

# BaroMed 2015

## The next opportunity

A report on the attractiveness of the Mediterranean, Middle East and Gulf region for foreign investment

April 2015

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

# Foreword



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Mediterranean Managing Partner,  
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**Marc Lhermitte**  
Partner, Global Lead – Attractiveness  
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The prosperity and progress of people dwelling beside the Mediterranean Sea and the Gulf of Arabia have been intertwined for more than 6,000 years. The flows of ideas, goods and population have waxed and waned. Through the centuries, trade and the presence of global powers have created a vast cultural and economic melting pot. Today, a shared heritage underpins massive flows of goods, investment and people. And a process of renewal and convergence is underway, as countries restore connections and rebuild historic strengths.

But progress is bumpy. Industrialized nations along the northern seaboard of the Mediterranean are at last recovering from a bruising recession. Turkey and the Balkans are reemerging. North African countries are industrializing, while Libya and Syria face domestic turmoil. The Middle East advances despite tensions, while the prosperous oil-rich states of the Gulf Cooperation Council (GCC) are investing massively in new infrastructure and reestablish their historic *entrepôt* role, connecting Europe with Asia and emerging Africa.

The symbiosis in the Mediterranean region is as strong as ever. Improving communications and digital technologies facilitate the rise of ideas and connections: investors seek innovation in Tel Aviv and Barcelona; workers from Italy, Turkey and Egypt build stadia in the Gulf states; and cars from Morocco drive on European and Arabian roads.

Yet too many of the region's trade flows are bilateral, rather than networked. Disparities in income and employability remain too wide. Deeper regional integration and prosperity are needed to overcome a host of problems, ranging from insecurity to poverty, inadequate education and tensions created by economic migration.

That will require investment – by companies and by states. For corporate investors, motivation to invest can be strong. The region is home to more than half a billion people with substantial and growing purchasing power. It brims with ideas, energy and underemployed people. To help investors identify opportunities within this diverse and exciting landscape, we have identified key trends and opportunities.

By charting the patterns of foreign direct investment across the region, the features that shape it, the perceptions of investors and the forces that will shape them tomorrow, we hope to contribute to the next chapter in the history of one of the world's most fascinating regions.

We would like to extend our gratitude to : **Abdulaziz Al-Sowailim**, Middle East and North Africa Managing Partner, EY – **Mustafa Camlica**, Country Leader, EY Turkey – **Jacek Kędzior**, Central and Southeast Europe Managing Partner, EY – **Jean-Pierre Letartre**, FraMaLux Managing Partner, EY – **Maria Pinelli**, Global Vice Chair Strategic Growth Markets, EY – **Uschi Schreiber**, Global Vice Chair, Markets & Chair, Global Accounts Committee, EY.

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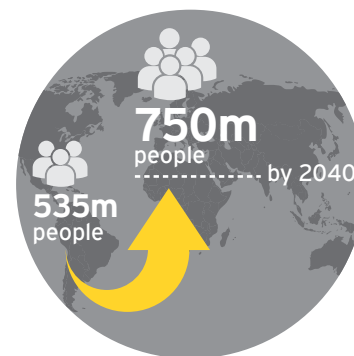
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### The BaroMed region currently features:

- ▶ 27 countries and 5 diverse subregions, with a shared heritage and entwined cultures, and a tradition of interaction, migration, investment and trade
- ▶ 535 million people, i.e., 7.1% of the world's population, which will become 750 million by 2040 (8.3%)
- ▶ A total GDP over US\$10 trillion, i.e., 14.5% of the world's GDP
- ▶ A per head income of US\$19,244 on average (ranging from US\$4,127 in North Africa to US\$35,779 in the EU's Mediterranean economies)
- ▶ A common ambition of growth, development, competitiveness and attractiveness to foreign investment

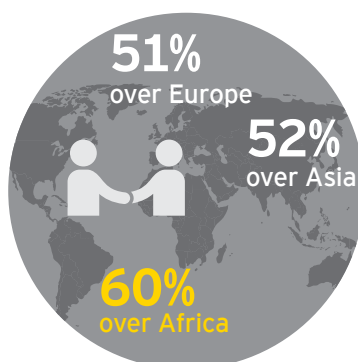


### Foreign investment in the region matters because it:

- ▶ Delivered US\$85.5 billion of greenfield Foreign Direct Investments (FDI) in 2013, more than China
- ▶ Provided 17,110 FDI projects between 2009 and 2013
- ▶ Totaled only half as many projects in 2013 as during the 2008 FDI peak
- ▶ Boosted industrial and services sectors, through flourishing local markets and nearshoring opportunities
- ▶ Flowed especially from the US, France and Germany, while companies from the Gulf countries were increasing their footprint

### Decision-makers believe that the region:

- ▶ Is more attractive than Europe (51% of respondents), Africa (60%) and Asia (52%)
- ▶ Has positive growth prospects (78% of investors interviewed)
- ▶ Will become increasingly attractive to foreign investors (50% of respondents)
- ▶ Has diverse and complementary competitive advantages, including sizeable and growing markets (according to 24% of respondents), high skills (17%) and low costs (16%)
- ▶ Is handicapped by instability (53%), lack of transparency (29%) and poor infrastructure (19%)

