



Porto and Northern Portugal

A magnet for investment

EY Attractiveness Survey 2019
Portugal Regional



EY

Building a better
working world

Porto.



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Porto's momentum persists as the value drivers are still in place

Ricardo Valente
City Councillor for Economy,
Tourism and Commerce
Porto City Hall



Porto's momentum continues to persist as the value drivers attracting foreign investors to set up business in the city are still intact. These value drivers include quality of life, fantastic availability of talent, first-class infrastructure and a governance system, which are focused on ensuring that the attractiveness of Porto stays strong.

Currently, Porto's reputation as an innovative city is primarily because of its cultural features which are among those attributes essential to improving the urban quality of life. They are also one way of making the city known to the world. Porto is, in fact, an open city with a vibrant cultural life, a resurgent entrepreneurial scene, a world-class university and a unique city center which carries a culture of diversity in its genes.

This unusual capacity of combining our cultural heritage with innovation gave origin to a set of unique projects for the city, aiming to make Porto a port of talent and skills for the 21st century economy.

So Porto has, in fact, emerged as an outstanding example of growth, founded on factors, such as property assets, tourism, entrepreneurship dynamic and new cultural life. All these factors have contributed to placing Porto at the top of the list for the most fascinating and sought-for cities worldwide.

At the Municipality, we are investing a lot to make Porto a new economic center in the region and in the country. We are developing a new area of the city (Campanhã, on the east side), and making relevant investments to prepare the city to be more competitive and sustainable.

1. Campanhã Intermodal Transport Terminal: The tender for the project design was launched in 2016 and the construction is expected to be completed by 2021. The new terminal will integrate different mobility solutions, including

public and private buses, urban and long-haul trains, metro, and taxis, taking advantage of its location with easy road access. New access roads and parking lots will be built as well. Through such multi-modal integration, the terminal will offer urban, inter-city, inter-regional and international connections (with direct metro connection to the Francisco Sá Carneiro Airport). It will become one of the main transportation hubs in Porto and potentially a leading hub in the Northern Portugal.

2. Reconversion of former Porto slaughterhouse: The objective of this project is to transform the slaughterhouse into a center or cluster for creative and high-tech companies, and start the construction by the middle of 2019. It includes offices, cultural facilities, such as the Museum of Industry, galleries, a food laboratory, as well as social areas with equipment, and activities for the visitors and the local community.

3. Renovation of Bolhão market: The project, started in 2018 and expected to be completed by 2021, intends to restore and renovate one of the main markets in the city center. Besides the traditional food stands, the new market will have restaurants, cafés, space for exhibitions and concerts, elevators, and direct access to metro station.

Porto City Council continues to promote efforts to build a competitive business environment capable of attracting high added value investment and fostering the creation of qualified jobs. We have a specialized team at InvestPorto dedicated to supporting strategic investments in the city by providing tailor-made information and assistance.

It is essential to maintain this momentum, and therefore we will continue our commitment to supporting investors throughout the different phases of the investment process.

Porto and Northern Portugal are drivers of FDI diversification across Portugal

First of all, we would like to thank all who contributed to this survey. This is the first edition of *EY Portugal Regional Attractiveness Survey*. We hope that this survey proves valuable in showing how and why Porto and Northern Portugal are attracting global investors.

This survey emerges in a context in which investor's confidence in Europe hit a six-year low in 2019, amid geopolitical concerns from Brexit as well as rising trade tensions and an increasing protectionist drive from key players in the global economy.

However, Porto and Northern Portugal, have been showing continued resilience, first from the financial crisis and now from the decreasing pace of growth in the Eurozone, and are becoming increasingly attractive for global investors.

After a tremendous surge in 2017, foreign direct investment (FDI) in Porto and Northern Portugal is now realigning with the long-term trend, but continuing to grow at a faster pace than Portugal or the EU as a whole.

This year's *EY Investment Monitor* reveals that, in 2018, Northern Portugal was able to secure 24 FDI projects, which corresponded to at least 2,754 new jobs created. In fact, according to the data gathered, Northern Portugal was the leading Portuguese region when it comes to FDI job creation, contributing to 45% of the total jobs created.

Investor perceptions on Porto's and Northern Portugal's attractiveness reflect a high standing on key structural factors, such as quality of life, social stability, infrastructure and labor (both for skills and cost).

In 2018, Porto and Northern Portugal were leading Portugal when it came to FDI job creation.

These perceptions have been decisive to Porto's and Northern Portugal's ongoing dynamism and investment intentions, which are on the rise.

As can be seen in this year's *EY Attractiveness Survey Portugal*, FDI dynamics for Portugal, as a whole, over the past few years have been similar to the ones in Porto and Northern Portugal.

However, Porto and Northern Portugal are closing in on the lead spot for investment intentions in Portugal, while the country itself is one among the top choices for short-term investment plans in Europe.

These results reflect Porto's and Northern Portugal's potential as well as the investment that has been done over the past years, on national, regional and municipal levels. Recent developments such as regulatory changes (e.g., overhaul of the rent control laws or reduction of red tape), investment in infrastructure and education, and growing attention to local governance and investor support have been instrumental for Northern Portugal's FDI performance.

As for the future, surveyed business leaders' priorities are clear on what must be done if the region is to continue on this path: invest in skills and innovative industries, as well as reduce taxation and increase small- and medium-sized enterprises (SMEs) support.

In fact, innovation and high-quality skills are widely regarded as decisive factors for the future of the region, especially considering the increasing prominence of Porto in these areas, which led to the city being considered the third fastest-growing European tech hub and the "best start-up friendly city of Europe".

To this effect, investors are also clear on naming talent, incentives, infrastructure and a culture of innovation as the key-factors for leadership in these fields.

Florbela Lima
Partner, Strategy leader
Ernst & Young S.A.



Executive summary

Chapter 1: Why Porto and Northern Portugal

Porto and Northern Portugal economies have been on the upswing, and these places have been successfully making a case as a magnet for FDI.

Page 8

More than **4.1%**

Gross domestic product (GDP) compound annual growth rate between 2014 and 2017

Northern Portugal has been growing at an accelerated pace over the past few years

131%

Coverage rate of imports by exports in 2018

Although the region is economically diverse, its qualified manufacturing industry makes it a net exporter of goods

39%

In 2018, Northern Portugal's share in the total Portuguese goods exports was 39%

Northern Portugal leads Portuguese goods exports

Porto and Northern Portugal economies have been steadily growing and attracting increasing levels of investment.

GDP has been growing twice as fast as the country as a whole and available data indicates that investor's confidence remains high.

Best Startup-Friendly City of Europe

World Excellence Award 2018
World Business Angels Investment Forum
Porto

FDI Strategy Awards 2018

Project Wins and Incentives
fDi Intelligence (2018)
Porto

Porto's and Northern Portugal's pillars of development and attractiveness:

Economy

- ▶ Competitive and business-friendly environment
- ▶ Openness to innovation
- ▶ Thriving start-up ecosystem
- ▶ Highly qualified clusters (fashion and services centers)

Quality of life

- ▶ Safe, open, tolerant and welcoming place
- ▶ Excellent climate
- ▶ Low cost of living
- ▶ Vibrant and diverse culture
- ▶ Renown gastronomy

Infrastructure

- ▶ Strategic location
- ▶ World-class infrastructure
- ▶ Good public transportation network
- ▶ Low office rental costs and high quality

Talent

- ▶ Highly qualified and flexible workforce
- ▶ High-quality universities, and research facilities and centers
- ▶ High language skills
- ▶ Competitive labor costs

Chapter 2: FDI in Porto and Northern Portugal

After a particularly intense growth in 2017, FDI growth in Porto and Northern Portugal is realigning with the long-term trend, but growing faster than Portugal and the EU as a whole.

Page 18

11.4%

Average yearly growth rate of FDI in Northern Portugal 2013-2018

2,754

FDI jobs were created in 2018
45% of total assessed for Portugal (6,100)

Key sectors:

1 Transportation manufacturing and supply

7 projects

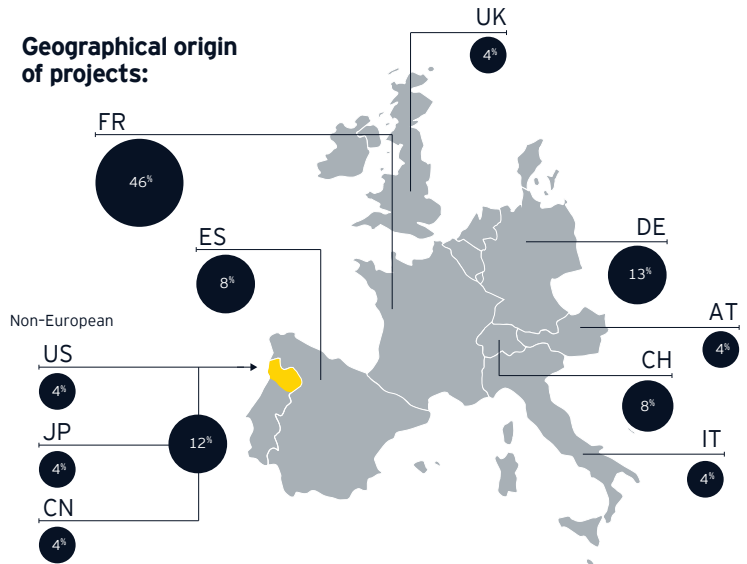
2 Digital

6 projects

3 Agri-food

4 projects

Geographical origin of projects:



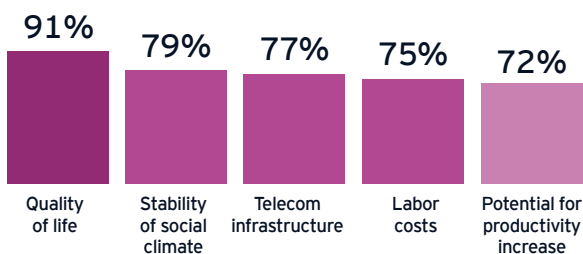
Chapter 3: Attractiveness perception

Investor's perception on Porto's and Northern Portugal's attractiveness reflect a high standing on key structural factors and investment intentions are on the rise.

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Top five attractiveness factors:

(Percentage of respondents who find it attractive)



With the investment in skills and infrastructure paying off, Porto and Northern Portugal are in a privileged position to have an increased appeal for international investors, especially in highly qualified and innovative activities.

Top three areas of focus to remain competitive:

(Measured by number of respondents who mention each topic)

- 1** Develop education and skills
- 2** Support high-tech industries and innovation
- 3** Reduce taxation

Top three areas of reform to become a leader in innovation:

(Measured by number of respondents who mention each topic)

- 1** Improve education and training in new technologies
- 2** Increase tax incentives for innovative companies
- 3** Develop a culture of innovation and creativity

1

Why Porto and Northern Portugal



The national framework of Porto and the Northern Portugal region

Portugal factsheet

92.2 sq.km
Area

10.3 million
Population

Lisbon
Capital

€
Currency

45
years of parliamentary
democracy

33
years of
EU Membership

9
centuries
of history

UTC/GMT
Time zone



Global Competitiveness Index 4.0 2018
World Economic Forum
140 countries



Best place for expats Expat Insider 2018
InterNations
68 countries



Most peaceful country Global Peace Index 2018
Vision of Humanity
163 countries



Global Innovation Index 2018
Cornell University, INSEAD and
World Intellectual Property
Organization
125 countries



Democracy Index 2018
Economist Intelligence Unit
167 countries



Corruption Perceptions Index 2018
Transparency International
180 countries



Freedom of the Press 2017
Freedom House
100 countries



Rule of Law Index 2019
World Justice Project
126 countries

15

airports
(four main airports in the
mainland)
Portugal ranks 30th
out of 140 concerning
airport connectivity.

9

main ports in the mainland
(seven of them with
passenger transportation)
Portugal ranks 26th
out of 140 in efficiency
of port services.

Length of national roads
14,313km

Motorways
3,065km
Portugal ranks 5th out of 140
concerning quality of road
infrastructures.

2,540km

of railroad being
explored, of which 1,640km
are electrified
Portugal ranks 29th out of 140
concerning railroad density.

Source: INE, Expat insider 2018, Internations; Global Peace Index 2018 - Vision of Humanity; Democracy Index 2018, The Economist; Corruption Perceptions Index 2018, Transparency International; Freedom of the Press 2017, Freedom House; Rule of Law index 2019, World Justice Project; The Global Competitiveness Index 4.0 2018, World Economic Forum; Global Innovation Index 2018 - Cornell University, INSEAD and World Intellectual Property Organization; APP (Associação Portos de Portugal); ANA - Aeroportos de Portugal; Estatísticas dos Transportes e Comunicações 2017 - Edição 2018, INE.

Porto and Northern Portugal overview

Northern Portugal is an economically diverse but very industry-driven region that leads Portuguese goods exports, and has been steadily converging, both internally and externally (with the EU 28).

	Northern Portugal				Porto Metropolitan Area			
	2015	2016	2017	2018	2015	2016	2017	2018
GDP (annual growth rate)	3.9	4.7	4.4	-	3.7	4.4	4.5	-
GDP (billion €)	52.7	55.0	57.2	-	28.2	29.4	30.7	-
GDP per capita (EU28=100)	64.5	65.5	64.8	-	72.0	73.0	72.5	-
Gross fixed capital formation (annual growth rate)	12.8	11.3	21.6	-	12.4	8.1	25.3	-
Goods Exports (annual growth rate)	6.1	6.0	7.9	2.6	4.9	6.4	7.5	1.0
Unemployment rate (in percentage)	13.7	12.0	9.8	7.3	-	-	-	-

Source: INE.

The region is showing signs of having fully recovered from the difficult years of the international crisis, and the economic and financial adjustment program that took place in Portugal.

Gross Domestic Product (GDP) has been growing at annual rates of approximately 4% to 5% for the past few years, averaging at around twice those for the country as a whole, which shows the region's resilience.

Although available data for 2017 and 2018 shows some signs of slowdown in the intensity of growth, especially foreign demand for the region's goods, GDP growth remained higher than EU 28 and Portugal (2.8% and 1.5%, respectively).

Indicators such as gross fixed capital formation also indicate that the Northern Portugal region and the Porto Metropolitan Area still show dynamism, and investor's confidence appears to remain high.

A diverse but industry-driven region

Northern Portugal represents 44% of the country's industrial gross value added (GVA), while having 35% of the population. Thirty-eight percent of the workforce in the region is employed in the secondary sector, a value that is relatively uncommon, given the ongoing trend in service-based economies.

