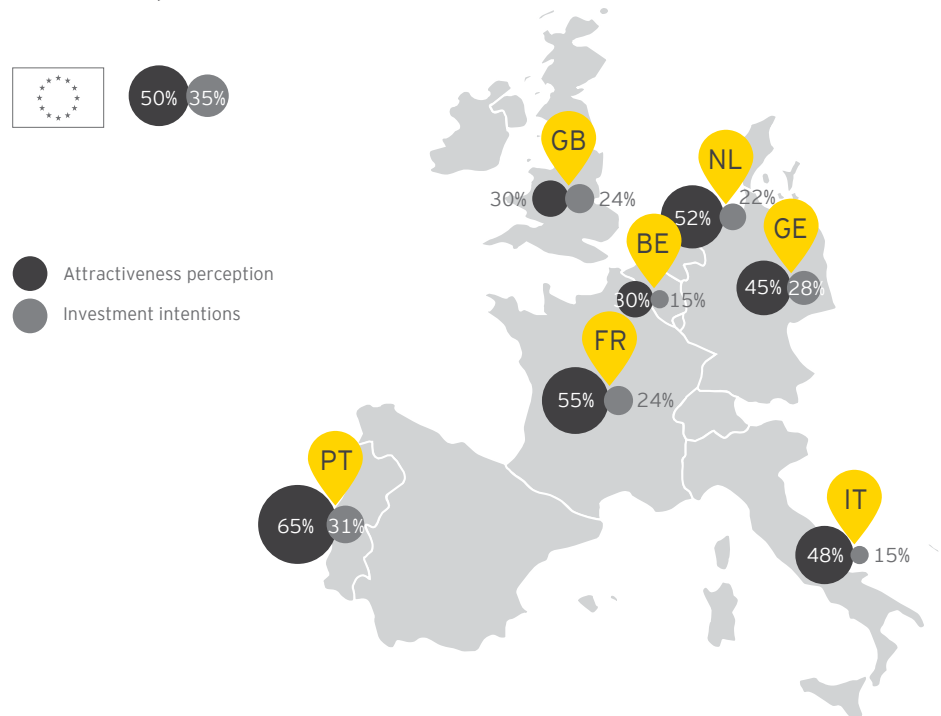
Portugal has once more outpaced their fellow European countries both in terms of attractiveness (65%), which is the highest result shown, and also in terms of short-term investment plans (31%), only second to Europe as a whole but higher than all other countries.

Perception of Portugal's future attractiveness



Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).

Attractiveness perception and short-term investment plans across European countries



Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).

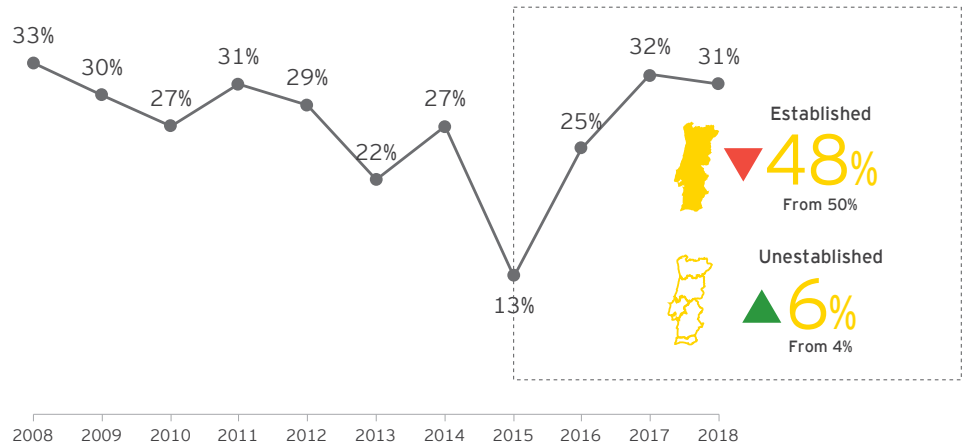
Short-term investment plans stabilized at high level

Investors' plans to invest in Portugal stabilized at a high level (31%).

This positive response comes from both the established and unestablished companies in Portugal.

Unestablished investors show an increase in both Portugal's perception (47% this year vs. 39% last year) and plans to invest in the short term (6% this year vs. 4% last year).

Short-term investment plans in Portugal



Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).

Majority of projects are related to sales and marketing office

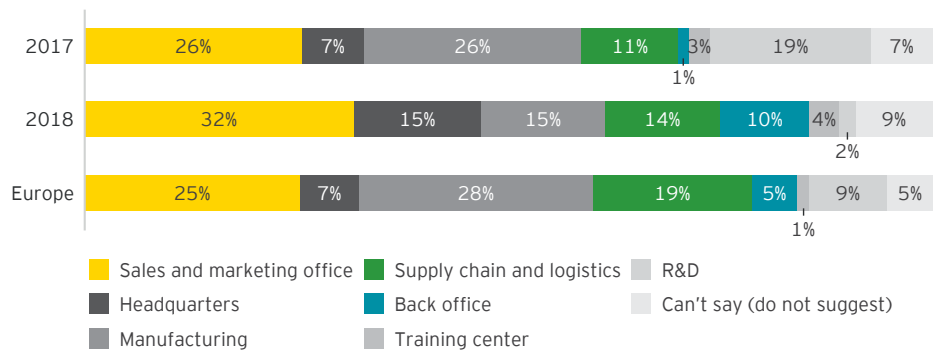
Projects related to sales and marketing office constitute the majority. This indicates an increase in the number of projects this year compared with last year, and on what Europe plans to invest in.

However, this year we see a shift in investment plans from projects in R&D, and manufacturing to headquarters and back office.

These results are naturally influenced by the nature of past projects implemented in Portugal and those that do not have the need for continuous investments. This is particularly true in relation to certain R&D projects that happened in previous years.

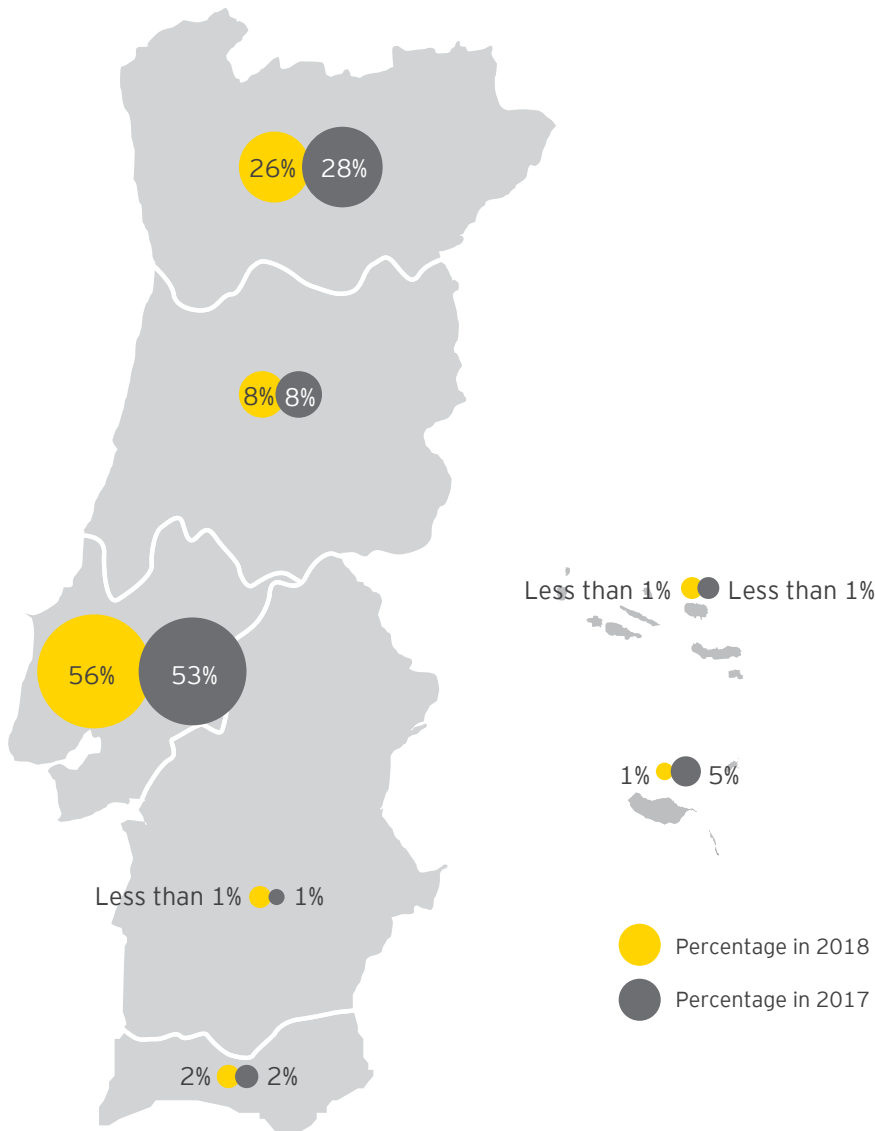
Also, the relocation of headquarter activities to Portugal may mean more decision-making in the country, as well as providing more talent and more services to other parts of these groups, worldwide.

Type of investment projects in Portugal and Europe, 2018 vs. 2017



Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 62; established: 57; unestablished: 5).

Most attractive regions to establish operations



The most attractive of all regions - Lisbon continues on an upward trend

Regional attractiveness is still stirred up by Lisbon region (56% in 2018 vs. 53% in 2017), followed by the North (26%) and Center (8%) regions.

The perception is unanimous between established and unestablished companies in Portugal.

Lisbon - who is investing?