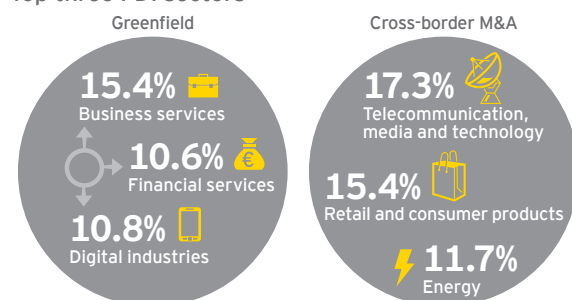


Percentage of respondents who favor the region

### The region promises opportunities in:

- ▶ Business services (15.4%), digital industries (10.8%) and financial services (10.6%) – the top three greenfield FDI sectors across the region (2009-13)
- ▶ Telecommunication, media and technology (17.3%), retail and consumer products (15.4%) and energy (11.7%) companies draw the most cross-border M&A in the region (2009-13)
- ▶ An upsurge in business, with some of its metropolises becoming regional and global hubs for digital economy, education, talent development and entrepreneurship
- ▶ Serving global markets, including 18 of the 100 world's busiest ports and 8 of the world's 30 busiest airports
- ▶ Implementing energy, health care, e-government and education reforms

#### Top three FDI sectors



# How we are looking at the region's attractiveness for foreign investment

EY has created the *BaroMed attractiveness survey* to address the growing needs, questions and sometimes concerns of our clients about a area covering countries around the Mediterranean and in the Gulf region while they expand their manufacturing and services operations. This vast "region" spreading around the Mediterranean sea, the Middle East and the Gulf, includes 27 countries with different contexts, which we have regrouped under 5 subregions as shown in the graphic below.

**In March 2015, we surveyed a total of 156 C-suite executives** from multinational and mid-sized companies in 20 countries and 28 sectors. We asked about their views on the current attractiveness of the region and the outlook for it. We then complemented their insights with data on FDI, obtained from EY's Global Investment Monitor, UNCTAD and FDI Intelligence. For general background information, we also researched and summarized key facts and figures on the socioeconomic reality of the region.

The *BaroMed attractiveness survey* assesses how the region is perceived and conveys which investments have happened. The report also identifies future challenges raised by the community of foreign investors.

## Key figures in the BaroMed region

### EU Med

Population in 2013 (millions)	185.10
GDP in 2013 (US\$b)	6,624
Economic growth (2009-13)	-0,4%
FDI projects (2009-13)	9,389
Value of FDI projects 2009-13 (US\$b)	328.3

### Turkey and Balkans

Population in 2013 (millions)	88.47
GDP in 2013 (US\$b)	963
Economic growth (2009-13)	+6,1%
FDI projects (2009-13)	1,752
Value of FDI projects 2009-13 (US\$b)	100.1

### North Africa

Population in 2013 (millions)	171.36
GDP in 2013 (US\$b)	707
Economic growth (2009-13)	+7,8%
FDI projects (2009-13)	1,207
Value of FDI projects 2009-13 (US\$b)	105.9

### Gulf countries

Population in 2013 (millions)	48.68
GDP in 2013 (US\$b)	1,642
Economic growth (2009-13)	+13,9%
FDI projects (2009-13)	3,994
Value of FDI projects 2009-13 (US\$b)	194.2

### Middle East

Population in 2013 (millions)	41.83
GDP* in 2013 (US\$b)	369
Economic growth (2009-13)	+8,9%
FDI projects (2009-13)	768
Value of FDI projects 2009-13 (US\$b)	51

**Countries in the BaroMed region:** Albania, Algeria, Bahrain, Bosnia-Herzegovina, Croatia, Cyprus, Egypt, France, Greece, Israel, Italy, Jordan, Kuwait, Lebanon, Libya, Malta, Montenegro, Morocco, Oman, Qatar, Saudi Arabia, Slovenia, Spain, Syria, Tunisia, Turkey and the United Arab Emirates (UAE).  
\*Excluding Syria.  
Source: UNCTAD (2014).

# Reality

What the region actually gets

**17,110**

cross border investments  
(2009-13)

**35%**

of total  
FDI for M&A

**65%**

of greenfield  
investment

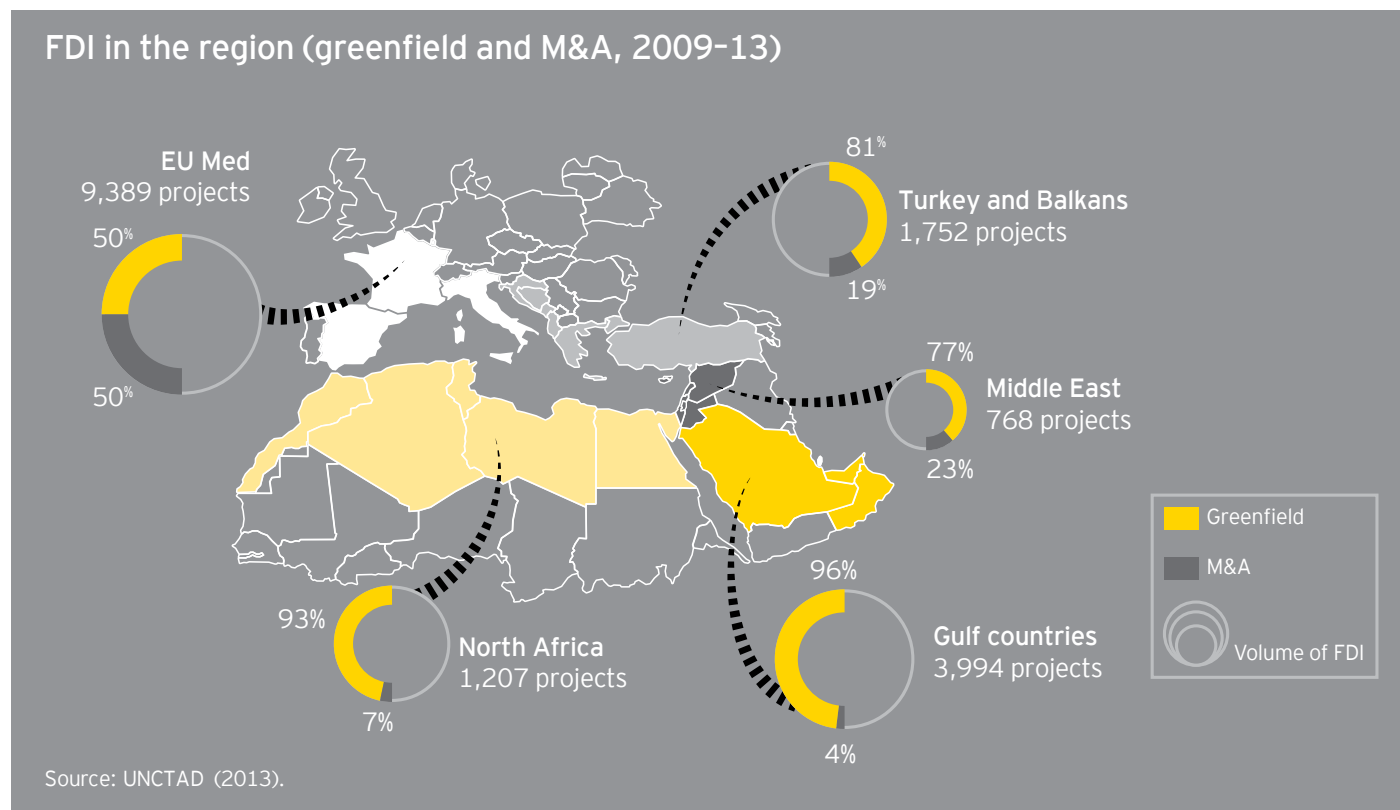
“This diverse area is bound together by shared roots across trade, finance, governance, cultures and history. Like all other parts of the world, it must respond to the megatrends of the 21st century.”