However, there are substantially different specialization profiles within the region itself. Some sub-regions specialize in the primary sector (e.g., in Douro, approximately 40% of the workforce is employed in this sector) and in the secondary sector (e.g., the Ave area has more than half of its workforce employed in industrial activities). The Porto Metropolitan Area is the most service-based, with Porto being a core part of these services.

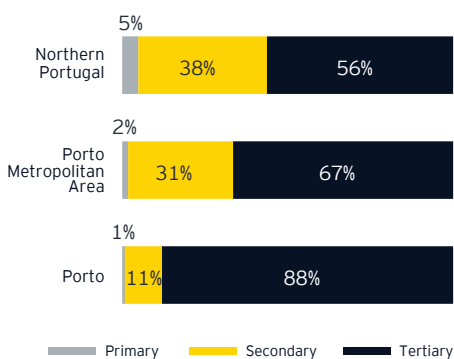
Exports are a major economic driver for the region

Northern Portugal leads Portuguese goods exports, responding for approximately 39% of them.

In fact, in contrast with the country as a whole, Northern Portugal is a net exporter of goods, with a coverage rate of 131% for imports by exports in 2018. This value is naturally lower in more service-based areas (e.g., Porto), but offset by some highly industrialized subregions, such as Tâmega e Sousa (with a rate of 243%).

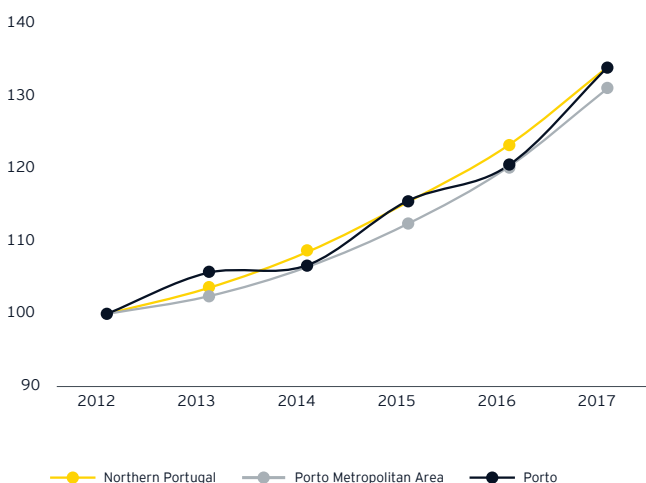
As far as services are concerned, Northern Portugal and especially Porto have been benefiting from a major tech and tourism services boom, with Porto going as far as showing the largest revenue per available room (RevPar) growth in Europe in 2018, at 10.3%.

Economic specialization (2018e)



Source: EY, based on data from INE.

Recent performance of companies' GVA (2012=100)

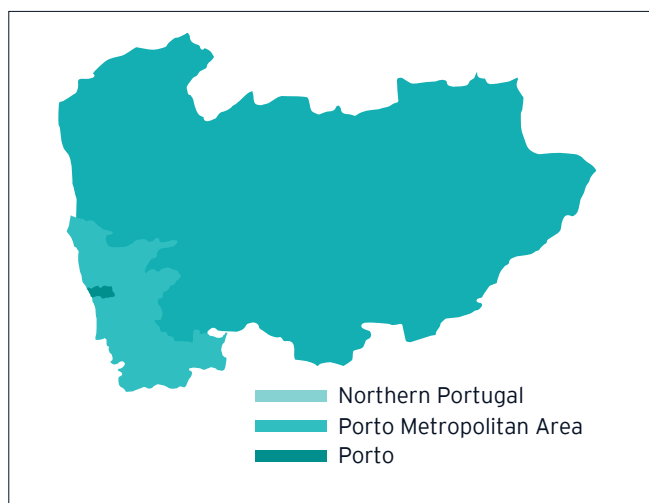


Source: INE.

€26.8b
Northern Portugal
(2017)

€15.4b
Porto Metropolitan
Area (2017)

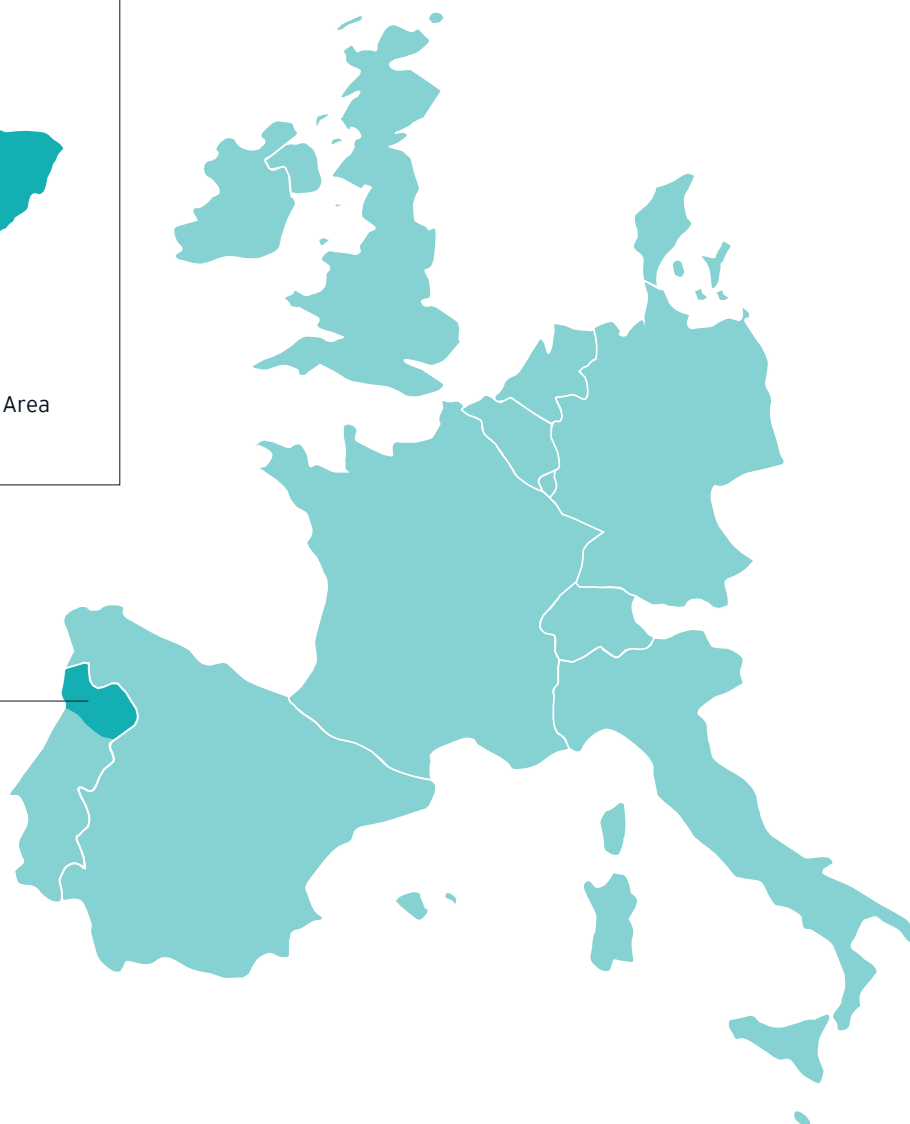
€3.5b
Porto (2017)



North main cities

City	Population
V. N. de Gaia	299,820
Porto	214,587
Braga	181,382
Matosinhos	173,753
Gondomar	165,626
Guimarães	153,294
S. M. da Feira	138,613
Maia	136,769
Famalicão	131,909

Source: INE.



Porto's and Northern Portugal's pillars of development and attractiveness

Economy	Quality of life	Infrastructure	Talent
<ul style="list-style-type: none"> ▶ Competitive and business-friendly environment ▶ Openness to innovation ▶ Thriving start-up ecosystem ▶ Highly qualified clusters (fashion and services centers) 	<ul style="list-style-type: none"> ▶ Safe, open, tolerant and welcoming place ▶ Excellent climate ▶ Low cost of living ▶ Vibrant and diverse culture ▶ Renown gastronomy 	<ul style="list-style-type: none"> ▶ Strategic location ▶ World-class infrastructure ▶ Good public transportation network ▶ Low office rental costs and high quality 	<ul style="list-style-type: none"> ▶ Highly qualified and flexible workforce ▶ High quality universities, research facilities and centers ▶ High language skills ▶ Competitive labor costs

1

Economy

The Northern Portugal region benefits from the fact that Porto has always been a city full of merchant activities.

The region, in particular the city of Porto, has been experiencing significant investment and growth in the service economy.

Besides the major ongoing boom in tourism and real estate, an increasing number of international companies are choosing Porto and the surrounding region as a place to set up some of their offices (e.g., information and communication technology (ICT), R&D, engineering or nearshore services). Recent examples are Natixis, Vestas, Euronext or BMW.

Porto has also been gaining prominence in the creative industries because of its strong potential based on its highly qualified talent, high-quality universities, R&D facilities (and increasing partnerships with local businesses) and a growing entrepreneurial spirit.

Additionally, Porto has been benefiting from an increasingly competitive and business-friendly environment (common to Portugal as a whole), and good city hall governance aiming to make Porto a global city that attracts investors, businesses and innovators.

These factors – talent, quality infrastructure and R&D, business-friendly environment and governance, and growing dynamism – are leading to the growth and consolidation of a thriving start-up ecosystem in Porto.

Additionally, Northern Portugal as a whole is an industry-driven region and the economic motor of Portuguese goods exports (39%).

Some of the oldest and most prominent Portuguese clusters are located in the region (e.g., agri-food and fashion).

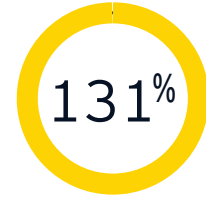
Although many of these main clusters are based around more traditional activities, Northern Portugal sets itself apart by being at the forefront of qualification, technology and innovation, having some of the world's most advanced and highest value-added products in the previously discussed clusters.

The fashion cluster, formed by the textile, apparel and footwear companies, represents 11% of the GVA generated in the region. These sectors consist mainly of SMEs that manufacture products for the international brands of fast fashion and luxury markets.

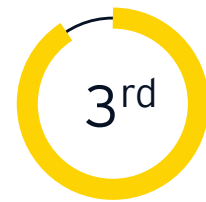
Portuguese footwear, manufactured mainly in the North, is currently the second-most expensive and highly valued in the world, after Italy. Another example of innovation would be Petratex, a company from Paços de Ferreira, which researched, developed and manufactured Olympic-grade swimsuits that were worn by Michael Phelps.

The plastic and rubber products industry in this region is dominated by the Continental Mabor tire factories, with a turnover of over €1b and several plastic manufacturing companies with a turnover of over €100m.

The automotive industry and engineering-related activities have grown strongly in recent years. Bosch Car Multimedia, located in Braga, is one of the biggest Portuguese exporters and a major R&D unit of the company.



Coverage rate of imports by exports
Northern Portugal (2018)
INE



Best city to invest in Southern Europe
fDi Intelligence (2014/2015)
Porto



Medium-sized European city
in FDI strategy
fDi Intelligence (2018/2019)
Porto

Porto was chosen as the “Best Startup-Friendly City of Europe” in 2018

FDI Strategy Awards
Project Wins & Incentives
fDi Intelligence (2018)
Porto

Fashion	TMG Salsa	Riopele Petratex
Shared services centers	Sitel Euronext	Adidas Natixis
Food and agriculture	Nestle Lactogal	Super Bock Symington
Home and furniture	Ikea Novibelo	Molaflex Preggo
Tourism	Douro Azul The Yeatman	Sheraton Porto InterContinental

“

We chose Porto among 99 cities due to the perfect combination between access to the right talent, proximity to universities and R&D centers of excellence, business-friendly environment, and local support.

Jorge Magalhães, Senior Vice-President, Global Engineering Design Centres of Vestas

2

Quality of life

According to the major quality of life surveys directed at cities and regions, Porto and Northern Portugal are a good place to live and work, both for Portuguese and foreigners alike.

The region is widely considered to be safe and stable, and its people are friendly, welcoming, open, diverse and tolerant.

Cities such as Porto and Braga have a vibrant daily and nightlife, with an ever-increasing range of venues and major cultural events at their disposal, complemented by a wide range of different locations to enjoy (from the historical city centers to parks and the seaside areas).

In addition, they have one of the lowest costs of living among major western European cities. Although the local purchasing power is also low when compared with western European standards, it has been steadily rising over the past few years. Porto, in particular, is a good place to raise a family not only because of its aforementioned stable environment, but also because of its internationally well-placed national health system and the existing schools.

The city has several international schools, such as Oporto British school, Lycée Français International de Porto, Deutsche Schule zu Porto and CLIP – The Oporto International School.

Furthermore, the weather tends to be highly appreciated in the city, with an average of 220 sunny days per year and mild temperatures (average minimum

5°C in January and average maximum 26°C in July).

These and other factors have been resulting in a growing population of foreign residents, which is currently close to 50,000 in the Northern region as a whole.

This quality of life and, consequently, the attractiveness of the city makes it particularly easy for Porto and the surrounding region to import talent. This has been continuously on the rise and is additionally bolstered by a friendly immigration regulatory framework.

“

Quality of life was a factor that differentiated Porto from other European cities, due to the important weight it has nowadays in choosing a job by the new generation of people. Porto offers a balanced combination of these factors and has proven to be the ideal location to develop our new project.

Nathalie Risacher, Senior Country Manager of Natixis in Portugal



220
Sunny days
Yearly average
Porto



2nd
Best city life
TimeOut City Life Index 2018
Porto (out of 32 cities)



6th
Lowest cost of living
Expatisan 2019
Porto (out of Major cities
in Western Europe)

3

Infrastructure

Connectivity

Northern Portugal is a strategically located and well-connected region. It offers different options to quickly travel across its cities and to various important locations in the world.

Porto Airport is an award-winning and highly connected hub, and international entryway to Europe, serving over a 100 destinations and located close to the city.

The region has two international ports, Leixões and Viana do Castelo, with the former being just outside Porto, and serving as a logistics platform to the city and the airport. Leixões is also responsible for 20% of Portuguese international trade and has recently inaugurated a new cruise terminal.

Public transport in Porto is reliable and good value for money, featuring an extended and diverse network of metro and tram system, and various funiculars and urban buses, managed by a state-of-the-art contactless ticketing system.

This system connects the city to multiple parts of the Porto Metropolitan Area as well, all accessible using the same monthly pass, which is available at an affordable price.

Moreover, the region benefits from an extensive network of roads and high-quality highways, easily connecting major cities and all the important infrastructures to the rest of the country as well as Spain. ICT connectivity is also a plus, with the city benefiting from widespread fiber optics and 4G mobile internet at an affordable cost. Additionally, Porto has the largest network of buses in the world that have Wi-Fi.