Lisbon, frequently referred to as “the new Berlin”, “next tech capital” or the “charm-packed capital poised to climb” by Bloomberg is booming in what concerns entrepreneurship and innovation. Also, there are a wide host of co-work spaces, startup incubators, Fab Labs, and startup accelerators (such as Vodafone Power Lab, IDEIAhub - Empowering People or Fábrica de Startups) that are connected to the development of a digital generation. These were some of the reasons that made projects, such as the Uber’s center of Excellence for Europe, Siemens’s Cybersecurity Operation Center, Vodafone TV Hub and Competence Center for Next Generation Television choose Lisbon.

Alphabet’s recent establishment in Lisbon is emblematic of the region’s attractiveness. According to the country managers of Alphabet’s Portugal and Spain offices, the decision on the location of the giant new business center is mainly explained by the technological

Source: MFG’s Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).

investment, the entrepreneurship and the startup ecosystem that has been arising in Portugal. Besides creating 535 new qualified jobs, it will allow a supportive network with an array of other highly specialized companies providing technological and digital commerce support.

Another illustrative example is that of Claranet, a managed services provider, which chose Portugal to establish its technological hub back in 2013. The strong technological background of the Portuguese workforce and the rapidly evolving technological dynamics of the Portuguese market has paid off, creating new business opportunities.

Claranet has also invested in a Competences Center, a cloud excellence center and a security operations center, among other several M&As.

The second most attractive region - North

The North of Portugal is also fertile in investment success stories. A recent example is Natixis, a French investment bank, which chose Porto to locate its IT competence center last year. Currently, it employs 300 people and claims to call for another 600 by the end of 2019.

The Danish firm Vestas has been operating in this region since last year, offering a wide range of solutions to wind farms from its R&D center with state of art technology and highly specialized collaborators.

Likewise, SEG Automotive, resulting from the transference of a Bosch division to an independent group, chose Vila do Conde to establish a shared service center in 2016. Employing 75 people, it provides services to SEG at a global level. Highly qualified workforce, competitive labor costs, infrastructures and accessibilities, business environment, and life quality have all been highlighted as the most important criteria when choosing this northern city.

Center, Alentejo and Algarve - low attractiveness levels mirror lack of knowledge on Portugal's regional differences

Center, Alentejo and Algarve, despite the small percentages on attractiveness perception, have all shown good opportunities for FDI. Some of the world largest data and shared centers are established in the Center. Major aeronautical players (original equipment manufacturers and component suppliers) operate from Alentejo.

Lastly, although tourism attracts about 40% of the total investment in Algarve, other flagship projects include investments in the sea economy, agrofood, agro-transformation, green biotechnology, ITC and creative industries.

Source: MFG analysis, AICEP Portugal Global and CCDRs.

Key structural assets are gaining ground

Stability of social climate, telecommunications infrastructure and incentives policy are factors that had the highest increase, when compared with last year results in how they are perceived by investors as sectors of growth. These factors help create a strong base for an investment and investors are seeing these as major assets of Portugal.

Other key factors that investors in Portugal relate with are potential for productivity increase, labor costs and local labor skills level (which remain within the same level as last year).

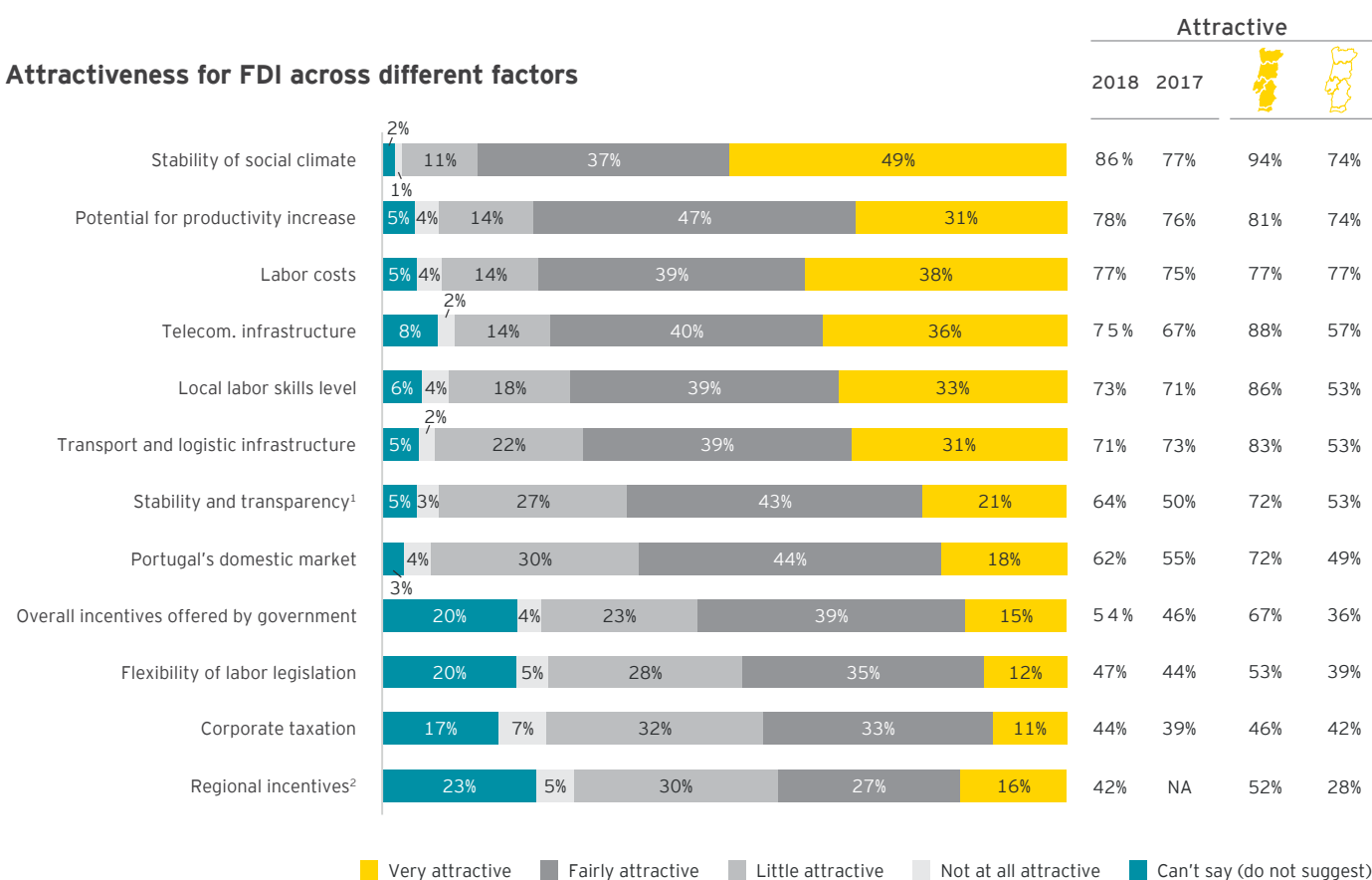
Transport and logistics infrastructure is losing ground, being the only factor with worse results compared with 2017.

There is still a big gap between established and unestablished investors

The largest gaps between these two type of investors arise in local labor skills (33%), telecommunication infrastructure (31%), incentives (31%), and transport and logistic infrastructure (30%).

These results indicate that the issue is in the right information not being available to potential clients of Portugal, those not yet established in the country and with less visibility of Portugal's reality.

Attractiveness for FDI across different factors



Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).

¹ Referring to political, legal and regulatory environment

² Specific support and incentives offered by regional and municipal authorities

Top attractive and less attractive factors (total respondents)



Note: percentage of very attractive and fairly attractive categories



Note: percentage of little attractive and not at all attractive categories

Source: MFG's Attractiveness Survey Portugal 2018 (total respondents: 203; established: 120; unestablished: 83).

Tax-related matters are becoming more attractive

There have been several efforts to place Portugal in the shortlist of FDI locations and to attract new activities into the country. Among them there are a range of tax benefits and incentives offered to different sized companies, operating at different levels, across a number of subjects and throughout Portugal.

Up to 2020, all the investment projects with a minimum investment of €3m, qualifying for strategic economic interest and creating jobs, can benefit from contractual tax incentives. Namely, a tax credit of 10% to 20% of the investment is attributed and reductions from property tax transfer, property tax and stamp duty are allowed.

Additionally, the new patent regime for industrial property rights registered from 1 July 2016 is available (as in other European countries). It allows for a 50% reduction in the total income that results from selling or grating the use of industrial property rights temporarily, namely patents, models and industrial drawings.

Considering the tax burden on corporate income, companies investing in the North, Center, Alentejo, Azores and Madeira regions benefit from a deduction against corporate income tax (CIT) of the qualified investment, namely 25% for qualified investments up to €5m and 10% when exceeding that limit. In case of Lisbon and Algarve regions, the deduction is 10% for the qualified investments.

Deduction against CIT is also possible for eligible expenses with R&D incurred by Portuguese tax resident firms that conduct commercial, industrial or agricultural activities, and nonresident firms with a permanent establishment (PE) in Portugal.

Likewise, costs related to the net increase in job creation for employees (aged up to 35 years) without term contracts and for long-term unemployed individuals, may also claim a partial deduction in their taxable income.

The attractiveness factor for outward investment

Nonresident corporate entities can also benefit from capital gains on the sale of shares and quotas held in a Portuguese company, or interest and capital gains on Government and corporate bonds, which are tax exempt under certain conditions.

Another tax exemption is the interest paid to non-resident financial companies by resident credit institutions, which results from loans and swap transactions.

Talent may find in Portugal a safe heaven

Although not widely publicized, a special tax system for non-regular resident (known as expats tax regime) has been in force since 2014. The regime applies to foreigners and Portuguese diaspora who have been living abroad in the past 5 years, entitling them to a flat income tax rate of 20% for 10 years.