**Uschi Schreiber** – Global Vice Chair, Markets & Chair, Global Accounts Committee, EY

## The region delivered US\$85.5 billion of greenfield FDI in 2013, more than China

17,110 cross-border investments worth US\$779 billion were made in the region during 2009-13. FDI has been a key factor for economic development throughout the world as well as in the BaroMed region. Between 2009 and 2013, the 27 countries attracted 17,110 projects primarily directed to EU Med and Gulf

countries (78% for the two subregions). In 2013 alone, greenfield investment in the region totaled US\$85.5 billion, more than China. Because of the relative rarity of acquisition targets and untapped potential in the region, M&A made up only 35% of total FDI during the period, while greenfield investment represented 65%.



“The Maghreb countries are indeed a gateway to the African continent, which will have more than 85% French-speaking inhabitants in 2050. As such, we invest heavily in the Maghreb, a growing market which we expect to diversify and drive new investors, particularly from Asia and Gulf countries.”

Jean-Pierre Letartre – FraMaLux Managing Partner, EY

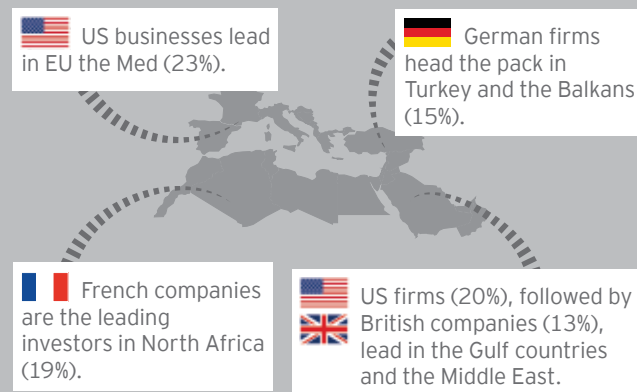
## Investors seek new market opportunities and better control of their supply chain

International investors are looking for new market opportunities everywhere in the region. **New sales and marketing operations** capture the largest share of investment in four of the five subregions, where they account for 40% to 50% of respective new investments.

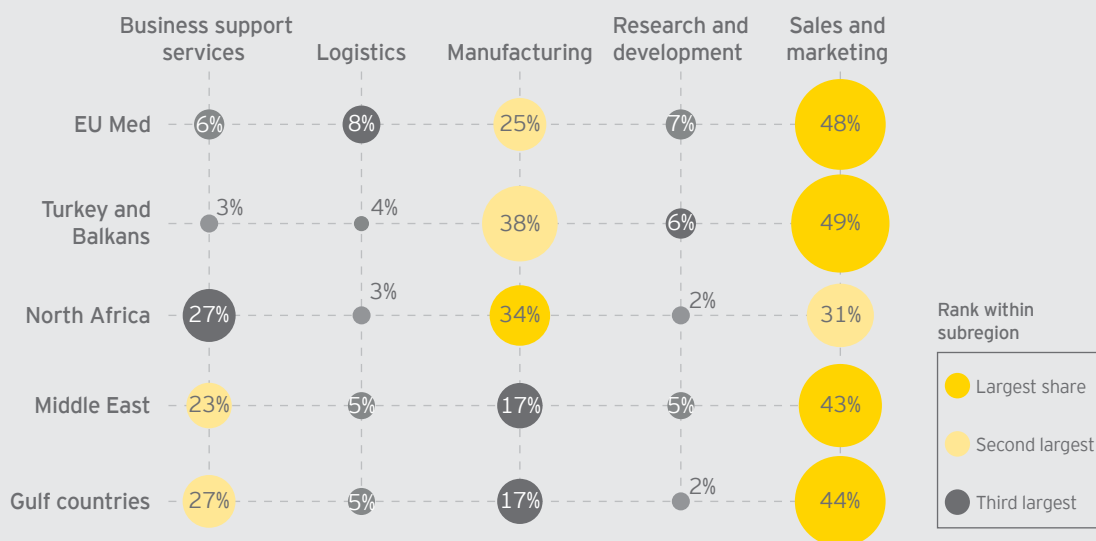
In addition, many companies have established **manufacturing operations** to serve rapid-growth economies of the region and mature European markets. This was particularly obvious in Turkey and the Balkans (38% of total FDI in manufacturing) and North Africa (34%).