Office infrastructure

Porto and Northern Portugal benefit from high-quality office infrastructure at one of the lowest rental costs in Western Europe. Although the price has been growing over the past few years, operating costs are still noticeably lower and supply has also been on the rise.

Support structures

The region, with a particular emphasis on Porto, hosts a multitude of infrastructures and entities aimed at supporting entrepreneurs, for example:

- ▶ InvestPorto: an investment division of the Porto City Council whose mission is to create a favorable environment for competitiveness, business promotion and investment attraction to the city of Porto
- ▶ UPTEC: Science and Technology Park of the University of Porto, which has supported the development of 550 innovative projects since 2007
- ▶ Porto Tech Hub: Private business association promoted by three leading Portuguese ICT companies and supported by City Hall
- ▶ Tecminho: Private non-profit association whose mission is to be an interface of the University of Minho

Francisco Sá Carneiro Airport

- ▶ One of the best airports in Europe (5 to 15 million passengers per year)
- ▶ Almost 12 million passengers (2018)
- ▶ Is at a distance of 15km from Porto's city center (less than 30 mins by metro)
- ▶ Over 110 destinations
- ▶ Travel time of approximately 3 hours on an average from major EU cities (e.g., London, Paris, Frankfurt or Rome)



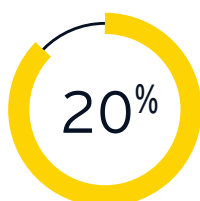
One of the best airports in Europe
Airports Council International 2018
Category: 5–15 million
passengers per year



Porto's metro network
rail length 2018



Average office rents in Porto
monthly price per sq.m in 2018



of Portuguese international trade
Porto Harbor – Leixões



Communications technology
IMD World Competitiveness
Ranking 2018
63 countries



Quality of roads
Global Competitiveness Report 2018
140 countries

4

Talent

Infrastructures and education

Over one-third of Portuguese higher education institutions are located in Northern Portugal, accounting for 34% of the national number of graduates in 2017.

Porto, in particular, is home to a large number of higher education and R&D institutions, with a significant part of these clustered in what will soon be known as the “Porto Innovation District.”

The University of Porto is the top placed portuguese university in multiple rankings, making it a renowned institution in Europe, while Porto Business School is the 62nd best school in Europe according to Eduniversal.

The Porto Polytechnic is also the largest and most prestigious in the country, hosting multiple R&D units.

Additionally, many R&D units operating in the Porto area have established formal programs with renowned organizations, such as the MIT, UT Austin, Carnegie Mellon University and Harvard Medical School.

Out of the many prestigious R&D centers present in Northern Portugal, we can highlight Institute for Systems and Computer Engineering, Technology and Science (INESC TEC), Instituto de Investigação e Inovação da Universidade

do Porto (i3S), Institute of Science and Innovation in Mechanical and Industrial Engineering (INEGI), Centro Interdisciplinar de Investigação Marinha e Ambiental (CIIMAR), International Iberian Nanotechnology Laboratory (INL), The Discoveries Centre and Fraunhofer Portugal.

These R&D units, along with the universities and polytechnic institutes, transform Porto and Northern Portugal into highly prolific scientific producers. This is reflected, for example, by the fact that Porto is the leading city in Portugal in patent filling at the European Patent Office.

Labor talent

The labor force in Porto and Northern Portugal is frequently seen as high quality, flexible and well prepared by the international companies present in science, technology, engineering and mathematics (STEM) fields, as well as in other fields.

In addition, workers tend to display high language skills, and the ability to fully and easily integrate with international teams. Labor costs in Portugal are still noticeably lower than those of most of Western Europe. Also, these costs are approximately €118 per month lower in the Northern region than when compared to the national average.

The active population in this region has been decreasing over the past few years, but has registered an upturn in 2017. In the same period, the unemployment rate started to recover after the economic downturn and has been decreasing steadily, reaching 6.7% in Q4 2018.

Porto’s talent pool, and prestigious universities and R&D centers have been instrumental in turning the city into a knowledge hub with a flourishing tech scene. In fact, according to Atomico’s *The State of European Tech* report from 2018, Porto is Europe’s third fastest-growing tech hub.



Porto is a great destination for Talent and IT Businesses in Europe. I believe that the combination of the entrepreneurship support system in place with an active ecosystem that includes public authorities, private enterprises, and, especially, very good talented people, make this European city a great choice to setting up technology companies, such as Euronext.

Two years into this story and starting from scratch we have 120 IT specialist providing added value services and running critical part of our eco system.

Alain Courbebaisse, Chief Information & Technology Officer of Euronext



Medium monthly wage Northern Portugal (2017) INE



Higher Education Institutions Porto Metropolitan Area (2017–2018) INE



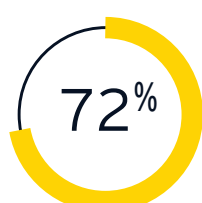
Institutions with R&D Porto Metropolitan Area (2017)



Researchers Porto Metropolitan Area (2017) DGEEC



Graduates Porto Metropolitan Area (2017)



People who speak a foreign language Portugal (2016) In the age group: 18–64

Porto: a city on the move

In the context of Northern Portugal, the city of Porto has been experiencing a particularly intense period of major dynamism and renewal, bringing further vitality and strength to the region.

Real estate and urban rehabilitation

One of the main elements of this period is the ongoing wave of major urban development and rehabilitation, both from private entrepreneurs and from ambitious projects emanating from City Hall.

Private investors, a majority of them from outside the country, are spearheading this wave. As an example, between 2014 and Q1 2018, a million sq.m worth of real estate projects were licensed in the Greater Porto Area. Furthermore, as of Q1 2018, another 900,000sq.m worth of projects were waiting approval.

City Hall has also been taking an active role via initiatives, such as: The rehabilitation of key public areas and streets; The "Rua Direita" program which aims to rehabilitate 88 streets, covering 15km, by 2021; The designation of further urban rehabilitation areas (ARU's), which enjoy municipal tax benefits; The Strategic Masterplan of the Eastern Area of Porto.

Strategic master plan of the eastern area of Porto

City Hall's major urban regeneration program which is directed at the eastern area of Porto.

Includes projects such as the reconversion of the former Slaughterhouse, the Campanhã Intermodal Transport Terminal, a new bridge over the Douro river, new roads in the Corujeira area, new business areas in Freixo and Campanhã and the rehabilitation of existing housing complexes as well as the development of affordable housing units.

International tourism is booming

Another major element of Porto's upswing is the fast-growing inflows of international tourists over the past years, including during the traditional off-season.

Driven by its history, culture and vibrant atmosphere, among other factors, Porto has become a hot spot for international tourism, benefiting from continuously growing inflows of tourists and receiving the European Best Destination award in 2012, 2014 and 2017.

One of the driving factors for this growth (which amounted to an increase of 45% in guests in hotel establishments between 2014 and 2018), besides the overall growing international recognition and attractiveness of Porto, has been the Francisco Sá Carneiro Airport.

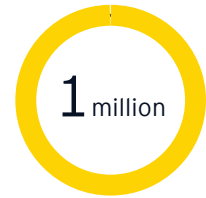
Passenger traffic at the airport has been growing steadily, showing a CAGR of 15% between 2014 and 2018, with increasing numbers of routes and companies present, both for flag carriers and low-cost airliners (which is especially important for destinations where city breaks are prevalent, such as Porto).

This boom in tourism led to increased investment and entrepreneurial activity in the sector making it, along with other factors (e.g., regulatory changes), one of the main drivers for the recent dynamism and performance of the real estate market.

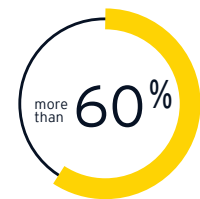
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Tax incentives on urban regeneration in Porto have led to an attractive environment for local and international investors.

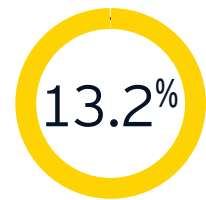
Peter Holden, Group Development Director of Round Hill Capital



sq.m of area licensed Greater Porto Area (2014 to Q1 2018)



Foreign investment share in real estate Porto district (2017)



Guests in hotel establishments CAGR Porto (2014-2017)



RevPar growth Porto (2018)

European Best Destination 2017
★ Porto ★

Porto chosen as European Best Destination in 2012, 2014 and 2017

Main development projects in the city of Porto

9.7 sq.km

Total area covered by the strategic master plan of the eastern area of Porto

23%

of the city's territory is covered by the master plan

9

urban rehabilitation areas

34%

of the city's territory is considered an urban rehabilitation area



1

Campanhã Intermodal Transport Terminal

Construction of a bus terminal and corresponding interface with the existing train and metro stations

Major component of the strategic master plan for the eastern area

5

Porto Innovation District

Transformation of the existing campus area into an integrated innovation district dedicated to academia and research

Includes 53 R&D centers, multiple university buildings and a hospital in a 1sq.km space

2

Rosa Mota Pavilion

Rehabilitation and reconversion of the existing pavilion into a multi-functional center

6

Matadouro (former Slaughterhouse)

Reconversion of the former slaughterhouse into a cluster of creative and high-tech companies in IT software services, digital media and gaming

Expected area of 20,000sq.m, including offices, cultural facilities, food laboratories and social areas

3

Bolhão Market

Rehabilitation of an iconic fresh food market in the historical center of the city

7

Quartel de Monte Pedral affordable housing project

Rehabilitation of a former barrack to house more than 1,100 people with up to 400 apartments and a separate student residence

4

Monte da Bela affordable housing project

Affordable housing project with over 230 apartments and capacity to accommodate around 700 people

8

Lordelo do Ouro affordable housing project

Affordable housing project with over 170 apartments

2 Region's FDI



Following a year of unusual growth, FDI activity in Portugal is stabilizing

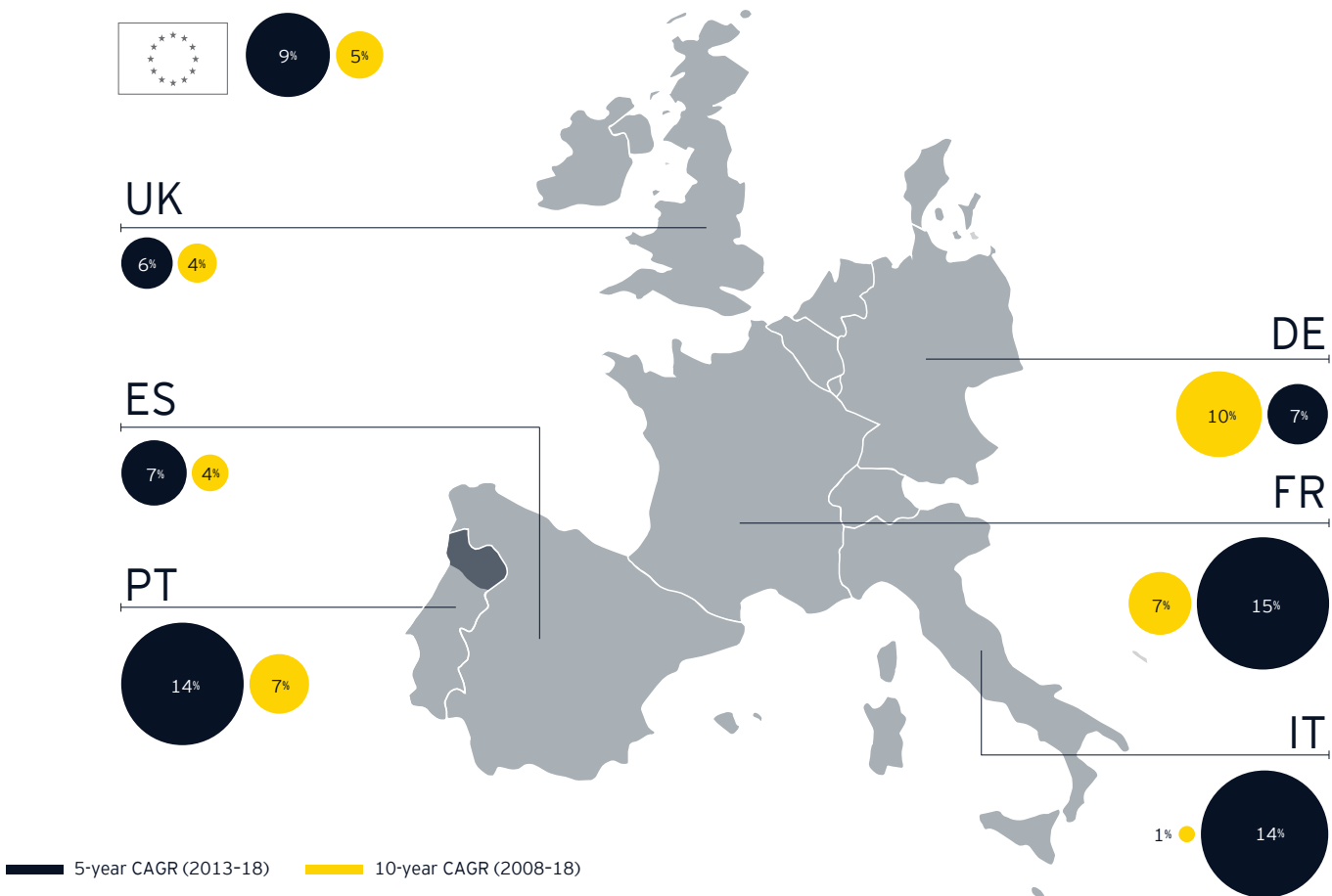
In 2017, Portugal was starting to reap the benefits of added international exposure, with foreign investors launching a record-breaking number of projects and creating thousands of new jobs.

This year's *EY European Investment Monitor* reveals an inflection in the pace of FDI inflows to Portugal – 74 FDI projects were secured (down from 95 in 2017), corresponding to at least 6,100 new jobs created.

While these figures fall short of last year's, they must be construed in light of the stabilization of FDI activity in Portugal, following a tremendous surge in 2017 and the slowdown of FDI in Europe as a whole. At the same time, investors are concerned about slowing European growth and a fraught geopolitical environment, which impact investment dynamism.

Porto and Northern Portugal are not oblivious to this wider setting, with the number of inward FDI projects in the region declining. Still, signs of these region's typical tenacity remain clear. For the past 10 years, FDI in Northern Portugal grew at a faster pace than in Portugal as a whole and even the EU28, and this regions' attractiveness for business leaders around the world continues to improve.