With this measure, the Government aims to attract nonresident professionals qualified for activities with high intellectual added value, industrial properties and know-how.

Moreover, the Golden visa regime, formally called Golden residence permit program, enables all non-EU country citizens to obtain a temporary residence permit and undertake business activities. Citizens can register themselves as an individual business person, or set up a company in Portugal or in another EU Member State, as long as this company is also stably settled in Portugal.

Established and unestablished investors have difficulty in getting access to information about Portugal

Responses show a dip in the number of investors (both established and unestablished) who are able to access information about Portugal.

Only 15% of respondents state they receive information on a regular basis (vs. 26% last year). Also, 42% state they never receive information on the country (vs. 37% in 2017).

We observed that only 16% of Portugal's potential clients receive marketing materials on Portugal and 82% (vs. 70% last year) never do. Also, only 19% of clients with activities in Portugal confirm to have access to information regularly from multiple sources (vs. 28% last year).

Several policies, initiatives and flagship events are underway to promote Portugal as the place to invest, study and live

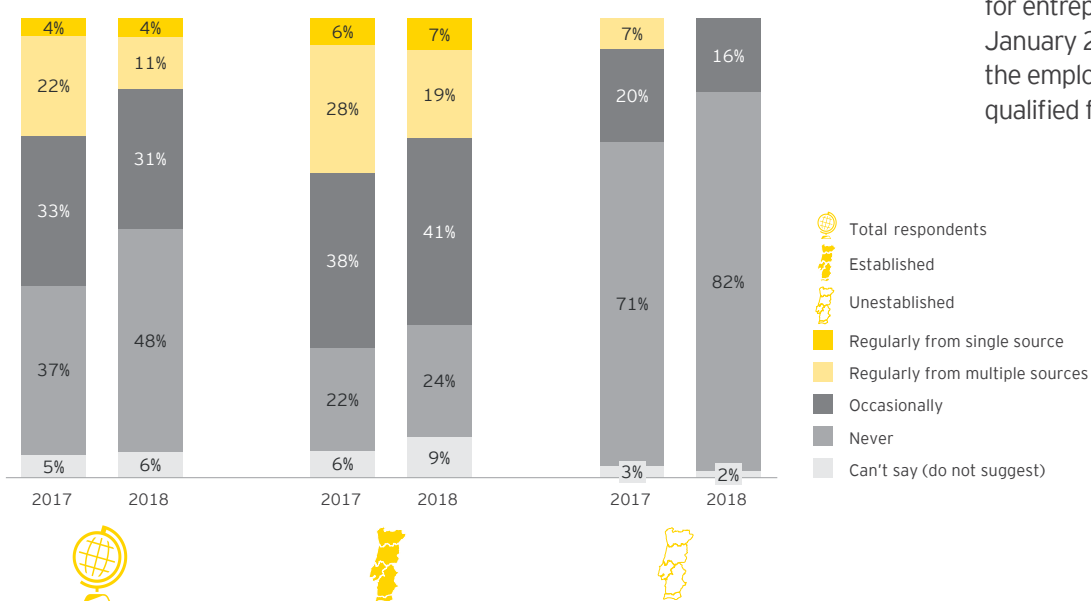
Despite the less encouraging findings in Portugal's promotional and marketing activity, we have seen earlier that optimism in the country's attractiveness and confidence in short-term investment show a positive improvement. Although there is room for improvement, a number of collective efforts between Government and private sector taskforces have been developed to change people's perception and place Portugal on investors' radars.

We illustrate some examples below:

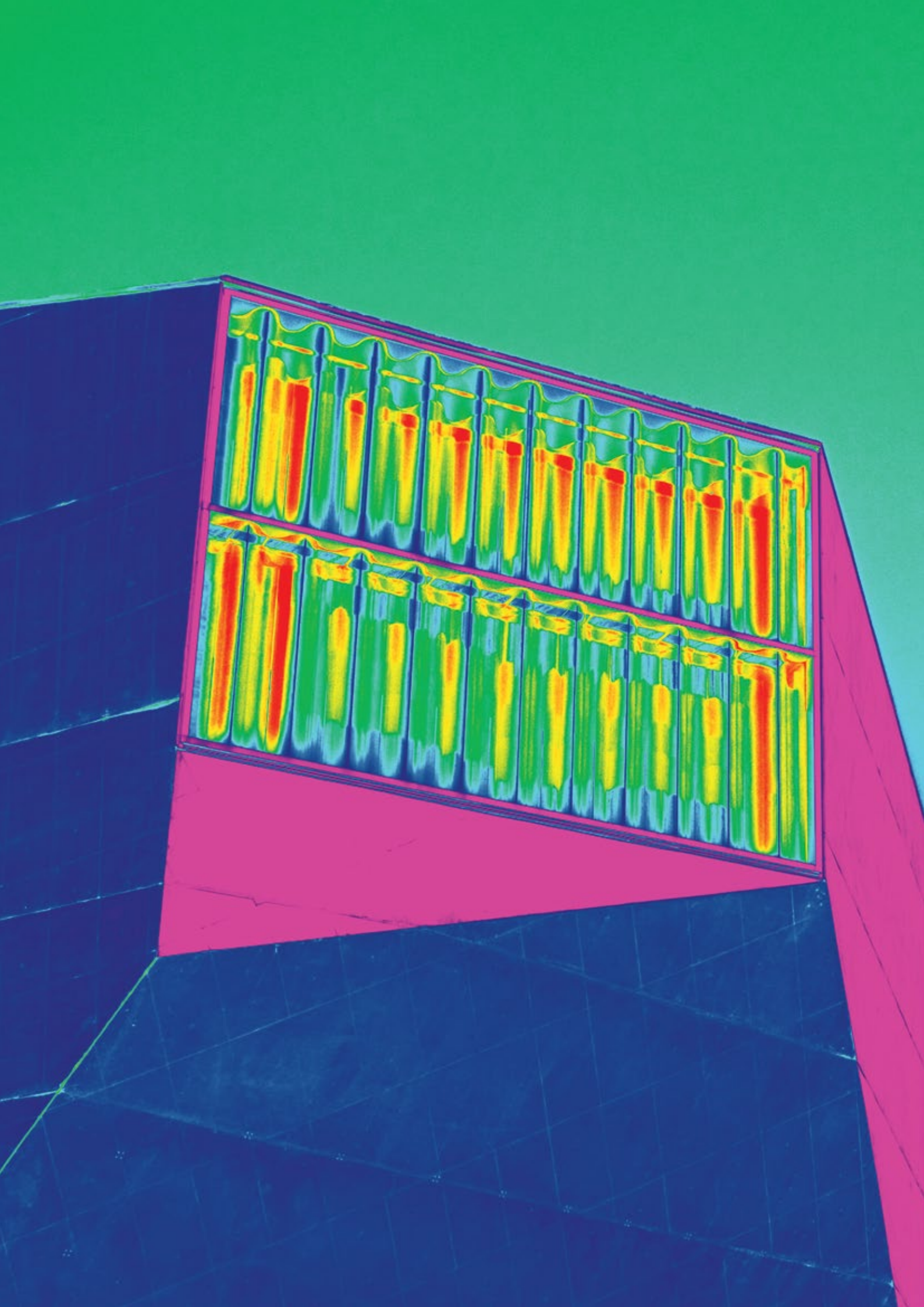
- ▶ *Can't skip facts* campaign - online portal with Portugal's factsheet, testimonials, sectors expertise and latest main news relevant to investors

- ▶ *Sign up for Portugal* and entrepreneurship campaigns by Startup Portugal to attract investors and talent
- ▶ FDI scouts network by the Portuguese Investment Promotion Agency
- ▶ ANI's tools - Portuguese state agency in charge of promoting collaborative R&D and innovation
- ▶ *Portugal In* - a temporary task force created by the Government to attract more FDI into Portugal in the wake of Brexit
- ▶ *Indústria 4.0* program - to direct younger people to both industry and manufacturing and digitisation
- ▶ *In code 2030* program - to further encourage digital competences
- ▶ *Web summit* - the largest tech summit in the world (moved from Dublin to Lisbon in 2016)
- ▶ *The Economist's Lisbon Summit*
- ▶ *Inov Contacto* - a program that aims to provide quality training to young graduates in an international context
- ▶ *Start up Visa* - residence visa for entrepreneurs (in force since January 2018), designed to ease the employment and set up of highly qualified foreign entrepreneurs

Companies receive information on Portugal's attractiveness for FDI



Source: MFG's Attractiveness Survey Portugal 2018 (total respondents: 203; established: 120; unestablished: 83).



Portugal's growth engines

Real estate and construction, and tourism, have been selected by 32% of the investors as key driving sectors of Portugal's growth. They have replaced the information and communication technologies sector in 2017, which comes in third this year with 29%. This result is even more interesting if we consider that the ICT and IT sector does not come first only in Portugal and in the UK.