**Business support services** draw almost a quarter of FDI each in North Africa, the Middle East and the GCC region, as multinationals and outsourcers established more and more nearshore back offices.

### Greenfield investment sources still reflect historic ties, but patterns are changing



### Functional breakdown of greenfield FDI projects (2009-13)



Source: EY Global Investment Monitor; FDI Intelligence (2009-13).

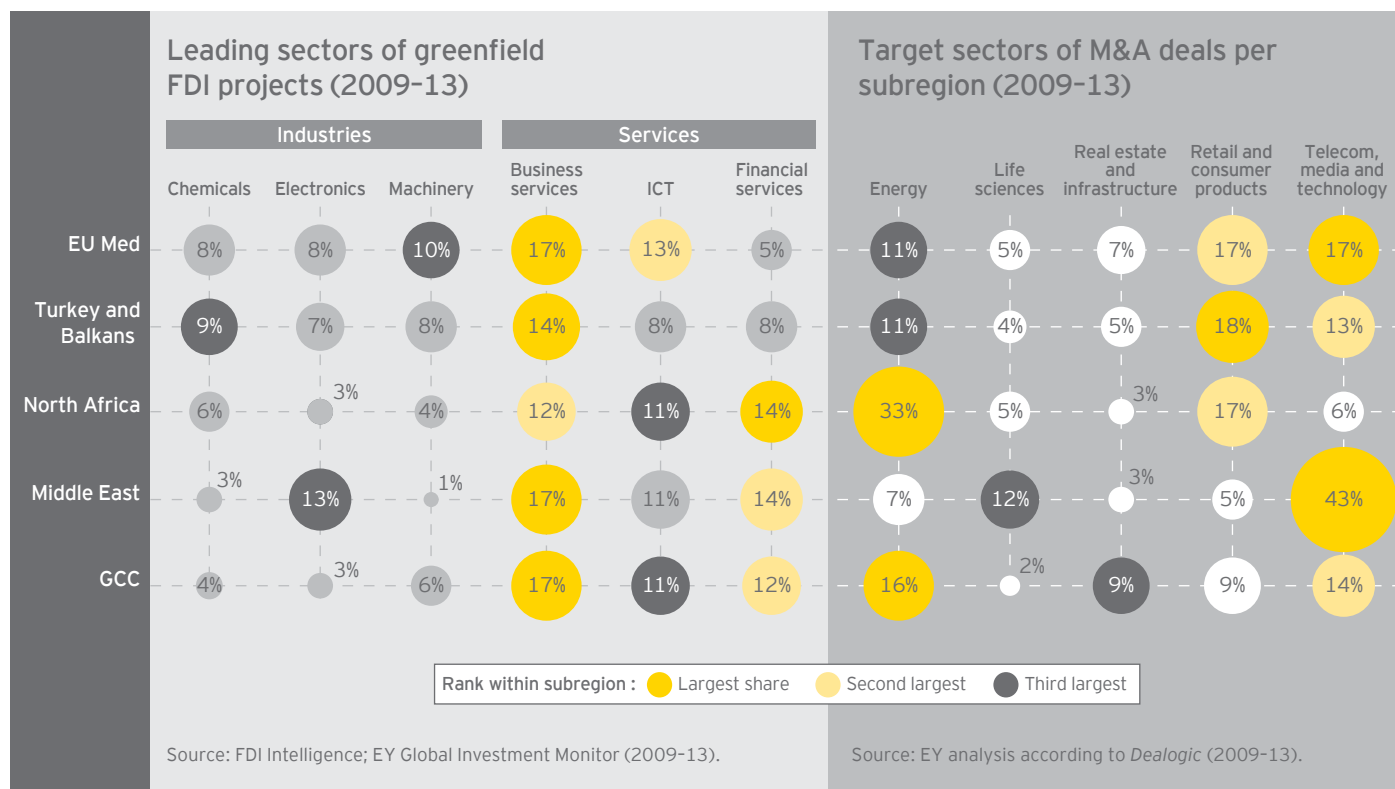
# The region is becoming a technology and infrastructure hub

As elsewhere, investors develop business in the BaroMed region through two types of investment: greenfield FDI, which means establishing new facilities and expanding existing operations; and purely financial investments which usually take the form of mergers, acquisitions or large-scale financing of infrastructure or real estate. Investment patterns in these two forms are different and, in some respect, indicate past and future trends of foreign investment in the region.

For greenfield FDI, **business services** (IT, customer and business process centers) come out as the most dynamic market segment accounting for 12% to 17% of projects in all subregions. Moreover, the **digital economy** (ICT services and software development) emerges as another strong driver of investment across the region, reflecting both the development of its industrial and consumer markets, and the increasing availability of a skilled workforce. **Financial services** (banking, trading and insurance) have also become a pillar of greenfield investment, particularly toward the Gulf, Middle East and North African areas (12% of projects). **Process industries** remain a strong magnet for FDI as the chemicals, machinery and electronics sectors appear to have a good hold in the Middle East, in EU Med as well as in Turkey and the Balkans subregion (ranging between 7% and 13%).

In addition to that, funds are financing real estate and infrastructure investments in Mediterranean Europe, the Gulf and Middle East countries, North Africa, Turkey and the Balkans. In terms of cross-border M&A, industrial companies, private equity entities and institutional investors are acquiring or financing assets especially in **telecommunication, media and technology (17.3%)**, and **retail and consumer products (15.4%)**. The energy sector drew 12% of M&A deals in the region, as European utilities divest from mature markets and develop new business mainly in North Africa and the Gulf. The direction of financial flows in the region is changing, too, with new investors from the **Gulf countries** (11% of M&A deals) increasingly grabbing market share from European and US companies. Their appetite is strong especially in the energy (35% of the deals they signed in 2009-13) and telecommunication, media and technology (25%) sectors. With a 3.3% share in M&A, **Chinese** conglomerates and funds are exploring potential everywhere for large infrastructure investments or smaller industrial projects that would cumulatively amount to a growing presence.