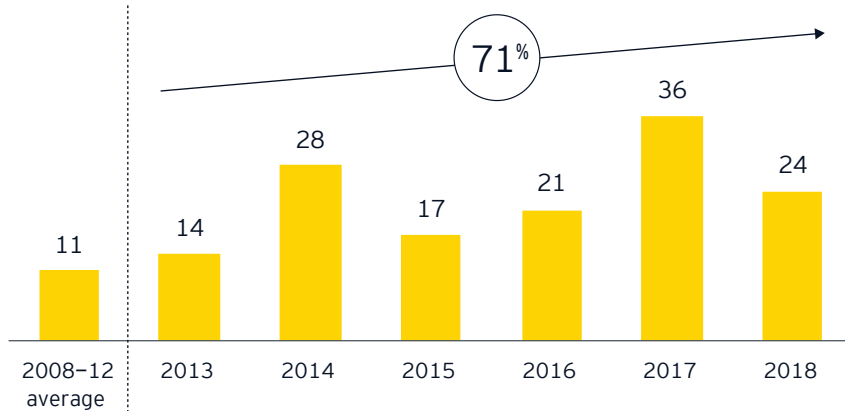
FDI performance across selected European countries (number of projects)



Source: EY European Investment Monitor (EIM), 2019.

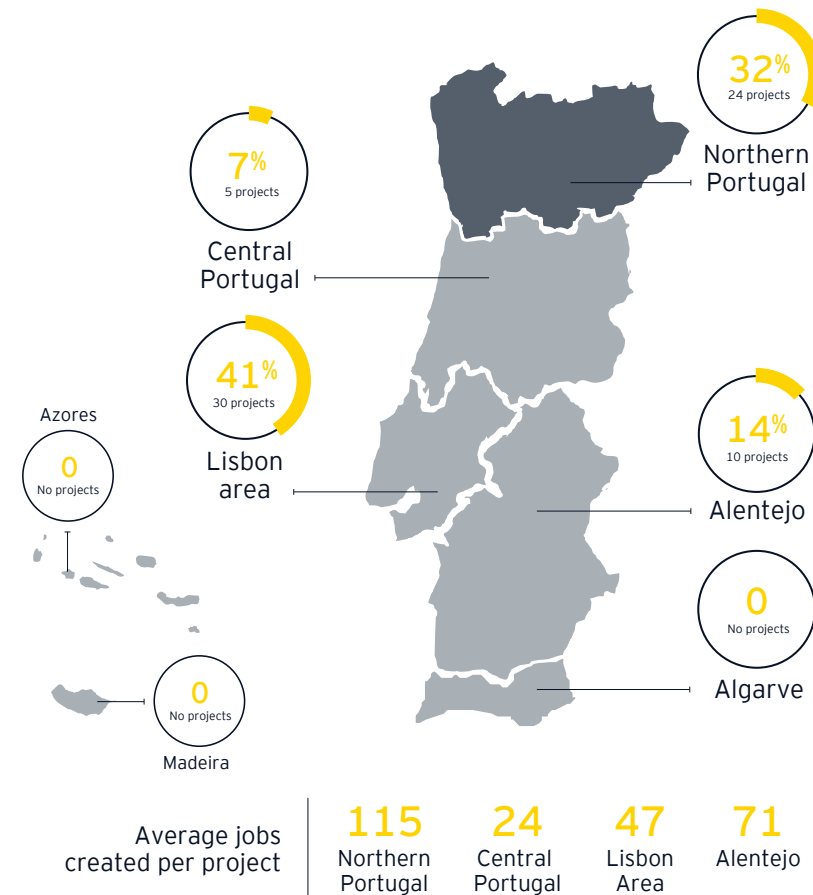
FDI in Porto and Northern Portugal

Recent performance of FDI in Northern Portugal (number of projects)



Source: EY European Investment Monitor (EIM), 2019.

How Northern Portugal's FDI compares with other regions (2018)



Note: The figures above are missing five projects from multiple regions or for which no geographical information was specified.
Source: EY European Investment Monitor (EIM), 2019.

After a particularly intense growth in 2017, FDI growth in Northern Portugal is realigning with the long-term trend.

Although subject to some fluctuations, FDI in Northern Portugal has been steadily growing at an yearly average rate of 9.1% over the past 10 years (11.4% during the past 5 years).

This average 10-year growth rate is higher than the one observed for Portugal as a whole (6.6%) as well as for the EU28 (5.3%).

After a particularly intense year of 2017, marked by FDI growth rates of 61% in Portugal and 71% in Northern Portugal, the number of projects in 2018 decreased by 33% in Northern Portugal. However, given the particular case of 2017, it is important to notice that the average yearly growth rate between 2016 and 2018 sits at 6.9%. A similar situation occurred in 2014.

Northern Portugal is one of the main destinations for FDI in Portugal and has the highest average job creation per project.

A very large percentage of FDI in Portugal is concentrated in the Lisbon Area and in Northern Portugal (73%).

The region had the second highest amount of FDI projects in 2018. However, these are the largest when measured by average job creation. Also, according to the available estimates, Northern Portugal had the highest number of total FDI jobs created in Portugal, at least 2,754 new jobs were created (45% of the 6,100 jobs assessed for Portugal).

Some examples of projects in Northern Portugal in 2018 include Faurecia's new business services center in Santa Maria da Feira, Nestlé's new manufacturing plants or Mercadona's logistics center in Póvoa do Varzim.

Two-third of FDI projects in Northern Portugal were new.

Sixty-seven percent of FDI projects in Northern Portugal in 2018 were brand new. When compared with 2017, this represents a small shift toward a higher proportion of expansion projects (33% vs. 28%).

Manufacturing represented almost half of all FDI projects in Northern Portugal during 2018.

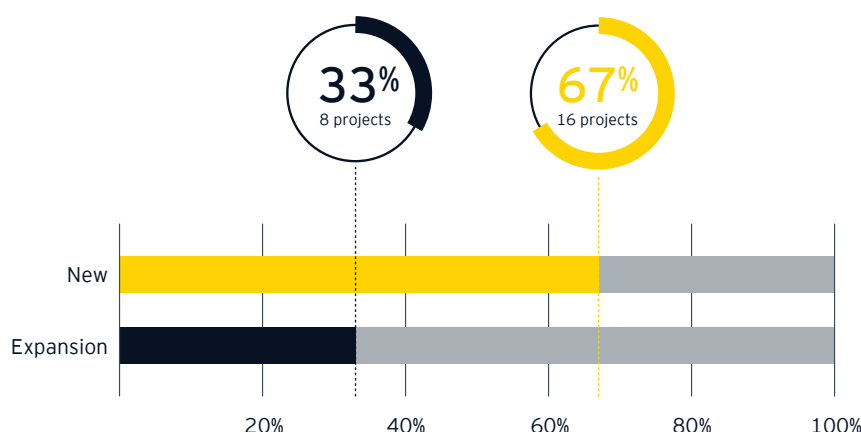
In accordance with the important role of industry in Northern Portugal, manufacturing projects accounted for 46% of FDI in the region.

Although this is an already very significant percentage, it is worth noting that in 2017, manufacturing activities accounted for 61% of FDI in Northern Portugal.

As a matter of fact, during 2018, there was some diversification and increased balance on the type of activities subject to FDI projects in the region. In 2017, the two biggest categories (manufacturing and R&D activities) together represented 86% of all projects. Conversely, in 2018, this value dropped to 63%.

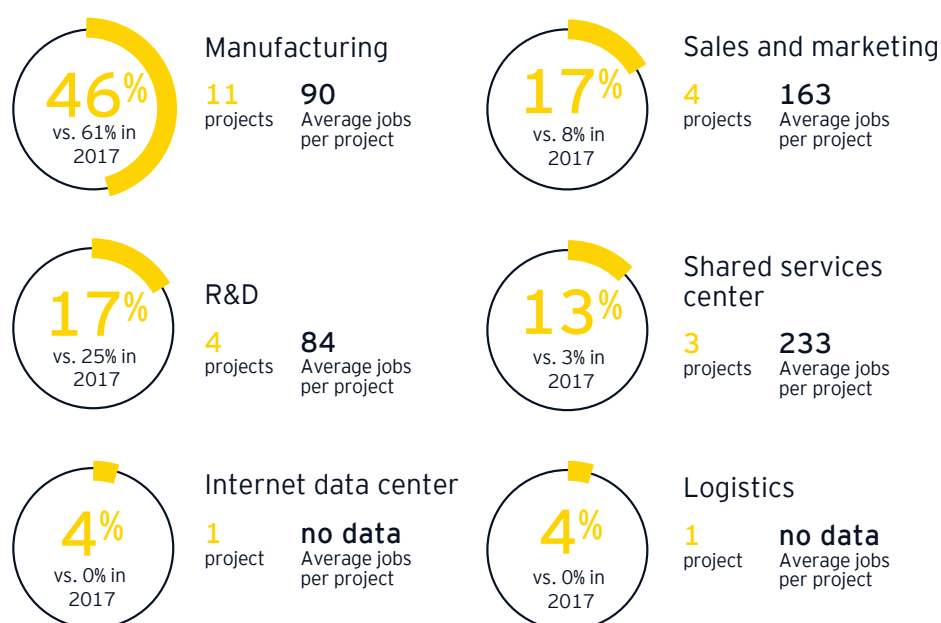
R&D activities, which represented 25% of FDI in 2017, are now tied for second place with sales and marketing activities, both representing 17% each. When it comes to the biggest growths in 2018, sales and marketing, and shared service center projects stand out.

FDI projects in Northern Portugal by type (2018)



Source: EY European Investment Monitor (EIM), 2019.

FDI projects in Northern Portugal by activity (2018)



Note: Because of methodological and data availability issues, it is not advised to estimate total job counts by multiplying the number of projects and the average job per project (not all projects considered had job creation data available).
Source: Analysis based on OCO database, 2018 - Analysis based on IBM database, 2017.

FDI in Porto and Northern Portugal

The transportation manufacturing and supply sector leads in attracting FDI to Northern Portugal, followed by digital and agri-food businesses.

Transportation manufacturing and supply has historically been the sector responsible for attracting the most FDI projects to the Northern region of Portugal. This sector's share on total inward FDI projects in this region has ranged between 15% to 30% over the past five years.

These figures showcase Northern Portugal's industry-driven tradition.

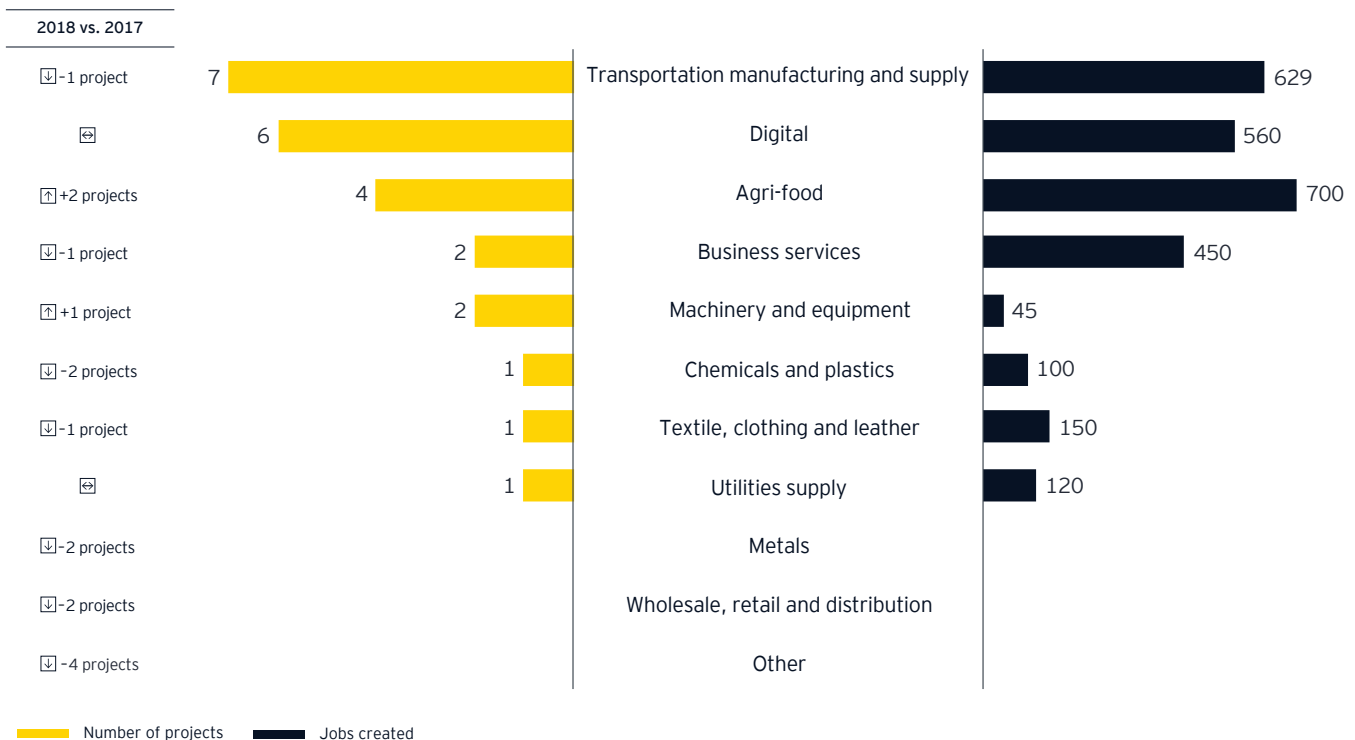
While nationally digital remains the most popular business sector for foreign investors, in Northern Portugal traditional sectors such as this one are setting themselves apart by being at the forefront of qualification, technology and innovation.

Faurecia has a new business services center in Santa Maria da Feira and Bontaz has set up an R&D center in Viana do Castelo. This emergence of businesses proves that the industry is refocusing on higher-value-added activities, intended to capitalize on the potential of local talent and an innovation-friendly environment.

Still, Portugal's burgeoning digital sector is also spurring growth in the Northern region. Six out of the 24 inward FDI projects committed by foreign investors in 2018 were targeted at the digital business sector, providing nearly one-fifth of the FDI jobs included in the database.

At the same time, foreign investment in agri-food businesses doubled, making it the third-largest sector in terms of number of projects. On the basis of the available data, notably agri-food became the leading job creator, with at least 700 new jobs created in 2018 as a result of foreign investment activity.

FDI projects in Northern Portugal by sector (2018)



Note: Jobs created must be interpreted as an estimate as it was not possible to find this value for every project entry in the FDI database, but only for those projects that were announced. Additionally, please note that this indicator is not comparable with last year's since FDI jobs created in the IBM Database 2017 referred to job projections.
Source: EY European Investment Monitor (EIM), 2019.

The majority of FDI projects in 2018 originated from European countries.