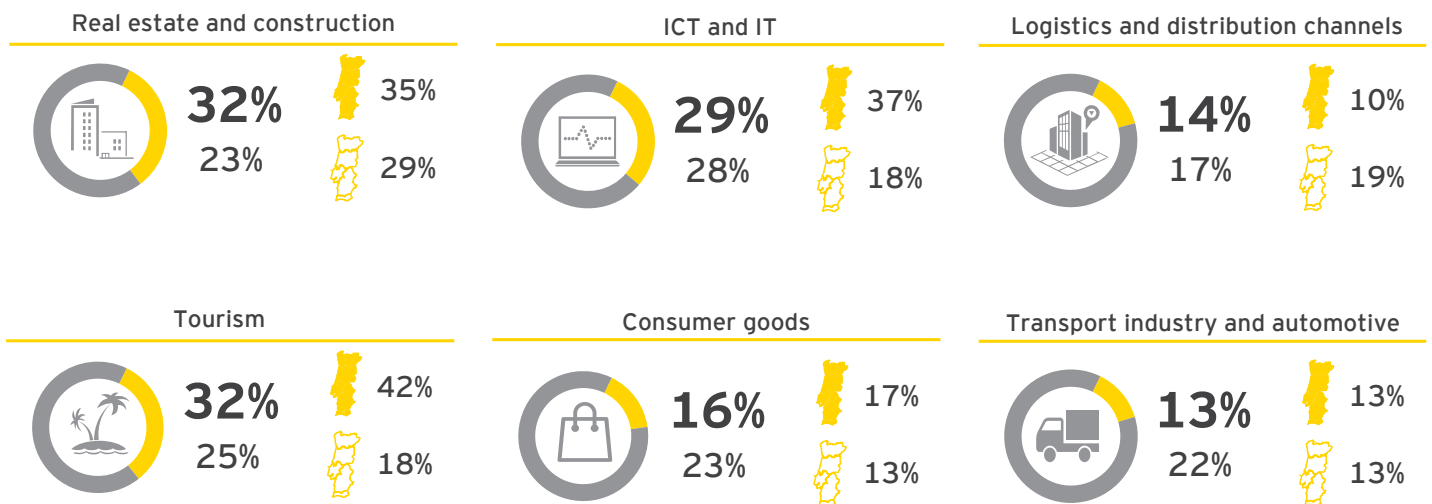
Nevertheless, as usual, perception varies between established and unestablished investors. Established companies consider tourism (42%), ICT and IT (37%), and real estate (35%) as key driving sectors.

The unestablished ones direct their confidence to real estate (29%), logistics and distribution channels (19%), tourism (18%), and ICT and IT (18%).

Real estate and construction sector is taking advantage of Portugal's attractiveness as more people and companies relocate

Ranked as the world's third most peaceful country (by the Global Peace Index), fifth for best quality of life for expats (by the network interactions) and best European destination (by World Travel Awards), with good facilities and attractive fiscal benefits to foreign people, Portugal has become an option not only to visit but to live in.

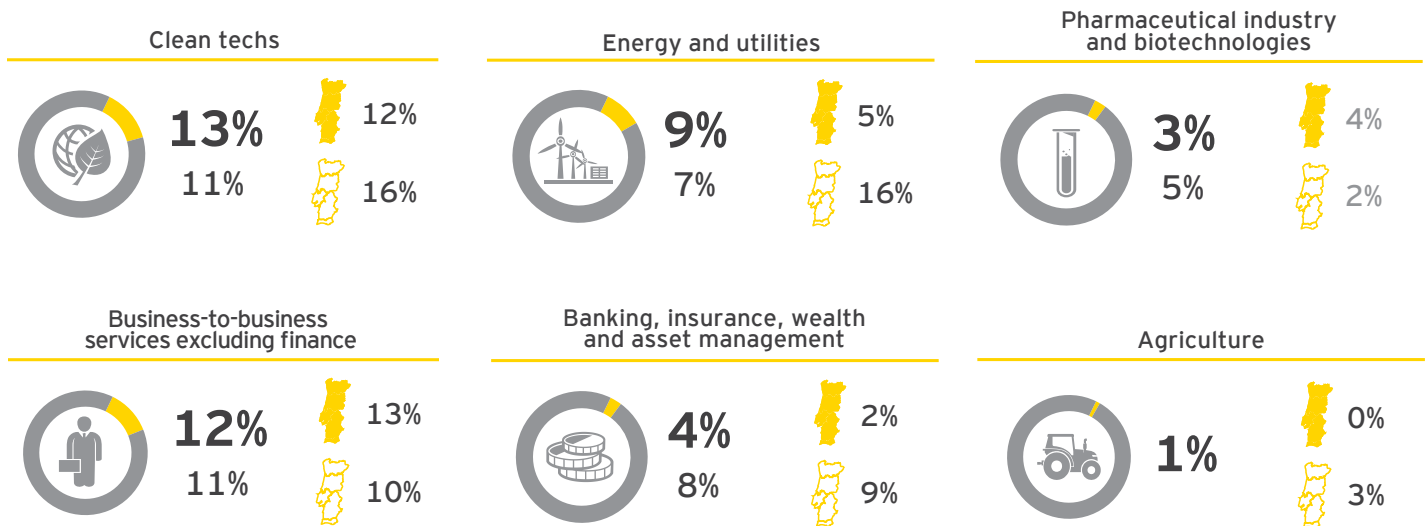
Business sectors driving growth in the coming years, 2018 vs. 2017



Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83)

Increasingly, more talent migrates to Portugal and with it companies too. As a consequence, more housing and office space is needed to which only real estate and construction players can respond.

Lastly, although one can argue that transport industry and automotive, and consumer goods are also promising sectors, they registered the highest decrease as key drivers compared with last year.



Increasingly more competitive but with additional efforts required

Portugal has been improving its competitive positioning year on year. Nevertheless, there are still areas requiring additional efforts.

This year, critical areas for improvement relate to development of education and skills (41%), support for SMEs (38%), support for high-tech industries and innovation (30%). In the previous year, the ranking was exactly the opposite.

Established and unestablished investors identify the need to develop education and skills as the most important factor.

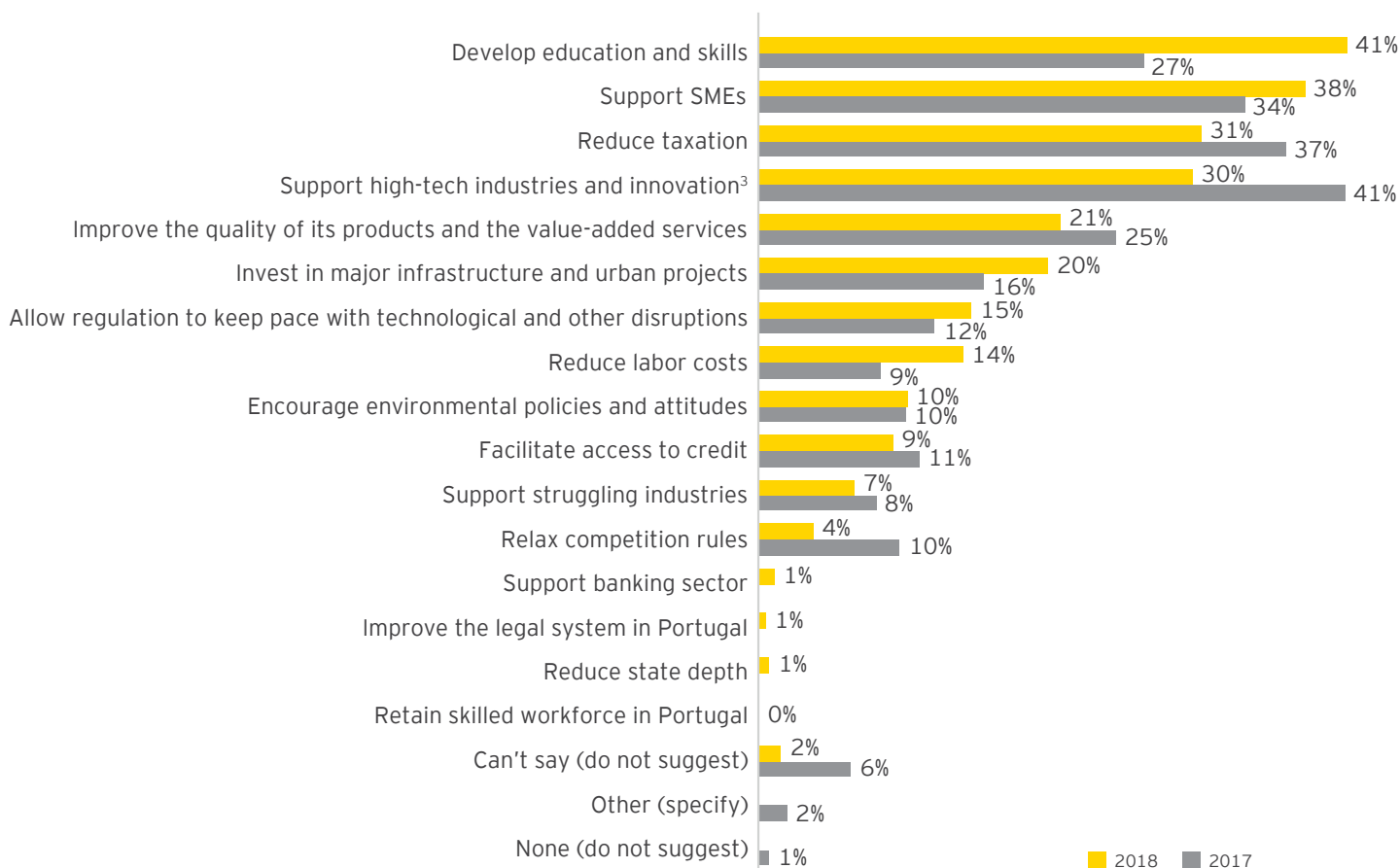
Established investors have as other areas of concern i.e., the support for high-tech industries and innovation, as well as reduction of taxation.

Unestablished investors consider the need to support SMEs, and investment in major infrastructures and urban projects as the most important areas to be competitive.

Improvements in the performance of these indicators may lead to an increase in investment intentions.

Following the same trend, this year's *MFG's Attractiveness Survey Europe* outlines support of digital economy and innovation, develop education and skills, and support for SMEs as the main areas to maintain Europe's competitiveness.

Areas of improvement to increase competitiveness, 2018 vs. 2017



³Clean-tech, IT, logistics, creative sectors, life sciences, smart electricity grids, etc.
Source: *MFG's Attractiveness Survey Portugal 2018*, (total respondents: 203; established: 120; unestablished: 83).