More than 76% of the financial investments in the region are made in Euro-Mediterranean area. Italian companies are the largest targets accounting for more than 27% deals in the region, notably in aeronautics and defence but also in the financial sector.





# Perception

Hopes and fears

**51%**  
of executives  
think the region  
is attractive

**Top risks:**  
political, social and  
economic stability

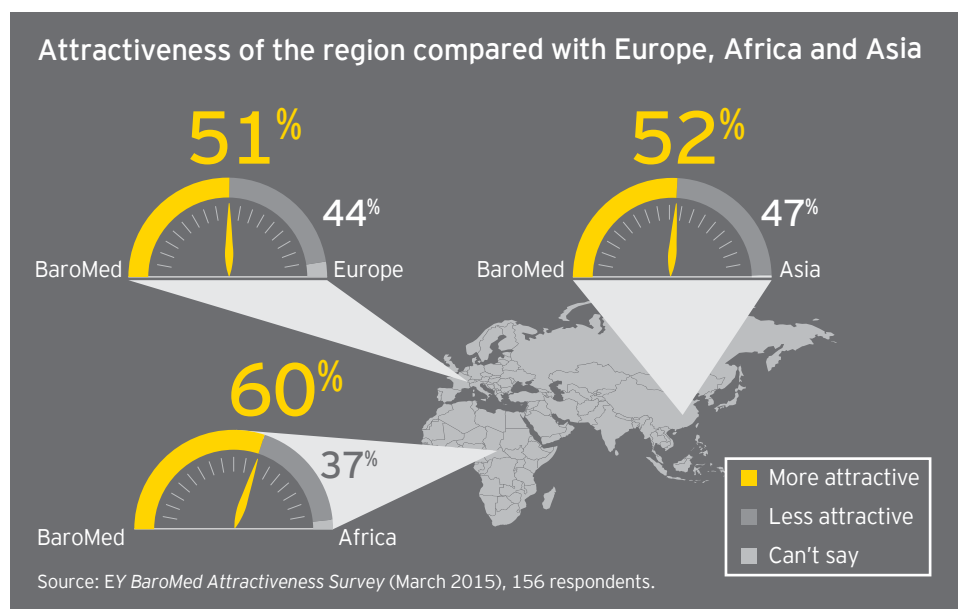
“The Mediterranean area is geographically, politically and economically strategic for central and southeast Europe. There are unique opportunities for growth, development and cooperation. Taking advantage of these will improve the prosperity of the whole region.”

**Jacek Kędzior** – Central and Southeast Europe Managing Partner, EY

## More than elsewhere, investors see opportunities ...

**Investors like the region and believe it has a bright future.<sup>1</sup>**

It is even deemed more attractive than Europe (by 51% of the executives surveyed), Africa (60%) and Asia (52%).



## ... and competitive advantages

They know the diversity of the region and look for competitive advantages at a local level. For instance, besides business opportunities, they look for a stable environment and skills in Europe, the Gulf and Turkey, and for natural resources in the Gulf and North Africa. For low costs, investors go to Turkey, the Balkans and North Africa.

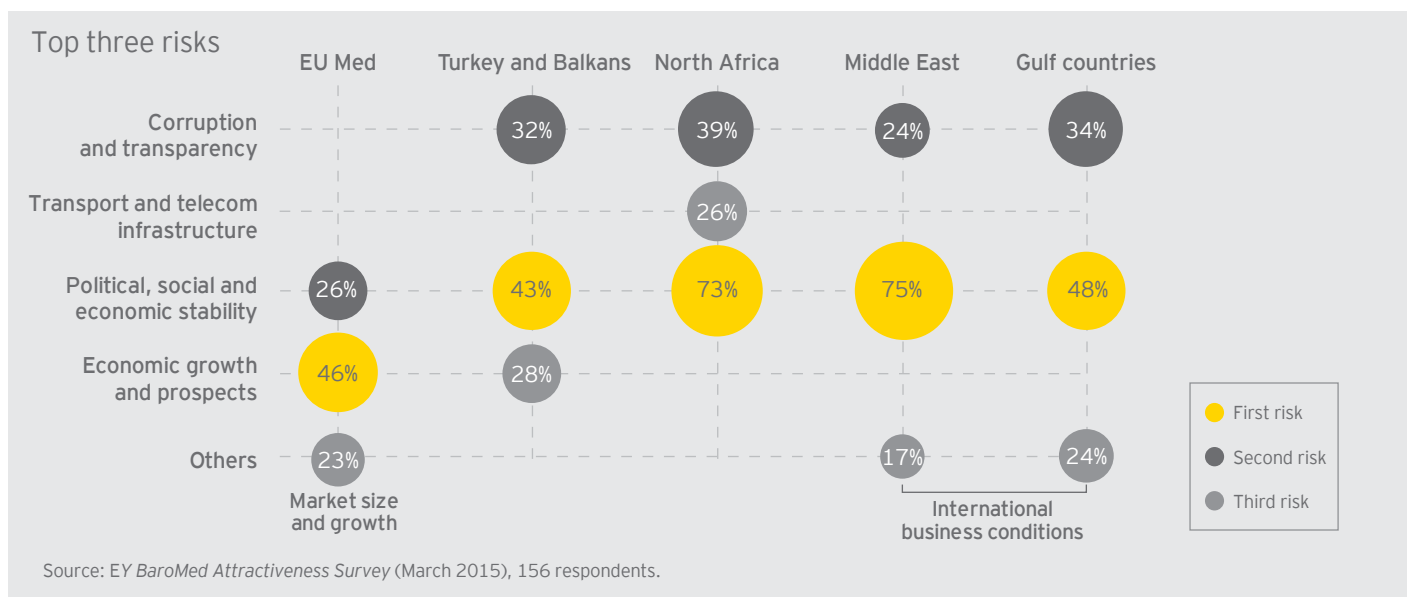
**When asked to compare it with Europe**, investors like its faster economic growth and multiple business opportunities, driven by demographics and urbanization, with spectacular new cities or districts springing up in Gulf states, Turkey and Egypt. There, urban population will grow from 43% in 2010 to 57% in 2050, according to the World Bank.