FDI projects in Northern Portugal in 2018 were concentrated in a relatively small number of origin countries (10).

France, by itself, was responsible for almost half of all FDI projects (46%). The remaining European nations – Germany, Spain, Switzerland, UK, Austria and Italy – accounted for another 42%.

As a comparison, in 2017, FDI projects in Northern Portugal originated from 13 different countries, with France being the most significant contributor, with 25% of projects.

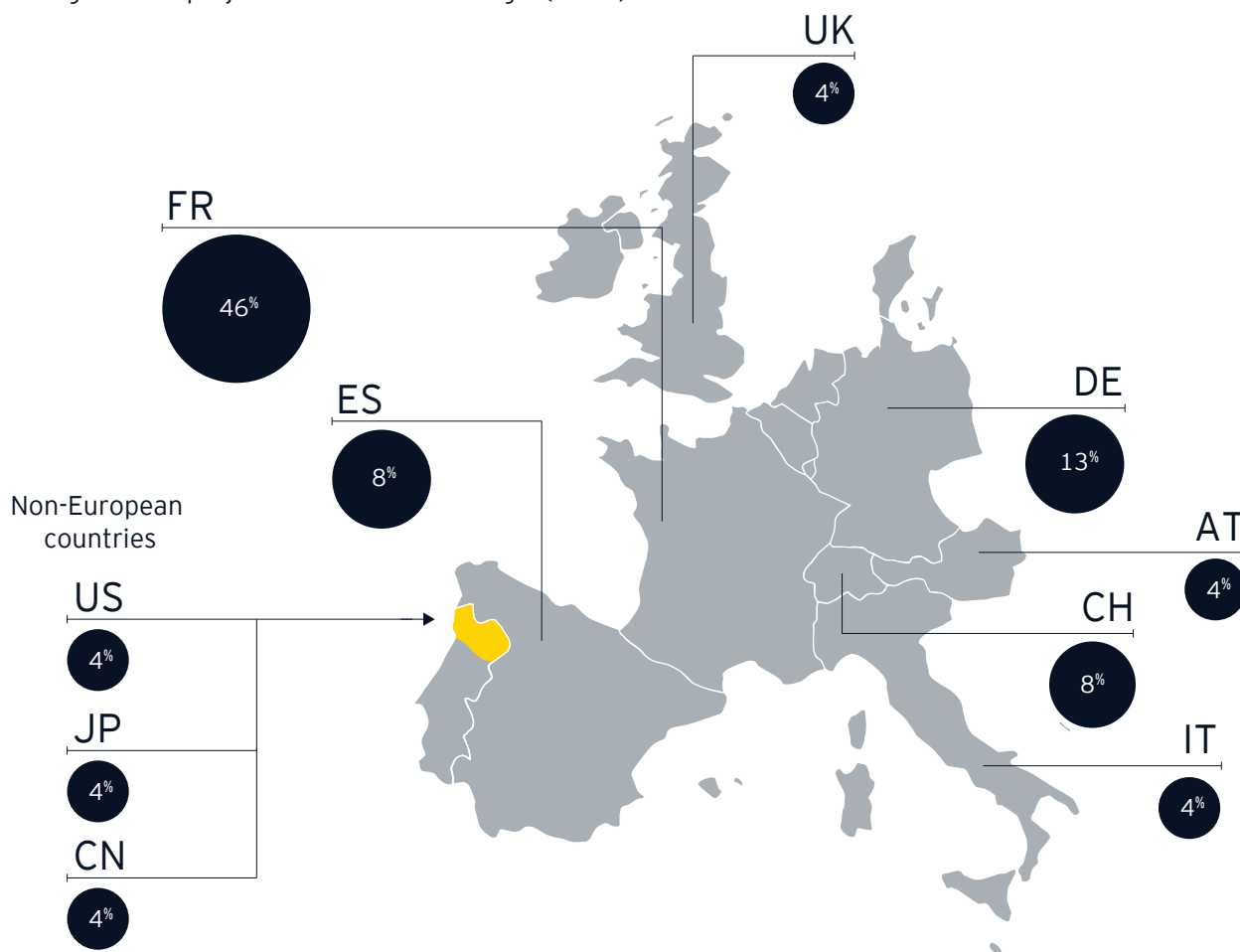
Additionally, in 2017, non-European countries accounted for 33% of projects, as opposed to the 12% observed in 2018.

This result is partially explained by the sharp drop in investments originating from the US, which accounted for 22% (8 projects) in 2017, as opposed to 4% (1 project) in 2018.

Did you know?

Farfetch, the online luxury fashion retail platform and first Portuguese unicorn company, was founded by a businessman from Porto.

Geographical origin of FDI projects in Northern Portugal (2018)



Source: EY European Investment Monitor (EIM), 2019.

Success cases

The availability of highly skilled talent with strong language skills and an international mindset, as well as well-reputed universities have been key factors of attractiveness for multiple international companies.

Critical Techworks

Software development

Critical Techworks is a JV software company formed by the BMW Group and Critical Software, combining their expertise in premium mobility and automotive software engineering.

The company has offices in Porto (headquarters) and Lisbon. It currently employs over 400 people and is planning to reach 600 employees by the end of 2019.

Its line of work includes development of high-end software solutions in areas, such as in-car infotainment solutions and digital services, autonomous transport systems for production, digital sales and after-sales platforms, and highly integrated solutions for product data management.

The creation of this JV is an important part of BMW's strategy to embrace the ongoing digital shift in the automotive industry and will help further leverage Critical Software's know-how and expertise.

Besides the BMW Group's partnership with Critical Software, some of the attractiveness factors cited a leading to the choice of Porto were:

- ▶ Dynamic environment with leading talent
- ▶ Lively, creative and innovative start-up scene
- ▶ Excellent transport and telecoms infrastructure
- ▶ Investment incentives
- ▶ Political, legal, economic and social stability

Natixis

IT center of expertise

Natixis is a French multinational financial services firm specialized in asset & wealth management, corporate & investment banking, insurance and payments. A subsidiary of Groupe BPCE, the second-largest banking group in France counts nearly 16,000 employees across 38 countries.

In 2016, Natixis chose Porto to open its first IT Center of Expertise, internalizing some services that were previously outsourced, as a part of the company's drive to develop expertise on core activities. Natixis in Portugal employs over 600 people and aims to reach 700 by the end of 2019.

The choice of Porto is particularly significant given that the bank had no previous presence in Portugal. According to Laurent Mignon, currently Chairman of Groupe BPCE and CEO of Natixis at the time of opening, the main reason for this choice was the human capital profile: within a deep talent pool, highly qualified in science and technology, graduated from top universities; multilingual and with an international mindset.

Additionally, cultural and geographical proximity were also a factor, given the need to work in total alignment with the French teams (Natixis in Portugal is an integrated captive entity, included in the global organization). Finally, the attractiveness of Portugal as an ecosystem of entrepreneurship and innovation was also determinant.

Bosch Car Multimedia

Automotive R&D and production unit

Bosch Car Multimedia Portugal, in Braga, is the largest Bosch unit in Portugal, one of the top national exporters and one of largest electronics manufacturers in Europe, contributing with a 99% export share to the European market.

It was originally started as a Blaupunkt car radio manufacturing plant; however, over time, it has evolved into a development and production hub for car multimedia and sensors.

The unit has been steadily growing and has now over 3,500 employees, being the largest private employer in Braga. Moving beyond manufacturing, Bosch has installed a R&D center in Braga, which is growing, with over 330 engineers working on developing solutions for autonomous and connected mobility. In order to further boost innovation, Bosch has also established a proficuous partnership with the nearby University of Minho, resulting in multiple successful and innovative R&D projects, talent development and continuous knowledge creation, and subsequent economic valorization.

Vestas

R&D unit

Vestas is the world's leading wind turbine company, both in manufacturing as well as R&D activities.

In 2018, the company opened the Vestas Porto Design Center at the Lionesa Business Hub, in Matosinhos (on the outskirts of Porto). The center currently employs over 200 people and is expected to reach 350 in the near future.

This R&D unit works in collaboration with other design centers in Denmark, Germany, India and the UK. It is tasked with developing the company's capabilities in disciplines, such as mechanical engineering, electrical engineering, controls, data analytics, materials, among others.

While this is the first Vestas' R&D unit in Portugal, in 2011, the company participated in the deployment of WindFloat, an innovative floating wind turbine installed offshore of Aguçadoura, not far from Porto.

According to company officials, the engineering and IT skills available, as well as the proximity to well-reputed universities were decisive factors in the choice of location.

Talkdesk

Software development and shared services center

Talkdesk is a unicorn company of Portuguese origin that develops cloud-based software solutions for contact centers. The company currently has offices in San Francisco (headquarters), Salt Lake City, Lisbon, Porto, Coimbra and London.

Talkdesk has over 1,500 clients in more than 60 countries, including companies, such as IBM, TAP or Sonae.

The company has over 350 employees in Portugal, and as part of its efforts to grow and focus its software development activities in the country, plans to reach 1,000 engineers by the end of 2020.

As part of these ongoing efforts, Talkdesk recently moved to a new, larger office in Porto. Also, it plans on hiring 100 people, especially computer engineers and data scientists, by the end of the year.

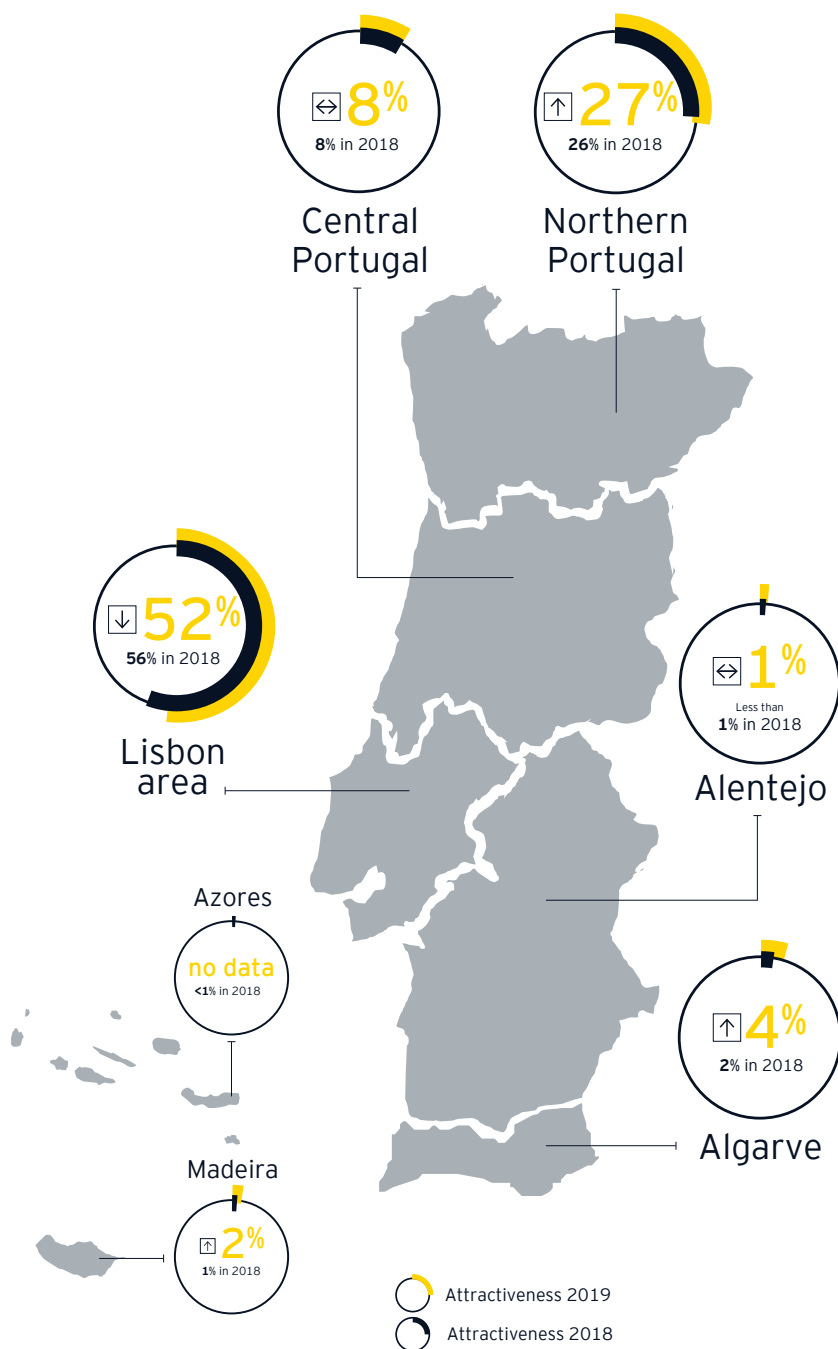
This office, with a capacity for 250 people, will also host the company's newest customer support center, which is especially geared towards start-ups.

3 Attractiveness perception



Portugal's attractiveness remains ahead of its peers with Porto standing strong

Regional attractiveness perception



Portugal's attractiveness is influenced by the uncertainty that hovers over Europe, but the country remains ahead of its peers.

The optimism in Europe stopped because of the outbreak of geopolitical concerns related to Brexit, slowing Eurozone growth (from 50% in 2018 to 37% in 2019), rising trade tensions and decreasing short-term investment plans (from 35% in 2018 to 27% in 2019). Despite a decrease, Europe still is the world's most attractive region to establish business operations.

Investor's perception of Portugal follows the same pattern as Europe. In any case, Portugal has once more outpaced its fellow European countries. Attractiveness remains strong (52%) and the proportion of investors planning to invest in Portugal (25%) is among the highest in Europe.

Internally, Northern Portugal holds steady, while Lisbon loses ground.

A closer look into Portugal shows that the perception of the country's attractiveness at the regional level is also changing.

While the Lisbon area continues to dominate in terms of regional attractiveness, investor sentiment toward "peripheral" regions is gradually shifting. In 2019, approximately 7% of investors perceive the Algarve, Madeira, Azores or Alentejo as the most attractive regions in Portugal (vs. 4% in 2018).

Nonetheless, investors' perceptions of Northern Portugal's attractiveness remained fairly unchanged, providing further evidence of this region's intrinsic appeal. Over one-fourth of the investors surveyed view this region as the most attractive to establish operations in Portugal.

Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).



Investment intention

Investment intentions grow in Northern Portugal.

The Lisbon area retains the lead as the region where most investors choose to locate their projects. The Northern region is closing in on Lisbon, with 26% of intentions to invest.

Focusing on investors' preferences within the Northern region of Portugal, Porto takes the lead. The city of Porto coupled with the wider Porto Metropolitan Area accounted for 15% of short-term investment intentions, which is approximately the same as the Azores, Alentejo, Algarve and Central regions combined.