The importance of education, skills and talent

At the pace that the world is changing and economies are reshaping entire value chains, major disruptions will have to come from the ability of countries, cities and companies to provide the right environment to incubate new talent, train and reconvert skills. This will help meet needs for more specialized competences.

Competition for the best qualifications will dictate how major stakeholders of

the global economy place their bets and the winners will be those who succeed in attracting and retaining the largest number of talent.

Corroborating the above, and as mentioned previously in this year's results, developing education and skills is one of the top priorities.

From 2007 to 2017, Portugal was the second country with the highest increase in the number of universities in the world's top 500, according to the Academic Ranking of World Universities.

Portugal's labor skills are recognized internationally

9th

Availability of qualified engineers

IMD World Competitiveness Ranking 2017 (61 countries)

10th

Communication technology digital and technological skills

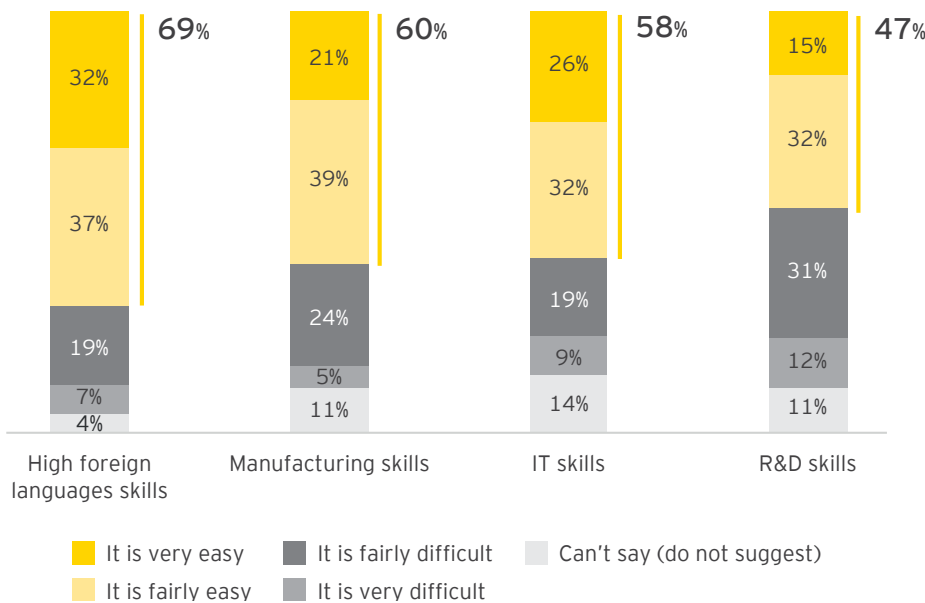
World Digital Competitiveness Ranking 2017 (63 countries)

12th

Ease of finding skilled employees

The Global Talent Competitiveness Index 2017 (118 countries)

Talent recruitment



How successful has Portugal been in attracting talent?

This year's survey results show that IT and R&D skills are fairly difficult to recruit. Given the strong positioning in the previous rankings, this is to do with availability. In other words, these are existing skills, but they are not sufficient to meet companies' needs in volume.

According to the survey, the perception of established and unestablished companies is that Portugal is rich in talent, mainly in foreign languages, manufacturing and IT. However, the talent that is perceived to be lacking is in R&D.

Indeed, the EU has raised the subject about missing doctorates in the country, and based on that, Portugal has recently announced that the polytechnic institutes will soon be giving doctorate programs too, alongside with universities.

Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).

Portugal's innovation capacity is similar to Europe but there is room for improvement

Approximately 42% of investors consider Portugal is as innovating as the European average. This reflects some worsening when compared with 2017 (where we had a 47% response). The proportion of investors who consider Portugal as one of the most innovative and above European average stayed in line with last year.

Responses from established investors show an increase in those who believe Portugal is above average within the EU (37% vs. 22%). However, those who see Portugal as lagging behind have also increased from 13% to 20%.

There are no significant changes in unestablished investors' perception.

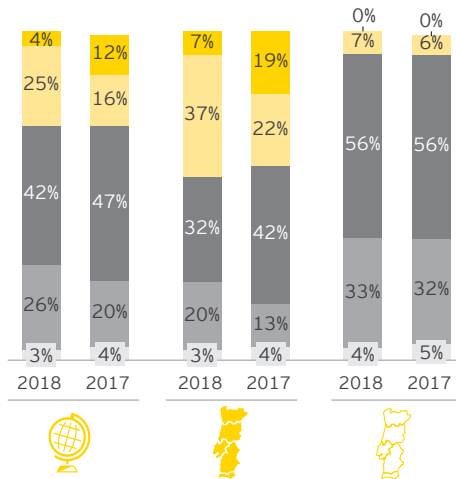
The startup ecosystem gains ground

The positive perception of Portugal as a cradle for startups, on the other hand, is gaining points. This improvement, is equally observed by established and unestablished companies. Most respondents perceive Portugal as being in line with other similar European countries.

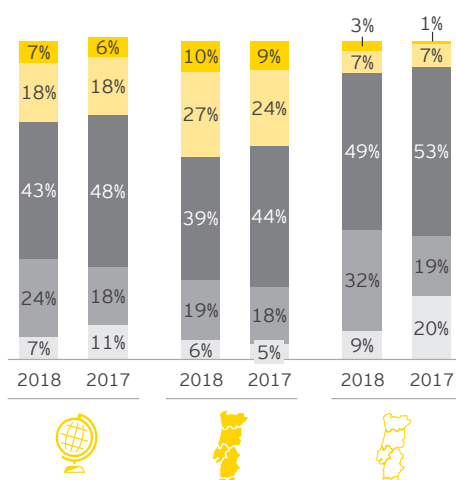
However, 32% of unestablished investors consider that Portugal's startup ecosystem lags behind most European countries.

The sectors representing the most positive perceptions are private and business services and industry, automotive and energy.

Portugal as a source of innovation



Portugal's startup ecosystem



- Total respondents
- Established
- Unestablished
- One of the most competitive in Europe
- Above average, within the EU
- Similar to most European countries
- Lagging behind most European countries
- Can't say (do not suggest)

High-quality startup and technology infrastructures⁴

- 307**
R&D units in higher education institutions
- 105**
Incubators (in the National Incubators Network)
- 29**
Technology and transfer offices
- 28**
Interface centers
- 27**
Science and technology parks
- 26**
Associated R&D laboratories
- 20**
Innovation clusters
- 20**
FabLabs (in the National FabLabs and Makers Network)
- 18**
Living labs
- 18**
State R&D laboratories
- 7th**
In the EU28 in SMEs with product or process innovations (EIS, 2017)

Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).

⁴Agência Nacional Inovação, AICEP Portugal Global, Ministério da Economia, World Economic Forum

Collaboration between academia and R&D centers, and business is seen as similar to other European countries

Most of the companies surveyed regard Portugal's collaboration between R&D and businesses as similar to that of other European countries.

Although the perspective is aligned with the average in Europe, established companies have a more positive perspective. Among unestablished companies, the significant number of respondents in the "can't say" category (25%) reveals the lack of knowledge about Portugal's reality in this particular aspect.

Most scientific research in Portugal takes place in R&D institutions financed and evaluated by Fundação para a Ciência e Tecnologia (FCT).

There are currently 307 R&D units, where 22,000 researchers work everyday.

Research in these R&D units encompasses all scientific fields, from life and health sciences to social sciences and humanities, from engineering and exact sciences to natural and environmental sciences.

When tradition and innovation are hand in hand

From the survey, we can retain that the second most attractive factor is the potential for productivity increase.

This can be connected with the fact that Portuguese companies are increasingly more innovative and finding ways to become more efficient.

Portugal is also starting to be known for its ability to marry innovation with tradition, making the manufacturing sector innovative, when compared with its peers.

Across all regions in Portugal, traditional sectors are showing strong will to incorporate technology and offer innovative solutions to its customers.

Industry 4.0, on the road to innovation, digitalization and overall modernization

The Portuguese industry is improving its competitiveness levels by promoting investment in talent, technological cooperation, startup modernization and internationalization.

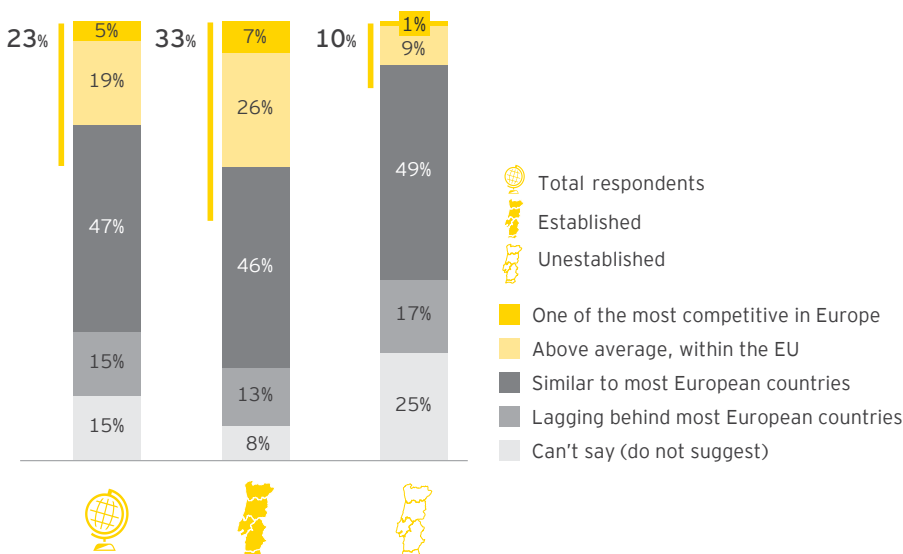
The clustering of the Portuguese industry sector has opened some possibilities for each industry.