**When compared with Africa**, which is often and rightly considered as the next big global opportunity, the region (especially North Africa) offers a safer route to new resource-rich but mostly untapped markets.

**Investors are also looking for a better control of their global supply chain.** Some of them are bringing back operations from Asia to nearshore destinations closer to Europe, in order to better manage increasing time-to-market constraints. For example, US and European multinationals are implementing back-office activities in Morocco, Tunisia and Egypt, and industrial operations in Algeria, Turkey and the Balkans.

<sup>1</sup> Note: the respondents included 156 executives in total, of which 80 were based in one of the BaroMed countries.

# Instability remains a concern for investors



**Despite a general positive outlook, many respondents pointed out risks everywhere in the region.** They are emphatic about the roadblocks to investment and sustainable growth in rapid-growth economies (instability and lack of transparency). They are also wary of multiple pockets of conflicts, poor governance, unrest

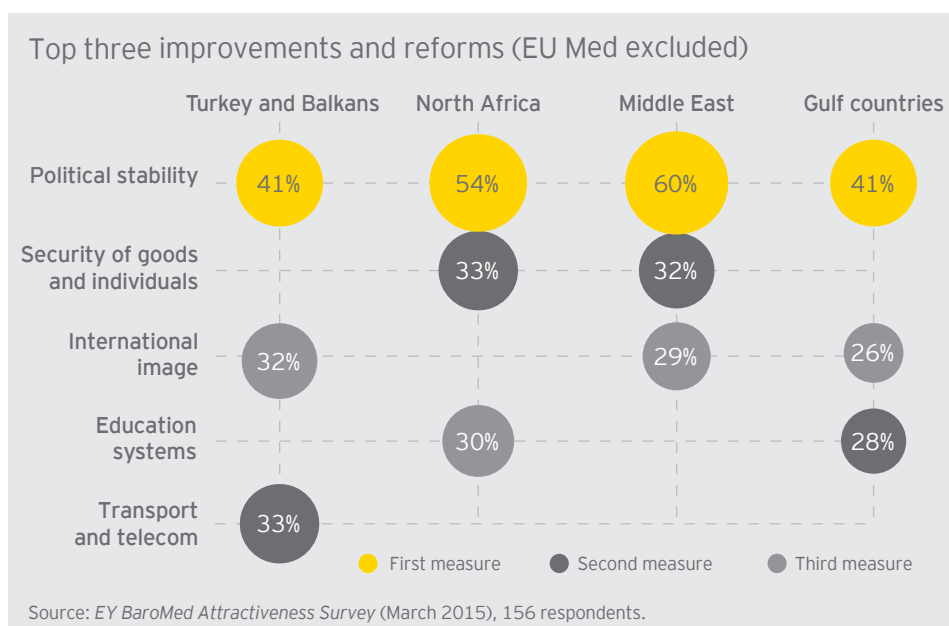
and tensions. In addition, they are worried because of stagnant economies and poor political governance in Europe, which is still the main source of capital in the whole region.

## Reforms wanted

**Investors are clear about what countries in the region must do to enhance their attractiveness.** Everywhere, achieving political stability should be the top priority, they say.

In Africa and the Middle East, the next most urgent priority is improving security for people and goods. All countries –

without exception – face an image problem abroad, largely due to stereotypes, partly because of past or current political and economic contexts. At the same time, education systems in North Africa and the Gulf fall short of expectations. Furthermore, transport and telecommunication in Turkey and the Balkans are not up to par.





# Future

Eight  
paradigms  
driving  
future  
investment  
in the region

Over  
**US\$135 billion**  
of M&A deals between  
2010 and 2014

**60 million**  
broadband internet  
subscribers in 2014

**8 out of 30**  
of the world's  
busiest airports

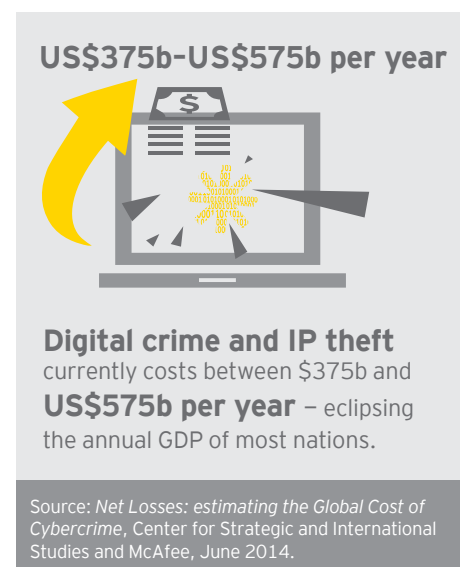
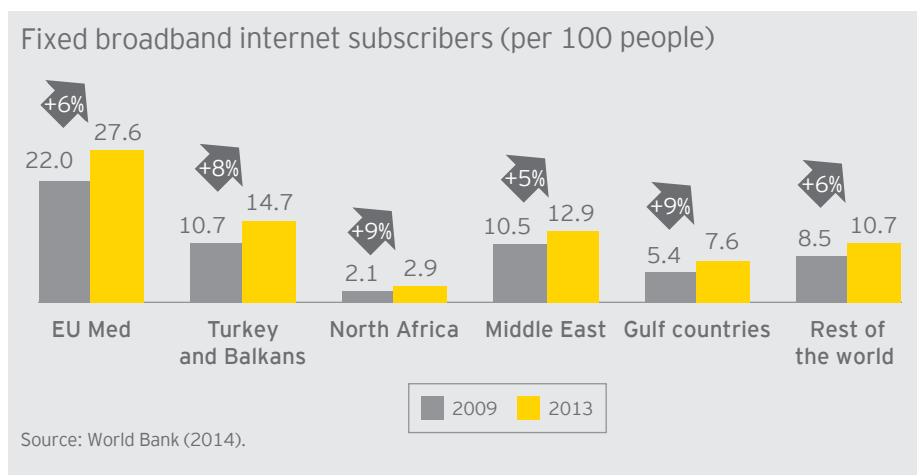
“The wider Mediterranean region is full of promise. But to fulfil that promise, countries in the region need to focus on building a vibrant, growing and diverse economy by encouraging a healthy and robust entrepreneurial ecosystem.”