The city of Braga follows, with 5% of investors planning to establish or expand operations there over the next year.

Still, 3 in 10 investors can't say where to invest in Portugal – this is an untapped opportunity for Northern Portugal to seize.

The survey results show that 30% of respondents who intend to invest in Portugal over the next year cannot decide about the location yet. And a closer look at the survey data reveals that non-established investors find it even more difficult to pinpoint a location for their intended investment plans. Fifty-four percent of those who do not yet operate in Portugal cannot say in which region they would prefer to invest in.

These results present an opportunity for businesses, policymakers and advisors to revisit the region's promotion strategy, adapt policies and attract the currently undecided investors to Northern Portugal.

The factors that lead foreign investors to consider Porto and Northern Portugal for future investments are manifold.

Mobility and connectivity

Transport and logistics infrastructure ranks as a strong contributor for the region's attractiveness, with 24% of respondents classifying them as differentiating factors.

Reliable public transport, an extensive network of roads and high-quality highways, a first-class airport and two international ports are trusted to provide high standards of mobility and connectivity, within the region and across borders.

Surprisingly, 12% of those respondents who would prefer to establish operations in a region other than Northern Portugal also cite this aspect as a factor that led them not to consider Porto and Northern Portugal for future investments.



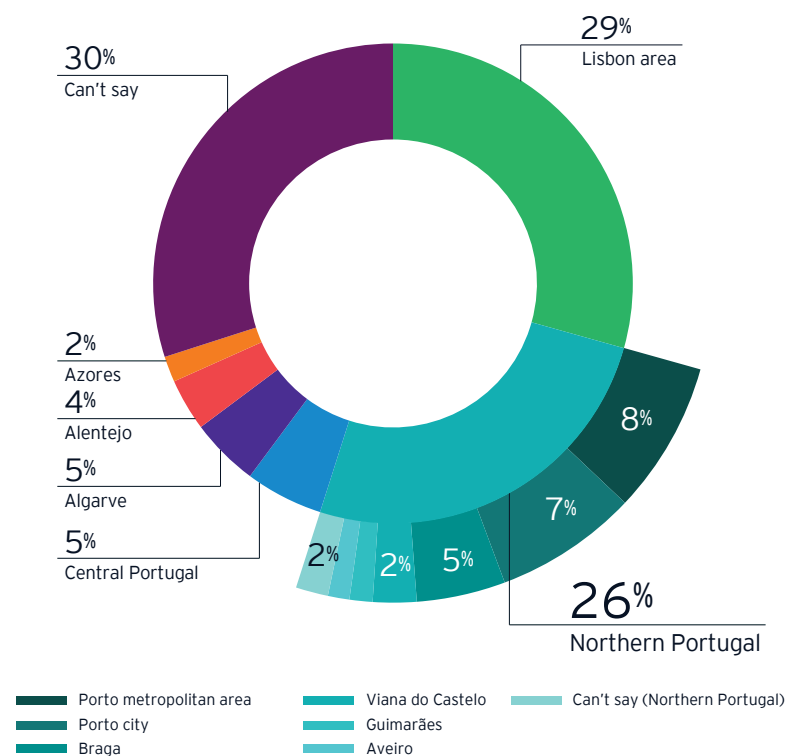
Talent availability

According to the European Commission's *Regional Innovation Monitor*, there is a critical mass and significant cost benefit in manpower with high qualification standards in Northern Portugal, laying the foundations for the attraction of FDI. In fact, one in five investors mentions either the local labor costs or the skills level as factors that led them to consider this region for future investment.

Growing local market

The relevance of the local market is also cited by 15% of those surveyed. As the economic recovery broadens domestically, rising employment, higher confidence levels and a continued increase in household disposable income drive private consumption, making this region more enticing for foreign investors.

Short-term investment plans in Northern Portugal



Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).

Attractiveness factors

Investor perceptions on Porto's and Northern Portugal's attractiveness reflect a high standing on key structural factors, such as quality of life, social stability, infrastructure, labor and others.

Out of the 16 factors surveyed, quality of life emerged as the main source of attractiveness of the region, with 91% of investors considering it at least fairly attractive and over half (52%) placing it as very attractive.

This factor is followed by other structural elements, such as social stability, infrastructure, and labor skills and costs.

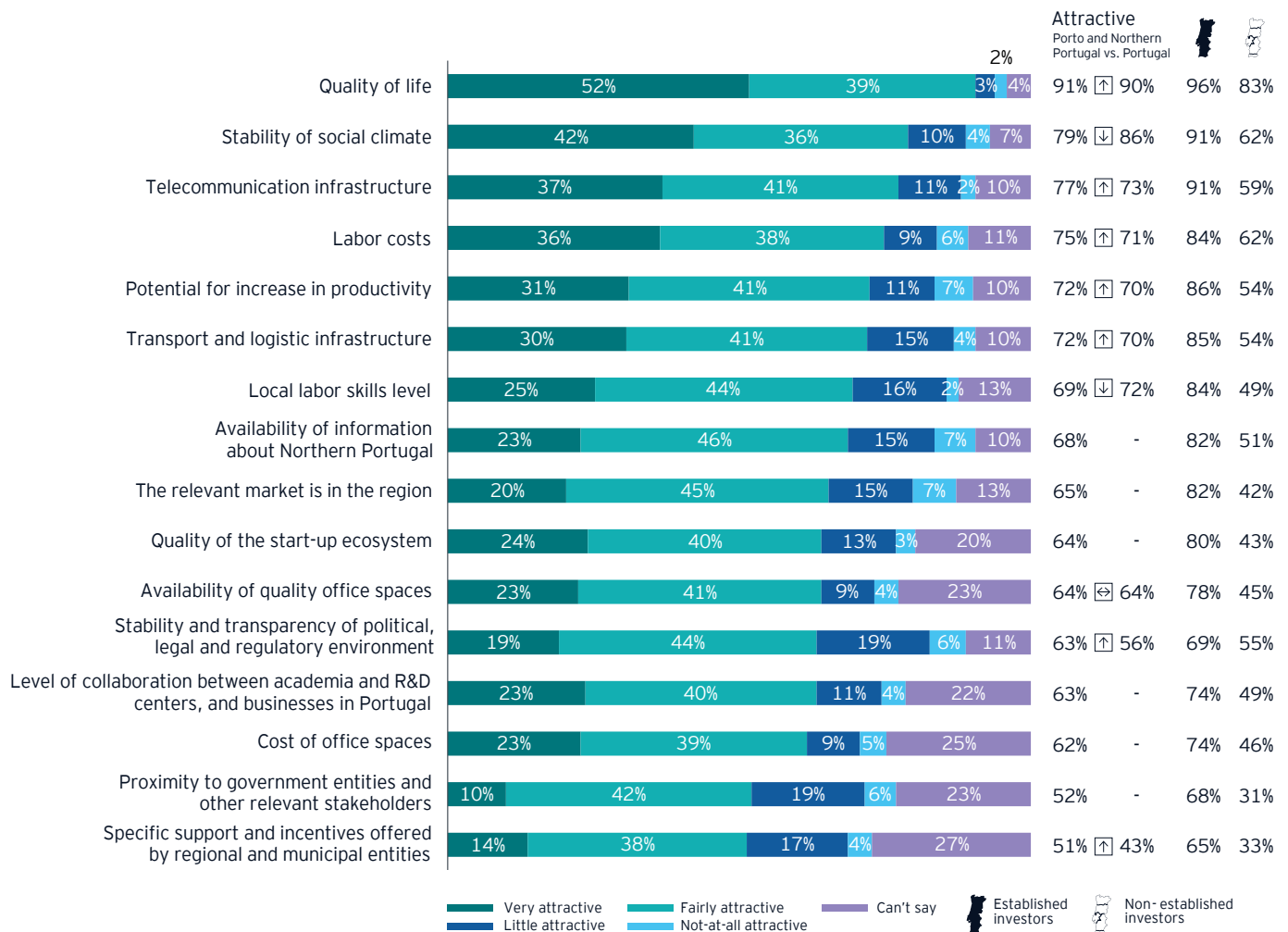
These perceptions are in line with the previous analysis on the pillars of attractiveness of the region, and this reflects the recognition of those factors by investors.

Porto's and Northern Portugal's international appeal and, especially, resilience over the past years are largely related with these structural assets.

Also, none of the surveyed factors had an attractiveness score equal to or below 50%.

On the flip side, the factors that were considered as little attractive or not-at-all attractive included the stability and transparency of political, legal and regulatory environment (26%), the proximity to government entities and other relevant stakeholders (25%), and the availability of information about the region (22%).

Porto's and Northern Portugal's attractiveness for FDI across factors



Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).

“

Porto was chosen as the location of our new center for the excellent quality of life it provides, the great accessibility to main European capitals, and the easiness to attract highly qualified human resources. It is an attractive city and it will be easy to attract other people of the company to live here.

Benedita Miranda,
Country Manager Portugal of Sitel

There is a significant perception gap between established and non-established investors in Porto and Northern Portugal.

When asked about the region's attractiveness across the 16 selected factors, on average 81% of established investors consider all factors attractive.

For non-established companies, this indicator decreases to 51%.

When comparing Porto and Northern Portugal with the remaining regions in the country, only 17% of non-established investors consider Northern Portugal to be the most attractive region in the country, compared with 61% for Lisbon. In case of established investors, this gap shrinks considerably, with the preference for the Lisbon area dropping to 45%, while the preference for Northern Portugal doubles, reaching 34%.

This situation is also reflected when investors are asked their perception on availability of information about the region, with 22% considering this factor as not attractive.

The perception gap also prevails in some specific factors previously mentioned as highlights for the region.

In fact, when considering individual factors of attractiveness, the largest gaps occur for quality of start-up ecosystem (80% vs. 43%), proximity to government entities and other relevant stakeholders (68% vs. 31%), local labor skills level (84% vs. 49%) and availability of quality office spaces (78% vs. 45%).

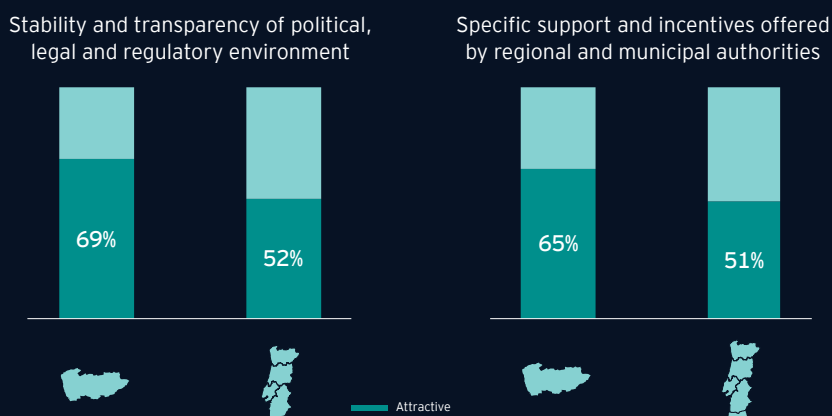
Therefore, while the region has been noted for its attraction owing to these factors, the lack of awareness by potential investors could prevent a stronger dissemination of information among all potential investors.

How the region compares with Portugal as a whole

1. The region scores higher than the average of the country in most surveyed attractiveness factors, with the exception of stability of social climate or local labor skill levels.

2. When considering investors already established in Portugal, and usually better informed about the country, the two specific factors highlighted on the right stand out for Porto and Northern Portugal. This reflects the ongoing efforts by local authorities toward having a good governance that helps Porto and Northern Portugal to be more attractive for investors and businesses.

The factors that according to established investors in Porto and Northern Portugal stand out the most include the following (comparison to the average of the country):



Northern Portugal growth engines

1. Tourism

58%

of investors believe this sector will drive Porto's and Northern Portugal's growth in the coming years.

Respondents selected tourism, ICT, and real estate and construction as growth engines for the region.

A comparison with the national outlook puts respondents' impressions regarding regional prospects in stark perspective. While the top three sectors expected to drive growth are the same for Portugal and Northern Portugal, the percentage of investors citing each one of them varies.

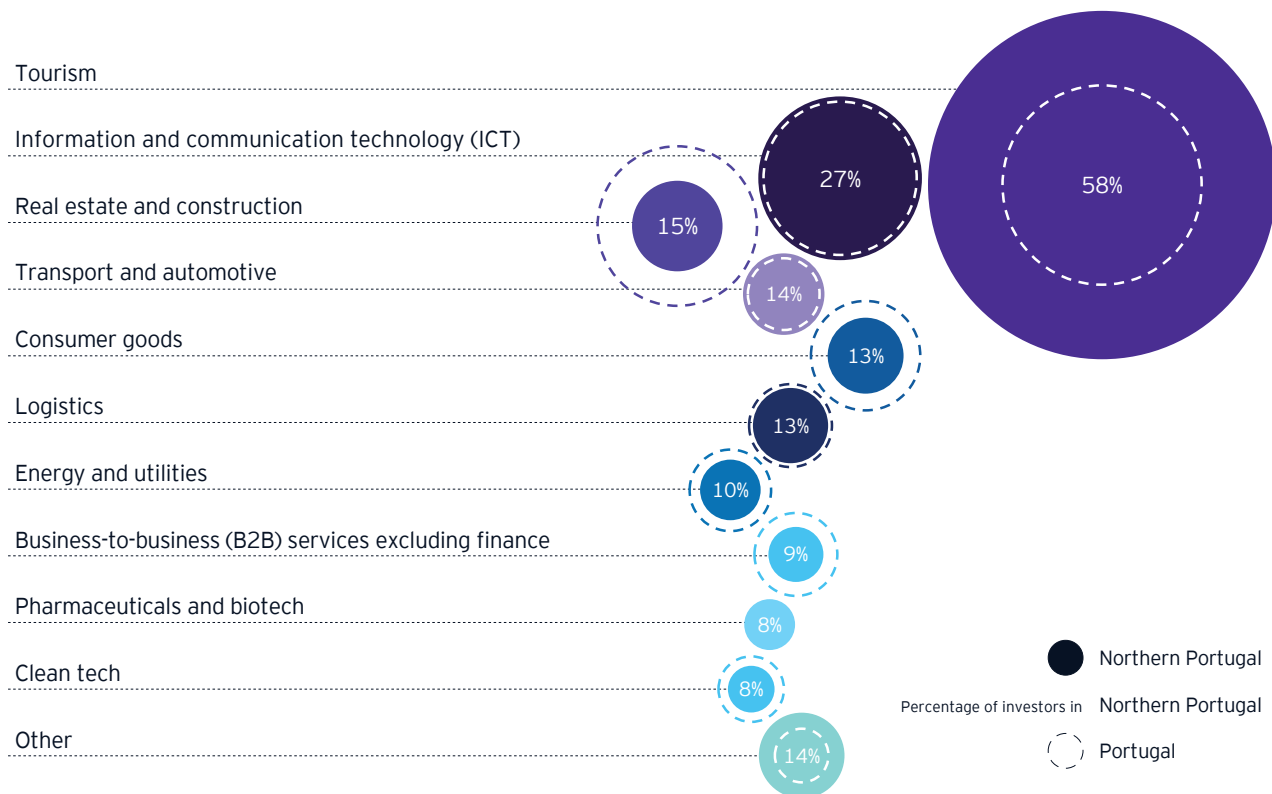
Tourism, for instance, is expected to drive growth in Northern Portugal by 58% of those surveyed. Turning to the survey findings for Portugal as a whole, only 33% of respondents share this view. The opposite is true for real estate and construction – 15% expect it to drive growth in Porto and Northern Portugal, while 26% believe it will drive growth in Portugal as a whole.