For example, the shoe industry, originally fragmented in the North region, has developed its own program *FOOTure 4.0*. Investments totalized €50m in the innovation and digital economy to make this industry the world leader in customer service through product sophistication, fast response and an excellent service level.

Another example comes from the textile industry where the project *CEi - capacitate and stimulate innovation* is being developed and put forward. This project, sponsored by EU funds, aims to boost innovation capacities in textile and clothing companies by attracting innovation managers, recruiting new people and promoting training to current employees so that innovation processes can be implemented and transferred.

For the food industry, PortugalFoods, the cluster association for this industry, is promoting a competition for innovative ideas called *BIOTECH_agrifood INNOVATION*, aimed at enhancing R&D initiatives, and capability in the more traditional and conventional food industry.

Collaboration between academia and R&D centers and businesses



Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).

Improving education and increasing tax incentives are set to make Portugal the leader in innovation

Following a similar trend to last year's results, respondents call for an improvement in education and training in new technologies, as well as an increase in tax incentives so that Portugal improves its innovation capacity.

Investment in digital infrastructure is the most important factor for unestablished companies (39%). Although Portugal has one of the most competitive infrastructures in the world, ranking 18th among 134 countries, unestablished companies still think that this is one factor to improve.

Commitment in accomplishing structural reforms to improve innovation

The Portuguese Government has been developing several initiatives to foster innovation, access to funding and entrepreneurship. Some examples are listed below:

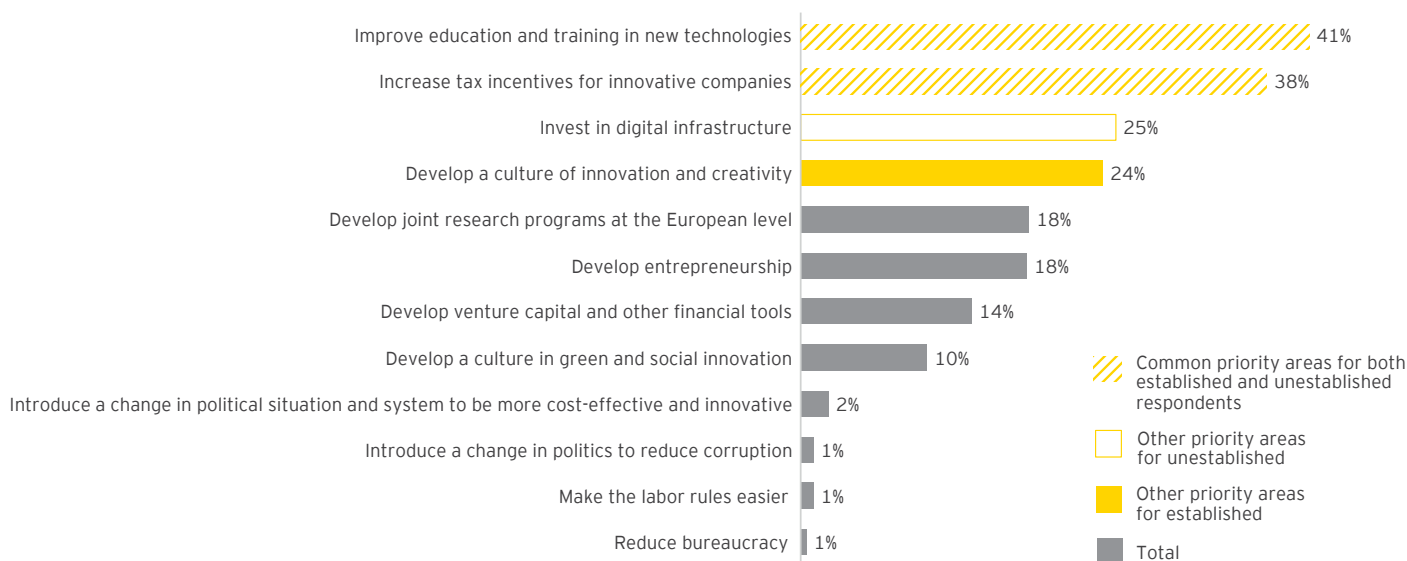
- ▶ *Capitalizar*, a strategic program to encourage capitalization of firms and investment
- ▶ *StartUP Portugal*, a Government strategy for entrepreneurship
- ▶ *Programa Interface*, aimed at strengthening Portuguese companies' competitiveness through innovation by connecting them to knowledge networks

- ▶ *Simplex+*, the Government's initiative to make citizens' and businesses' everyday life easier by cutting bureaucracy and using ICT to deliver better public services
- ▶ *200M Co-invest with the best*, a program for innovative companies in need of capital, aims to attract experienced foreign investors to support business development, while also promoting innovation and entrepreneurship with special emphasis in the North, Center and Alentejo regions

Education and training springs knowledge

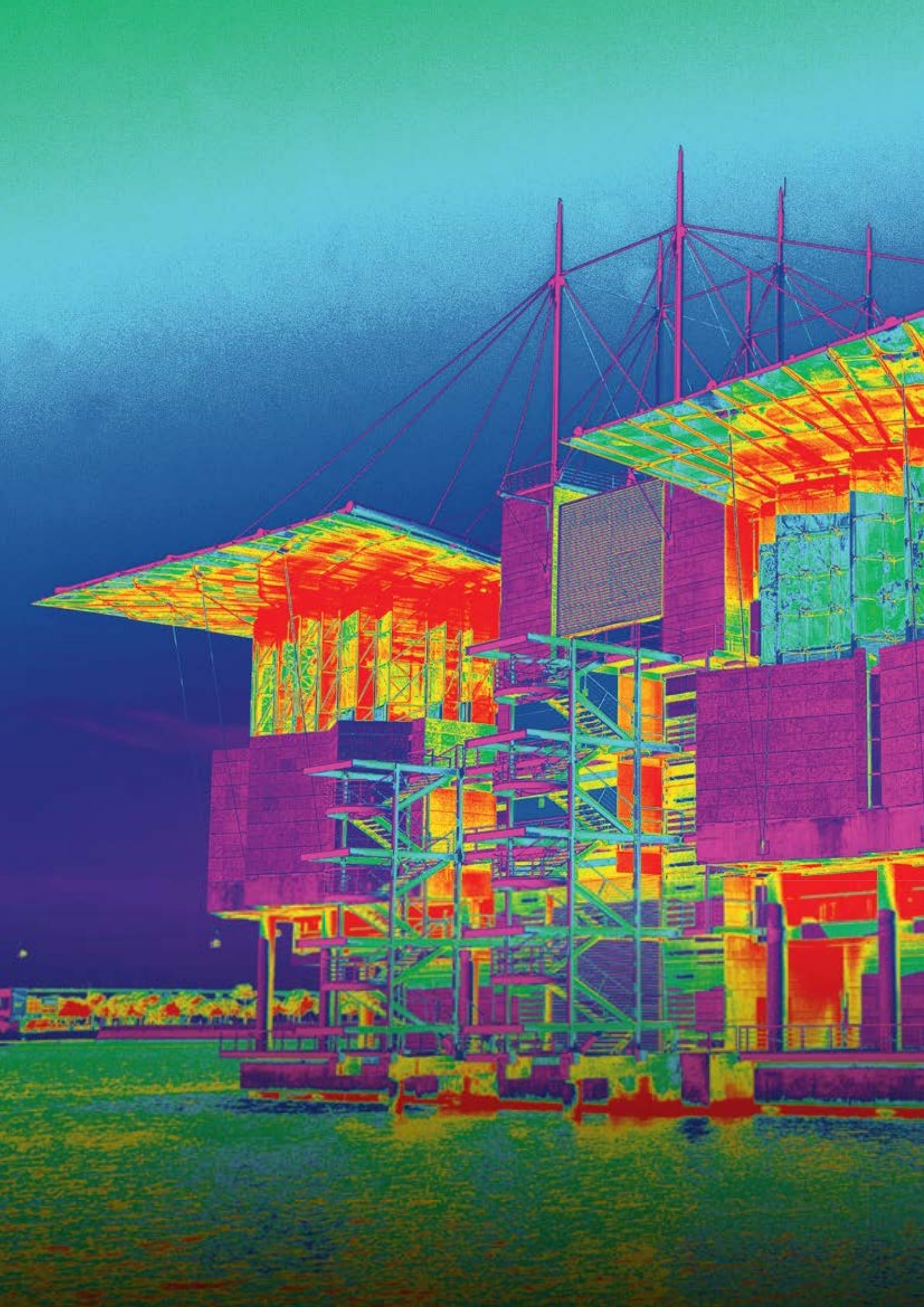
A recent and vivid example is the *Building Global Innovators (BGI)* initiative from a collaboration between MIT and ISCTE-UL, through which business models competitions are being launched for the creation of proposals with economic value, to stimulate technology-based entrepreneurship and marketable innovations.