**Maria Pinelli** – Global Vice Chair Strategic Growth Markets, EY

Drawing upon EY’s research worldwide and BaroMed’s analysis, our study underlines eight megatrends that will shape or hinder future investment throughout the region. Governments and businesses should analyze the implications and tailor their strategies accordingly.

## 1 Digital future or improving infrastructure

- ▶ Technology is disrupting all areas of enterprise and government, offering myriad opportunities and challenges.
- ▶ Europe is well down the road to a digital economy; the rest of the region is now following suit.
- ▶ Young populations of digital natives offer countries in the region the chance to leapfrog into online enterprise and services, especially in North Africa, the Middle East and the Gulf states.
- ▶ Transparency in and security of global supply chains (digital and physical) will become critical.
- ▶ A lack of reliable infrastructure, poor copyright protection and cyber threats may slow down the enormous efforts made to capitalize on the region’s digital revolution.



Source: EY Megatrends 2015.

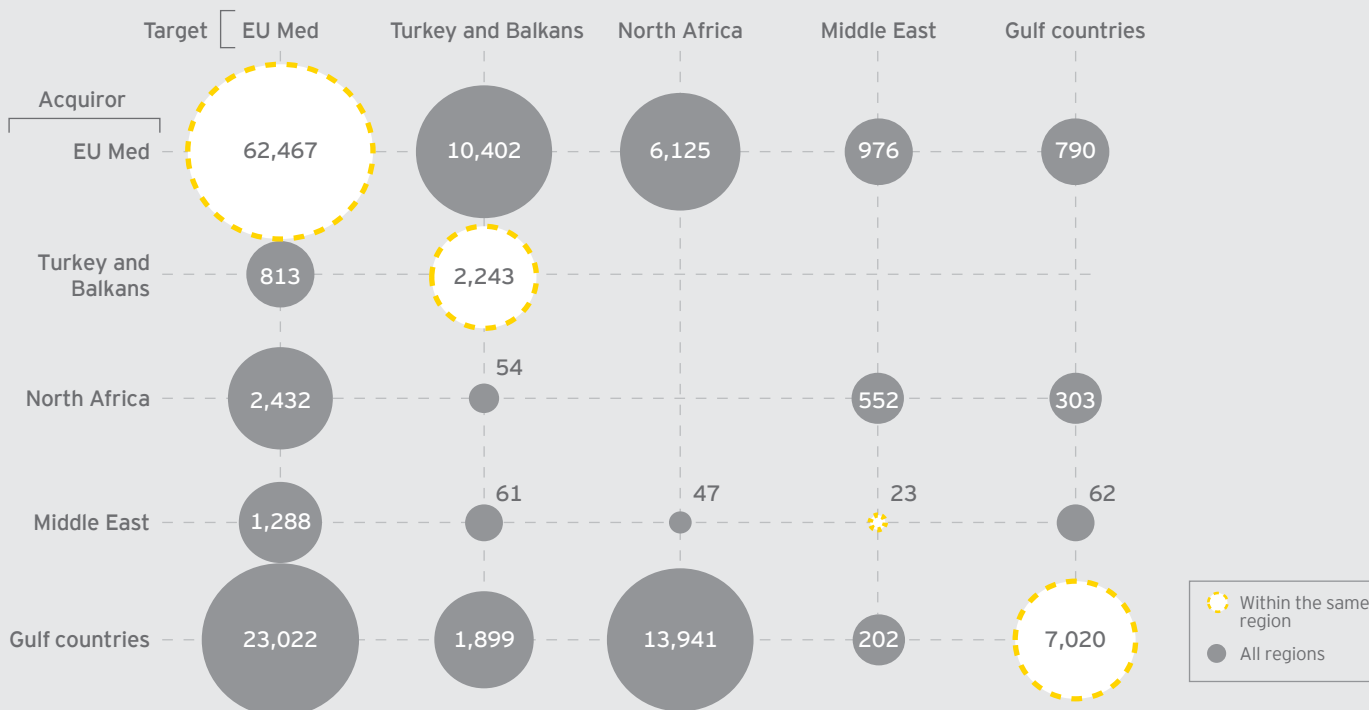
“In the future, we hope to see Turkey becoming more competitive and a net exporter of high value added products and services. This will further increase FDI appetite.”

**Mustafa Camlica** – Country Leader, EY Turkey

## 2 Rising entrepreneurship or thirst of financing

- ▶ Entrepreneurs in rapid-growth markets, once driven by necessity, increasingly seek opportunity.
- ▶ These entrepreneurs increasingly include young women.
- ▶ Family businesses, tech-based entrepreneurs and VC investors are gaining ground around the Mediterranean and the Gulf region.
- ▶ Government policies increasingly underpin entrepreneurial growth, but poor access to funding and higher education remains a hurdle.

Cross-border M&A deal value in 2010-14 within the BaroMed region (US\$ millions)



Source: EY analysis using Dealogic data (2010-14).