Respondents' views also diverge considerably depending on whether they are already established in the country.

Established investors are more optimistic about the tourism industry than those who are yet to invest (63% vs. 51%) and B2B services, excluding finance (12% vs. 5%). Conversely, prospective investors seem more confident than established investors about the potential of ICT (30% vs. 25%) and clean tech (13% vs. 4%) to drive growth in Porto and Northern Portugal.

Still, both established and non-established investors agree that tourism, ICT, and real estate and construction will be the key growth engines of the Northern region's economy.

Business sectors driving growth in Northern Portugal in the coming years
(Percentage of investors who mention each sector)



Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).

2. ICT

27%

of investors believe this sector will drive Porto's and Northern Portugal's growth in the coming years.

3. Real estate and construction

15%

of investors believe this sector will drive Porto's and Northern Portugal's growth in the coming years.

Tourism goes from blooming to booming.

Porto and Northern Portugal are gaining prominence as excellent tourism destinations in Europe and throughout the world. Porto was elected European Best Destination in 2017 and Braga was voted 2nd European Best Destination in 2019.

Rising international visibility has been fueling inbound arrivals. Both the number of overnight stays and the turnover of hotel establishments in Northern Portugal are growing above the national average, at CAGR of 10% and 17% over the past five years, respectively. Porto, in particular, had the highest RevPar growth in Europe in 2018, at 10.3%.

The European structural and investment funds (ESIF) - Competitiveness and International Operationalization Program (*COMPETE 2020*) and *NORTE 2020* - have been instrumental in the development and capitalization of tourism resources in the region. These focus strongly on the "cultural", "city breaks", "health and wellness" and "nature" axes of the tourism activity. As of 31 March 2019, nearly €180m of EU funds were approved to support tourism-related projects within the scope of ESIF.

Turismo de Portugal (the national tourism board) also sponsors financing lines for technological projects in tourism as part of its *Valorizar Program*. Funding is targeted at particularly innovative solutions in the areas of digitalization of tourist experiences, and artificial intelligence, virtual and augmented reality projects.

ICT gains momentum, as investment in skills and infrastructure pays off.

In recent years, Porto and Northern Portugal have witnessed the rise of a strong, entrepreneurial tech-based ecosystem.

According to *ScaleUp Porto*, 40% of Portuguese start-ups are located in Porto, and there are close to over 20 incubators, more than 30 co-working spaces and over 65 R&D centers settled in the Porto Metropolitan Area.

In terms of R&D and innovation resources, Northern Portugal hosts approximately 35% of the total number of research, technology and development units in the country. Examples of leading institutions present in the region include INESC-TEC, the Institute of Telecommunications, and the Fraunhofer Center for Assistive Information and Communication Solutions.

It is also worth mentioning the Porto Tech Hub, a not-for-profit association created by three well-established tech companies with strong connections with Porto - blip, Critical Software and Farfetch. This association was launched with an intention to promote and grow Porto as a global technological center of excellence.

The existence of a sizable and skilled talent pool leaving the local universities contributes to upholding Northern Portugal's value proposition to foreign investors in ICT businesses. A multitude of infrastructure and entities aimed at supporting entrepreneurship, and the broad-based interoperability among employers, social partners, academia, R&D centers, and local government bodies also contribute to upholding the value proposition.

Urban regeneration fuels real estate and construction investment.

The growth in tourism, investment and entrepreneurial activities in Northern Portugal has also boosted property demand and urban regeneration projects, particularly in Porto, with the number of building rehabilitation projects skyrocketing in recent years.

In fact, urban regeneration is now the main force behind the property, construction and tourist accommodation markets. According to the Portuguese Hoteliers Association (AHP), most new hotels in Porto are in recently restored buildings located in the city's historic center, where rehabilitation projects qualify for more enticing incentives.

Regeneration is encouraged by incentives such as value-added tax (VAT) reductions, which effectively lower building costs, and by plans to ease rent controls. The applicable legal framework also provides expedited planning permission procedures, simplified eviction of long-term tenants, who could otherwise extend their tenancy rights indefinitely, various tax breaks and special financing schemes.

Foreign investment has been the key driver of urban rehabilitation over the past five years, with the foreign investment share in real estate investment in Porto surpassing 60%. The most recent effort to attract new foreign investors was the establishment of a regime for *Sociedades de Investimento e Gestão Imobiliária (SIGI)* - the Portuguese version of real estate investment trusts - which came into force in the first quarter of 2019.

Areas of focus and reform

Porto's and Northern Portugal's continued competitiveness relies on investing in skills and innovative industries, and addressing some pressing issues, such as taxation or SME support.

As global value chains are being deeply reshaped by disruption, so are industries and countries, with the need for the right skills becoming an ever-increasing priority for companies.

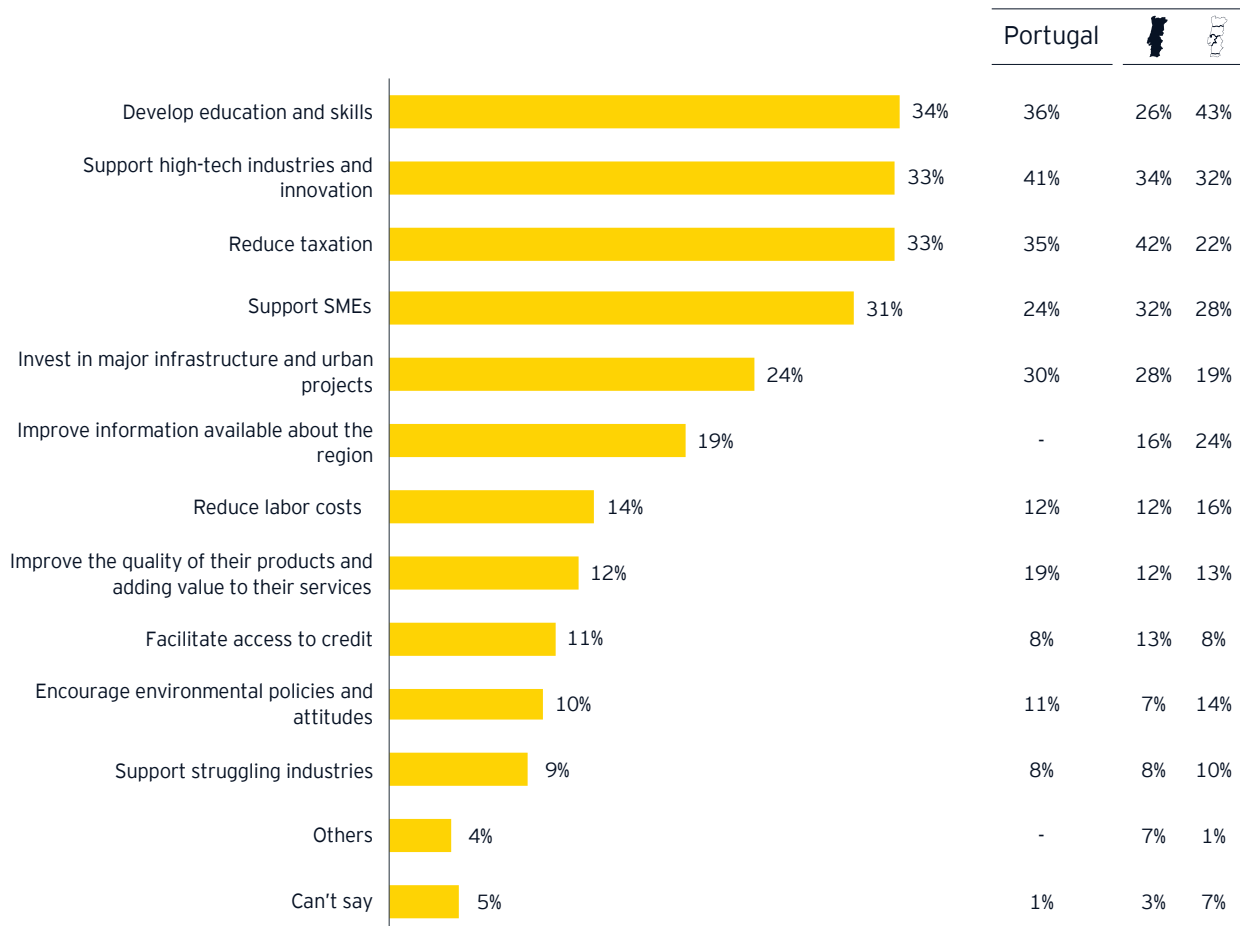
As an example, according to Eurostat data, the software industry has been growing five times faster than the rest of the European economy, with tech firms at the forefront of job creation.

In accordance with these dynamics, surveyed investors selected developing education and skills, and supporting high-tech industries and innovation as two main areas of focus to maintain Porto's and Northern Portugal's competitiveness.

However, the perception gap between established and non-established investors is worth noting when it comes to education and skills. Companies already present in Northern Portugal place this factor in the fifth place in the priority list, instead of placing it in the first place.

Taxation levels and SME support are other leading areas of focus, both for their standard relevance for daily business as well as the potential impact they could have on newer companies (e.g., start-ups).

Main areas of focus to maintain Porto's and Northern Portugal's competitiveness



Established investors Non-established investors

Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).

Talent, incentives, infrastructure and a culture of innovation are the key for leadership in this field.

With Porto being considered the third fastest-growing fastest growing European tech hub (according to Atómico) and the “Best Startup-Friendly City of Europe” (by the World Business Angels Investment Forum), the city is gaining prominence in the international scene.

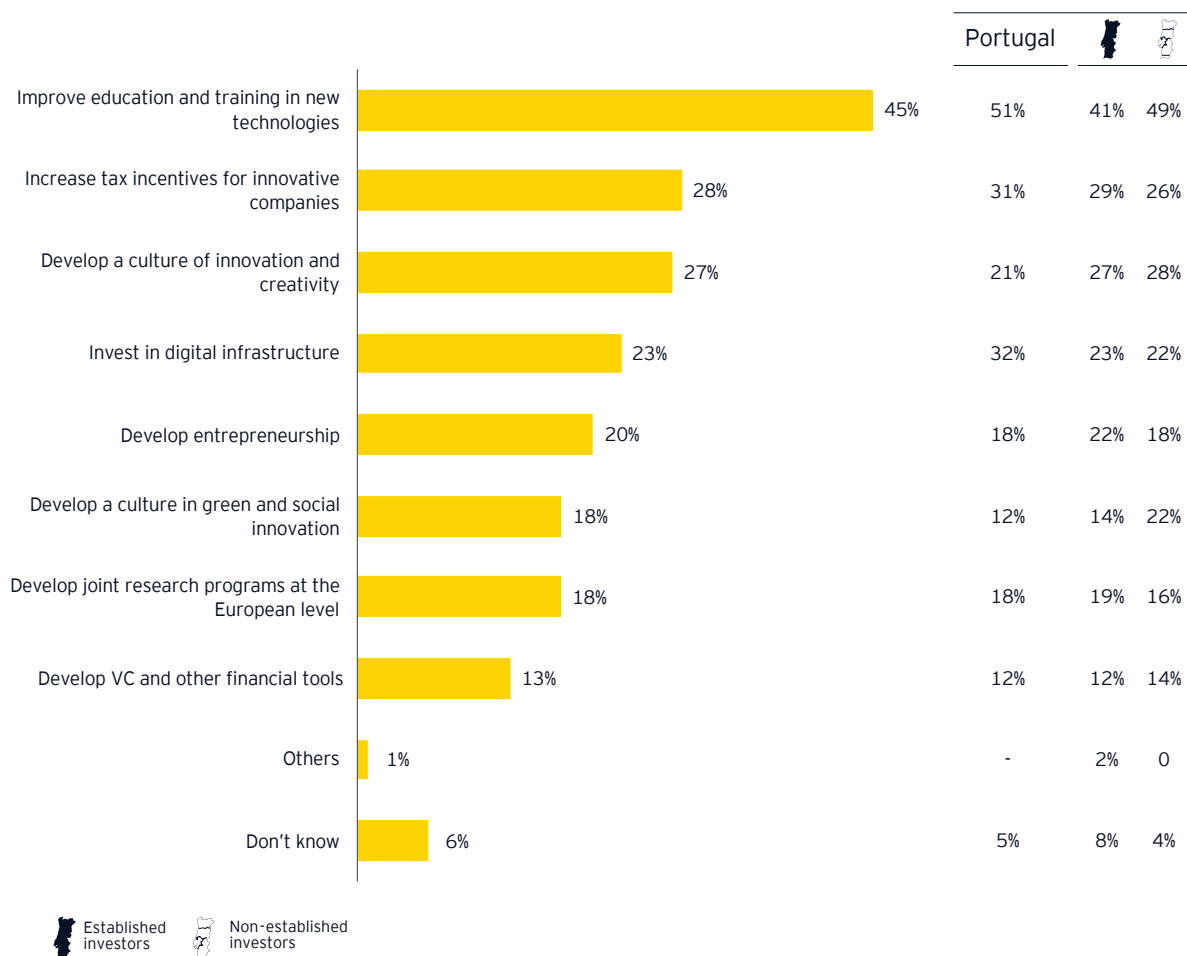
With the investment in skills and infrastructure paying off, Porto and Northern Portugal are in a privileged position to have an increased appeal for international investors, especially in highly qualified and innovative activities.

Nevertheless, investors are clear in what some of the priorities should be in order to ensure that Northern Portugal remains on this path, and it is able to achieve and solidify its desired place as an innovation leader.

Almost half (45%) of the investors selected improving education and training in new technologies as the main area of reform. Developing and nurturing a culture of innovation and creativity, and entrepreneurship were other highlights.