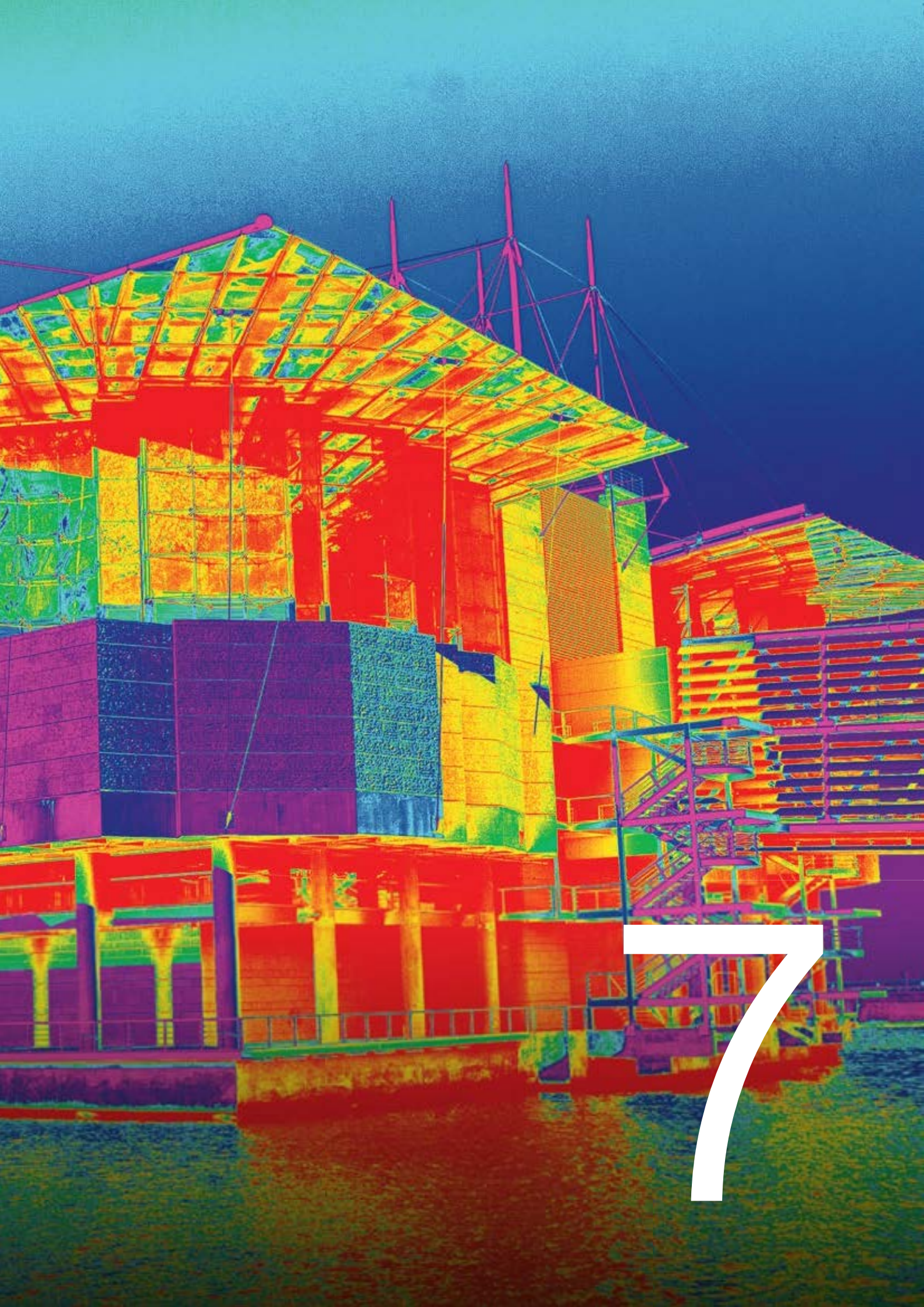
Main areas of reform to make Portugal a leader in innovation



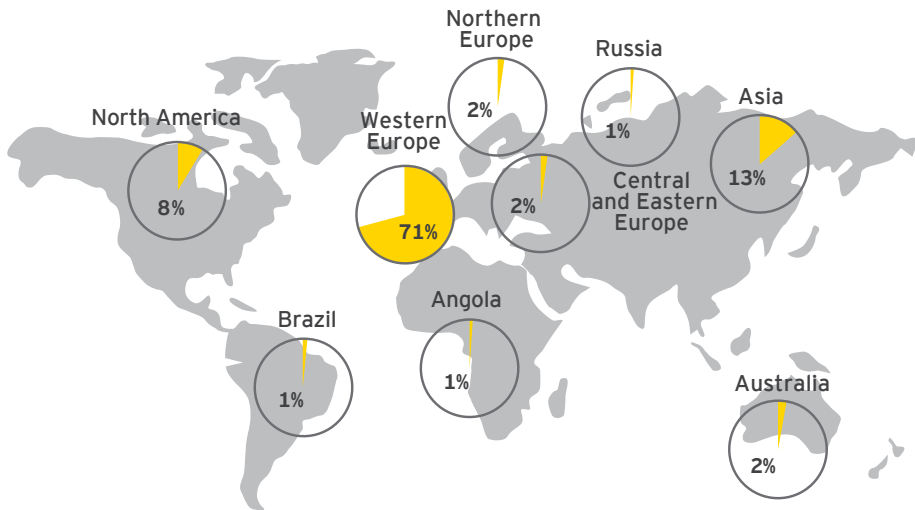
Source: MFG's Attractiveness Survey Portugal 2018, (total respondents: 203; established: 120; unestablished: 83).



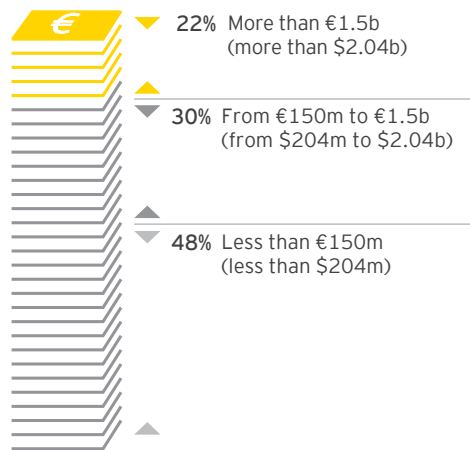




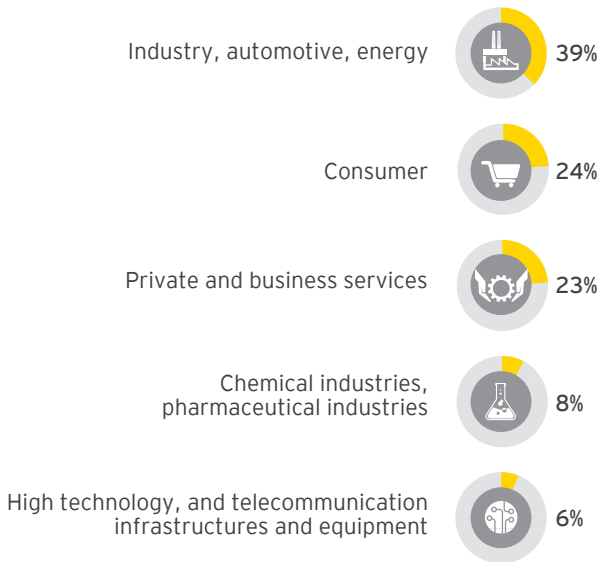
Global headquarters



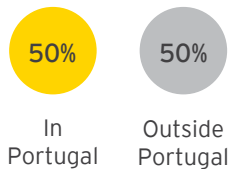
Size (in annual sales)



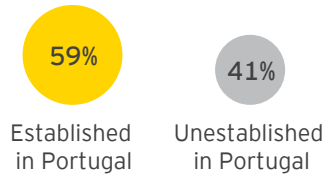
Sector of activity



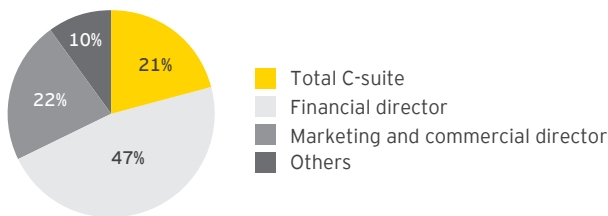
Location of interview



Presence in Portugal



Job title



How can MFG help?

Services for investors and multipliers

With member firms offices in Lisbon and Porto, MFG offers broad scope of MFG services in all the services lines: Assurance, Tax, Advisory and Transaction Advisory Services.

Our teams work closely with the financial system, private equities, venture capitalists and privately owned businesses. Alongside with private and public clients, we provide support to the development of economic and commercial promotional strategies at home and overseas.

The in-depth knowledge of domestic and international markets enables us to offer a set of services that cover the entire investment cycle, as well as other directly related matters.

Identification of acquisition opportunities

- ▶ Support on the decision-making process concerning new investments either related to new geographies, products or markets
- ▶ Identification of a list of potential targets based on the investor's requirements
- ▶ Preliminary contacts (respecting non-disclosure agreements) leading to in-depth negotiations with selected targets

Acquisition and integration support

- ▶ Support in the development of growth strategies and business diversification, through both the identification and negotiation of acquisition opportunities and in finding additional funding (assisted funding or new investors), and the analysis of business restructuring strategies
- ▶ Assessment of existing compensation policies and design compensation packages matching compliance with local regulations and the investor's own policies

- ▶ Financial, tax, commercial, environmental and regulatory due diligence
- ▶ Asset valuation and business model validation
- ▶ Assessment of tax implications;
- ▶ Technical support to acquisition negotiations
- ▶ Operations assessment and identification of performance improvement opportunities

Assessment of greenfield opportunities

- ▶ Initial business model preparation reflecting investment, financial and operational costs based on local conditions
- ▶ Site selection based on location requirements for investment and business expansion
- ▶ Intermediation with local stakeholders and identification of funding opportunities, including tax and EU-funded financial incentives
- ▶ Preparation and assistance to on-site visits and formal contacts with national and local stakeholders
- ▶ Identification and selection of local suppliers, based on sourcing requirements

Assessment of attractiveness levels

- ▶ Identification of existing attractiveness factors and areas of intervention to increase FDI and promote exports
- ▶ Creation of investment attractiveness dashboards to measure results

Regions' and cities' attractiveness reinforcement

- ▶ Analysis of regional and local development factors and of creation of touristic value
- ▶ Attractiveness, refunctionalization and impact of equipments and heritage
- ▶ Local and regional development strategies
- ▶ Governance models and partnerships