Finally, incentives (particularly tax incentives) and investment in digital infrastructure were also named by surveyed investors as important areas of focus.

Main areas of reform to make Porto and Northern Portugal leaders in innovation

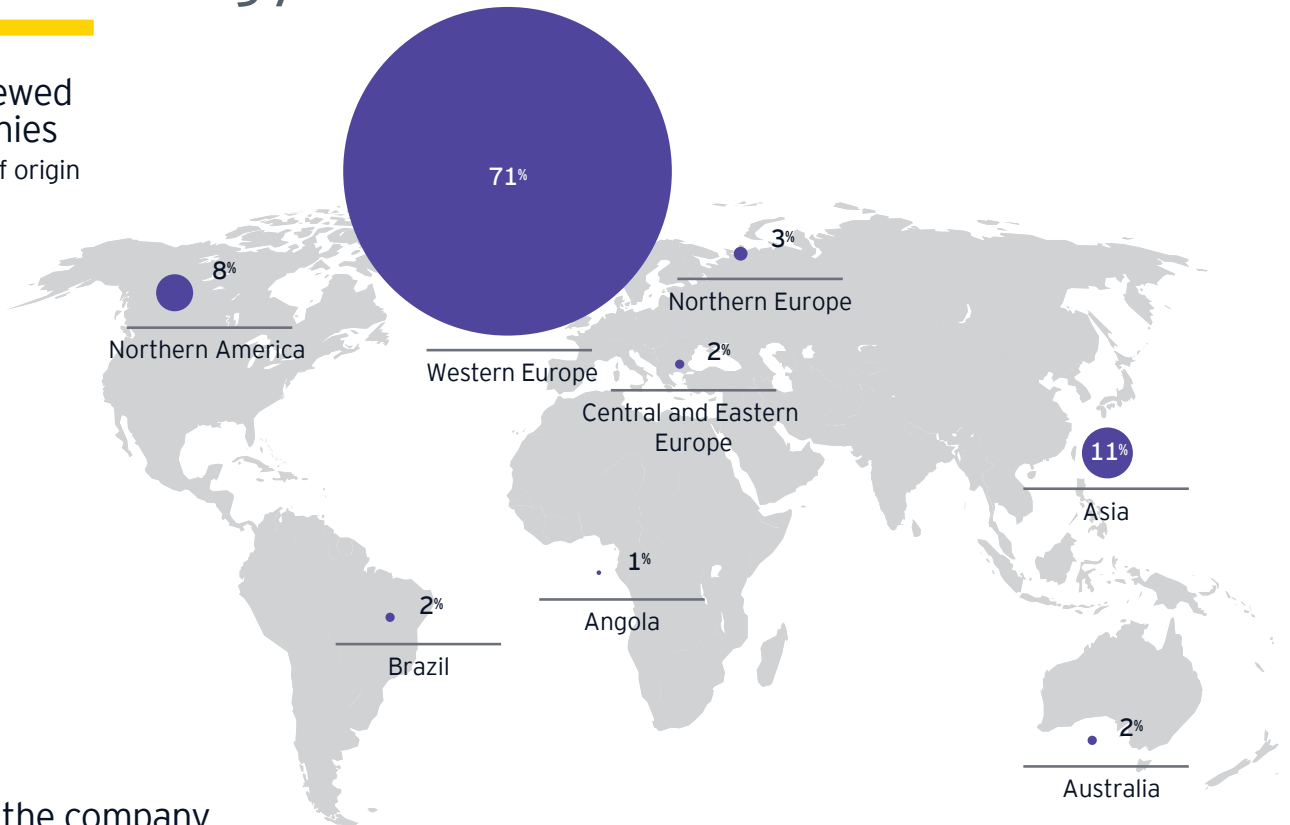


Source: EY Attractiveness Survey 2019 (205 respondents; 117 established in Portugal; 88 not established in Portugal).

Methodology

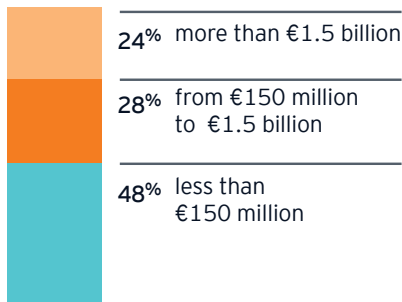
Interviewed companies

Country of origin

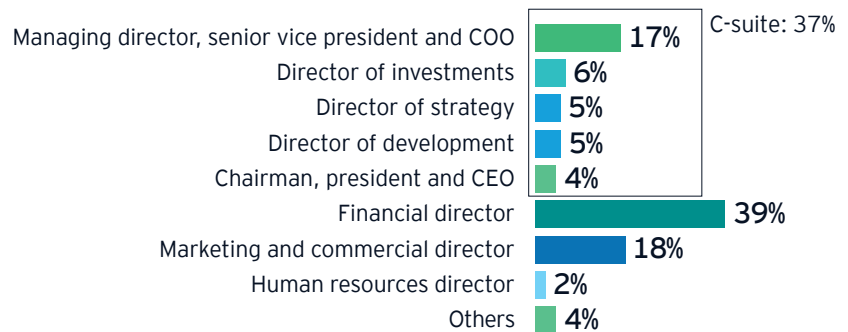


Size of the company

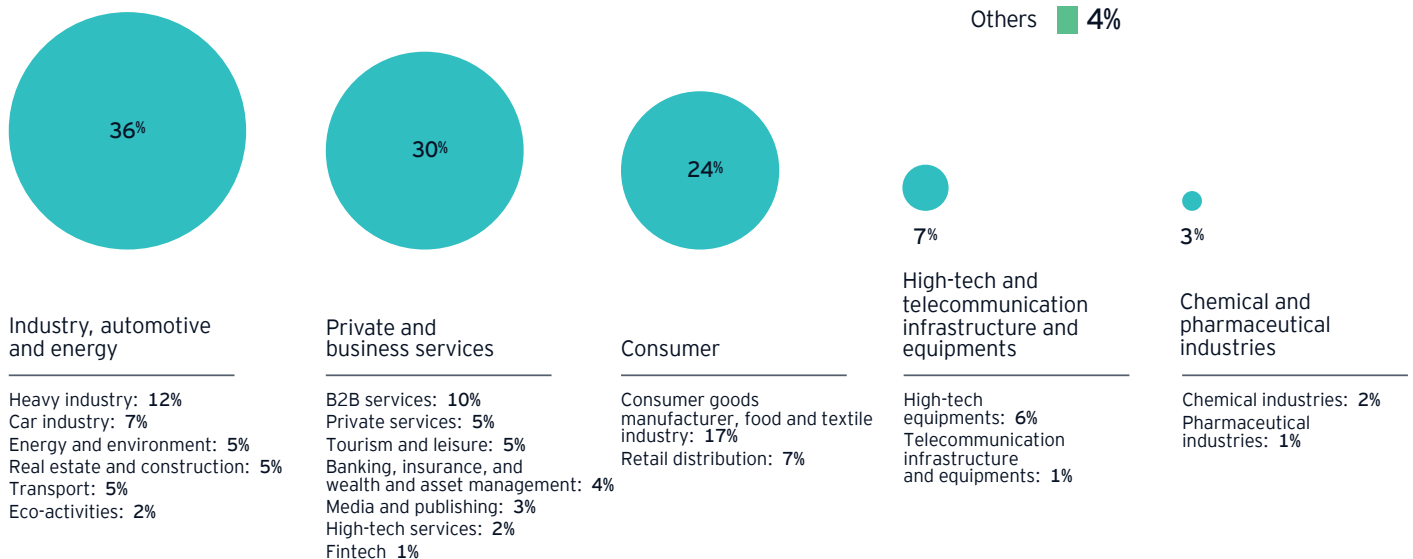
Sales' turnover



Job titles of the interviewees



Detailed activity sector



Source: EY Attractiveness Survey 2019.

The “real” attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on the EY *European Investment Monitor* (EIM), EY’s proprietary database, produced in collaboration with OCO. This database tracks those FDI projects that have resulted in the creation of new facilities and new jobs. By excluding portfolio investments and 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 company’s equity and takes up a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

But our figures also include investments in physical assets, such as plant and equipment. And this data provides valuable with insights into the following questions:

- ▶ How are the FDI projects undertaken?
- ▶ Where are the investments made?
- ▶ Where are these projects located?
- ▶ Who is carrying out these projects?

The EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool from EY is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EIM database focuses 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 projects are excluded from the EIM:

- ▶ M&A and JVs (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)*
- ▶ 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)

The “perceived” attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investors’ confidence and the perception of a country or area’s ability to provide the most competitive benefits for FDI. The field research was conducted by the CSA Institute in January and February 2019, via telephone interviews, based on a representative panel of 205 international decision-makers.

This panel was made up of decision-makers of all origins, with clear views and experience of Europe:

- ▶ Western Europe: 71%
- ▶ Asia: 11%
- ▶ Northern America: 8%
- ▶ Northern Europe: 3%
- ▶ Brazil: 2%
- ▶ Central and Eastern Europe: 2%
- ▶ Australia: 2%
- ▶ Angola: 1%

Overall, 57% of the 205 investors surveyed have presence in Portugal.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by EY clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country, as an investment destination, removes barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a legacy of 17 years, and has produced in-depth studies for Europe, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:
ey.com/attractiveness. #EYAttract

*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.

How can EY help?

Services for investors and multipliers

With offices in Lisbon and Porto, EY offers a broad scope of EY services across service lines: Assurance, Tax, Advisory and Transaction Advisory Services.

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

An in-depth knowledge of the local market enables teams to offer a set of services that covers all stages of the investment process.

Identification of acquisition opportunities

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

Acquisition and integration support

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

Services for the public sector

EY, building on EY legacy spread across the globe, has been developing a significant rapport with governments, investment promotion agencies, regions, municipalities, and public companies in the completion of market screening and economic impact assessments. Efforts have also been undertaken to improve attractiveness, reinforce competitiveness, attract, support and accompany FDI leads.

Assessments of attractiveness:

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

Reinforcement of regions' and cities' attractiveness:

- ▶ Analysis of regional and local development factors, and creation of touristic value
- ▶ Assessment of attractiveness, refunctionalization, and impact of equipment and heritage
- ▶ Conceptualization of local and regional development strategies
- ▶ Conceptualization of governance models and partnerships

- ▶ Financial, tax, commercial, environmental and regulatory due diligence
- ▶ Asset valuation and business model validation
- ▶ Assessment of tax implications
- ▶ Technical support to acquisition negotiations
- ▶ Assessment of operations 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

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 update of data sets typically required by investors
- ▶ Preparation of regional business model templates for specific sectors
- ▶ Setting up and facilitation of road shows, and one-to-one meetings with potential investors, government authorities and business partners

Assessment of investment intentions:

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

Efficiency of policies and public investments:

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

How can InvestPorto help?

InvestPorto, established by Porto City Council in 2015, acts as a one-stop shop for investors which provides support to relevant and strategic investments that take place in the Porto area during all the stages of the investment process.

InvestPorto assumes a facilitating and coordinating role among different stakeholders, focusing on:

- ▶ Promotion of Porto as a competitive, innovative and talented city
- ▶ Attraction of qualified investments that value talent
- ▶ Promotion of company reinvestment and growth

We are the pivot point in the municipality for all the investments that bring strategic interest and innovative character, enhancing the creation of qualified jobs and strengthen local economic structure in the city and the region.

InvestPorto articulates its activity with all relevant departments in the municipality, as well as with a wide range of external, public and private, national and international organizations.

The main areas of activity of InvestPorto include:

- ▶ **Investment attraction** - focusing on pre-investment, negotiation and attraction, through support to decision-making and promotion of the city/region and its competitive advantages
- ▶ **Aftercare** - focusing on post-investment and support to established companies, through investment consolidation and support to growth and reinvestment
- ▶ **Talent** - focusing on talent attraction and management, through promotion of initiatives for talent attraction and retention, aiming at attracting investment and retaining companies

Personalized services for investors and companies

- ▶ Information and business intelligence
- ▶ Personalized and tailor-made assistance
- ▶ Support to inter-institutional cooperation
- ▶ Business location search
- ▶ Talent attraction
- ▶ Aftercare service

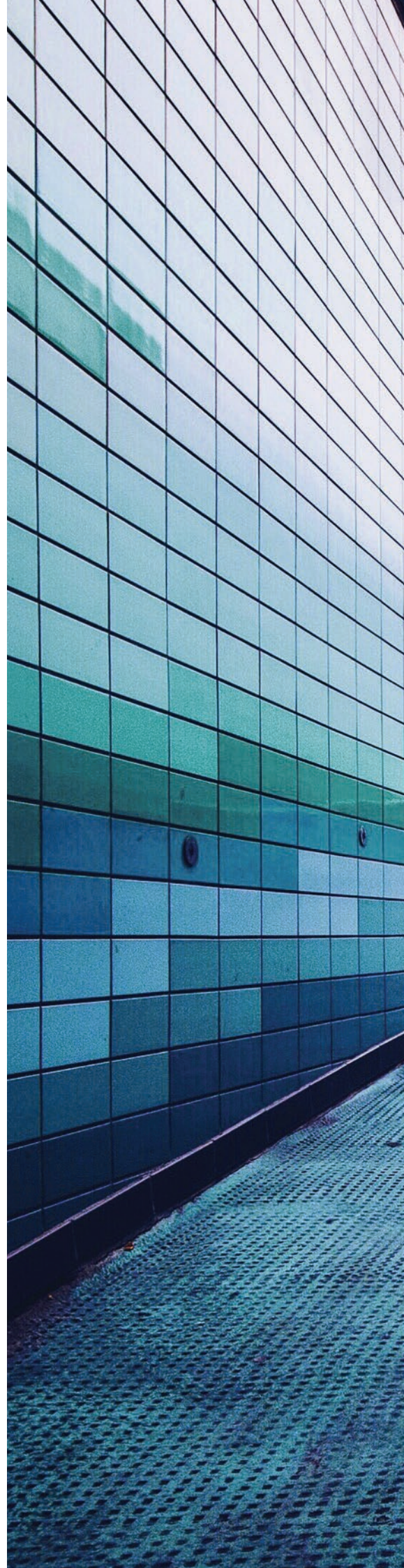
InvestPorto contacts

+351 222 097 027

invest.porto@cm-porto.pt

investporto.pt

Invest Porto.





About EY

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EY contacts

Florbela Lima

Ernst & Young, S.A.

Partner, Strategy leader

+351 217 949 341

florbela.lima@pt.ey.com

Telma Franco

Ernst & Young, S.A.

Director and Press Relations, BMC

+351 217 912 292

telma.franco@pt.ey.com