Investment promotion

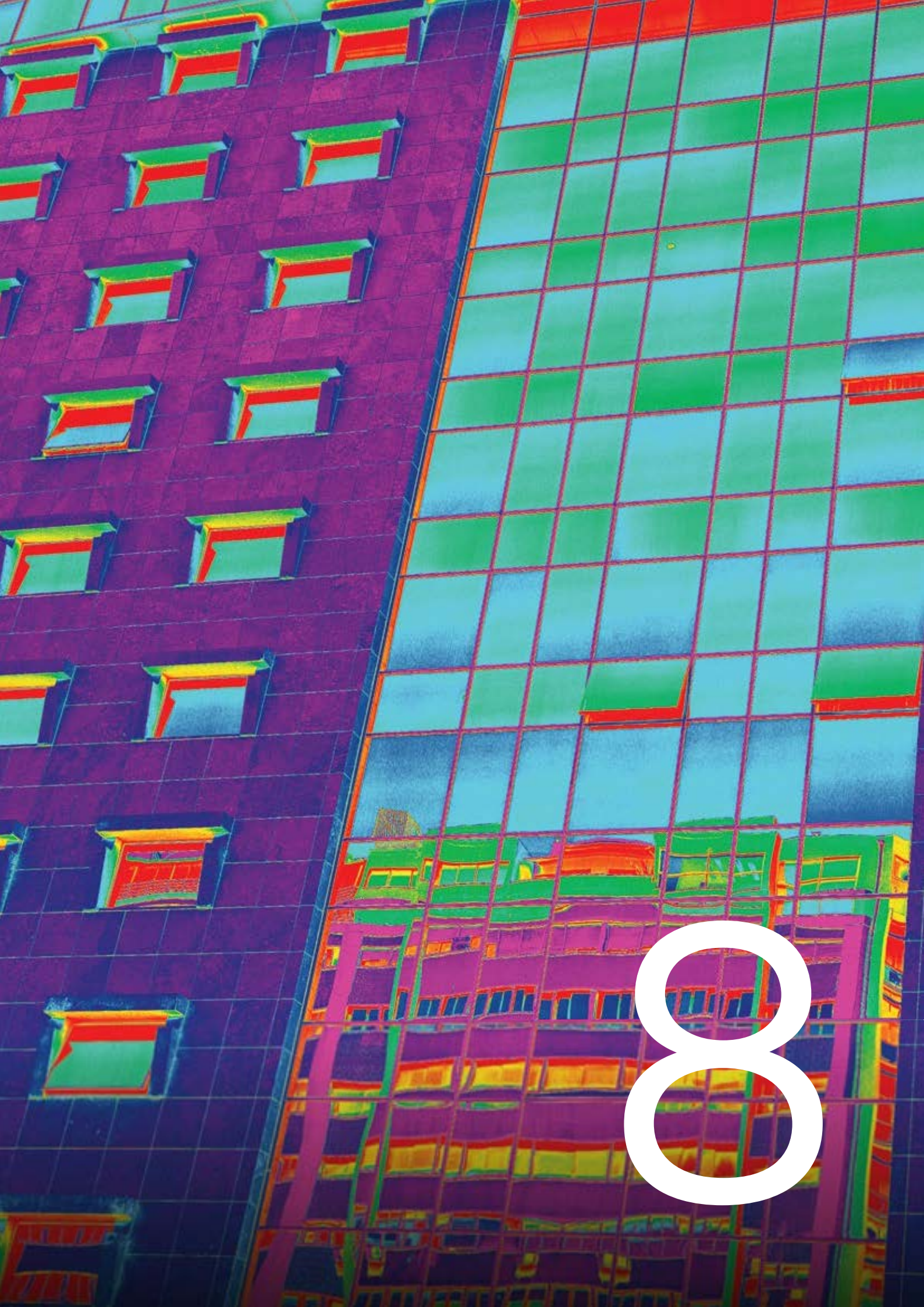
- ▶ Identification and validation of targets for FDI promotion
- ▶ Compilation of the *Doing Business* report series with regional sector-specific investment brochures
- ▶ Initial setup and definition of procedures for the updating of data sets typically required by investors
- ▶ Preparation of regional business model templates for specific sectors
- ▶ Setting up and facilitation of roadshows and one-to-one meetings with potential investors, Government authorities and business partners

Investment intention's assessment

- ▶ Validation of business models
- ▶ Investor due diligence
- ▶ Assessment of regional impacts
- ▶ Investment economic and commercial viability - investment sustainability

Efficiency of policies and public investments

- ▶ Macroeconomic analysis
- ▶ Evaluation and impact analysis of programs, public and sectorial policy
- ▶ Strategic plans for public goods and services
- ▶ Technical assistance and support to public management



8

Contacts

MFG Consultants

Phone: +351 914 519 311

Email: info@mfg-consultants.com

Carlos Gonçalves

Managing Partner & Global Investments Director

Phone: +351 912 966 824

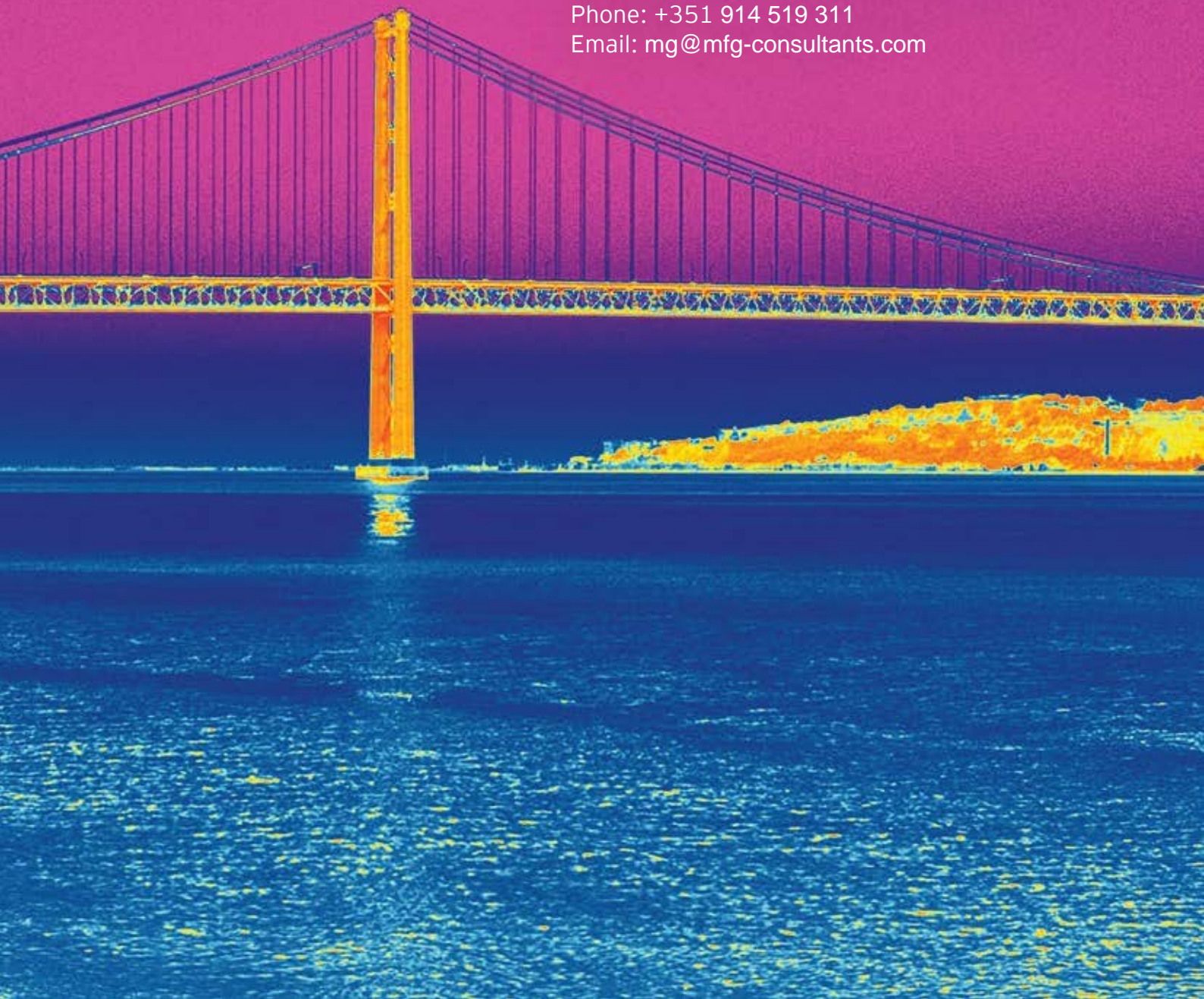
Email: cg@mfg-consultants.com

Melissa Gonçalves

Managing Partner & Head of Legal Department

Phone: +351 914 519 311

Email: mg@mfg-consultants.com



About MFG Consultants

Our mission is to give clients the best chance of investment success across Portugal.

Stability and experience

Our unique agile structure aligns our interests with those of our investors and drives the culture, philosophy and best policies. In Portugal, MFG Consultants leverages the scale, experience and resources of our well established top ranked business.

The right investments and Client focus

From rigorous risk management to transparent pricing to plain talk communications, we put our clients' interests first.

Everything we do at MFG Consultants is designed to give our clients the best chance for investment success.

MFG Consultants track record holds several hundreds of clients since it started in 2010.

MFG Consultants is a fully licensed business which includes delivering all the necessary advisory and investment consulting towards our client's needs.

Our mission is to take a genuine interest in our clients, understand their objectives, and meet or exceed their expectations.

© 2018 MFG Consultants Limited.

All Rights Reserved.

ED None



In line with MFG Consultants'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.

mfg-consultants.com