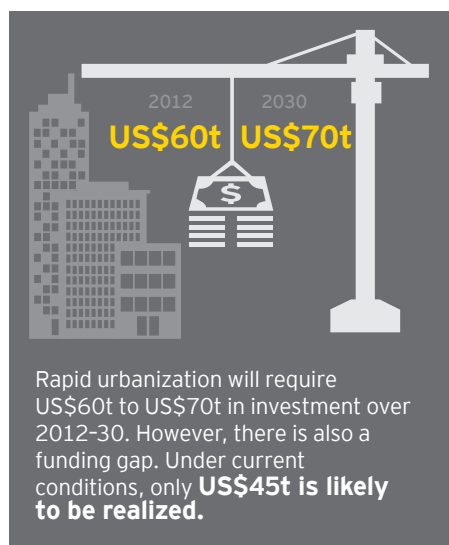
### 3 Local destinations or global FDI nations

- ▶ Outside of Europe and the Gulf, the region lacks recognition, especially when compared with India's and China's success in attracting FDI.
- ▶ The rest of the region has many ingredients for outperformance: diversity, talent, a young labor force, rising purchasing power and an educated diaspora.
- ▶ Its potential is reflected in rising investment, including that from Chinese global powers interested in infrastructure, natural resource or logistics. While leveraging its central location between Europe, Asia and Africa, the region is developing aviation, tourism and retailing to become a global destination and travel hub. While Dubai is already recognized as such a destination, Turkey – Istanbul in particular – is shaping its offer to capture more traffic in business and tourism.



Global cities will accrue greater economic power and affluence

Source: EY Megatrends 2015.

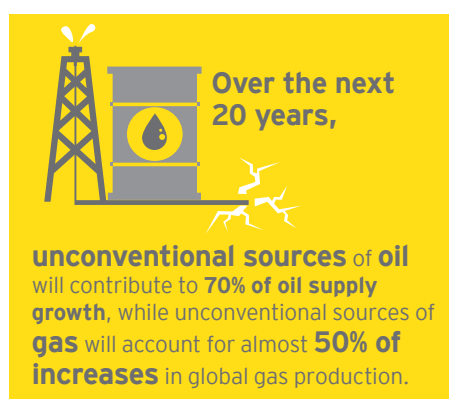


Source: EY Megatrends 2015.

### 4 Megacities or national opportunities

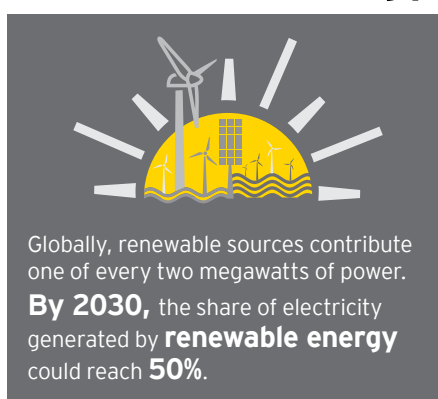
- ▶ Cities in the region are growing, reflecting the global trend of people congregating in large, well-connected urban areas.
- ▶ Rising populations create the need for more and upgraded homes, offices, factories, sports and leisure facilities, and other infrastructure.
- ▶ Construction offers scope for groundbreaking sustainable city technologies.
- ▶ Spectacular new cities and districts are springing up in the Gulf countries, Turkey and Egypt, where urbanization is expected to grow from 43% in 2010 to 57% in 2050, according to the World Bank.
- ▶ In some of the BaroMed countries, this urban sprawl creates vast development and economic differences, which in turn may generate political and social unrest.

### 5 Natural resource scarcity or renewable energy



An increasing supply of unconventional and renewable sources of energy will change the dynamics of the global energy mix.

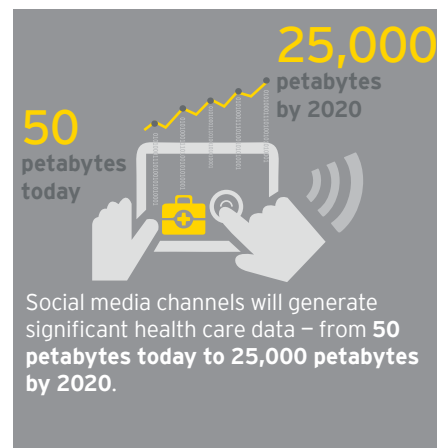
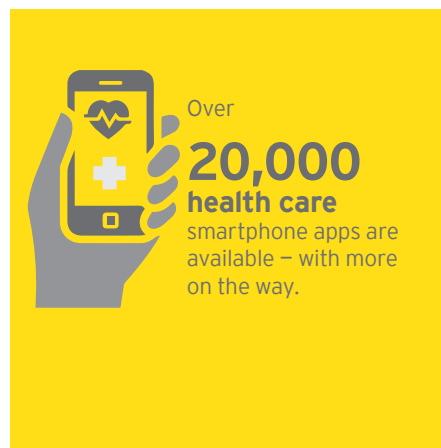
Source: EY Megatrends 2015.



- ▶ Competition for natural resources will intensify, drawing investors to secure or augment supply. The supply and security of water, food and energy will all pose challenges.
- ▶ Growth of unconventional and renewable energy supplies is shifting the global energy mix.
- ▶ For combating the adverse economic impact of climate change, governments and companies will need to enhance protection against extreme weather events.

## 6 Social development or available technologies

- ▶ A drive for universally affordable health care is expanding and reshaping provision.
- ▶ Cost, quality and capacity factors are spurring clinic construction and “health tourism.”
- ▶ Mobile devices and big data have brought in a new era of more personalized and connected monitoring as well as care.
- ▶ The development of health care, welfare and education systems is spurring innovation and opportunities for entrepreneurs and multinationals.



Health care will become more connected to daily life through the growth of mobile and social health solutions.

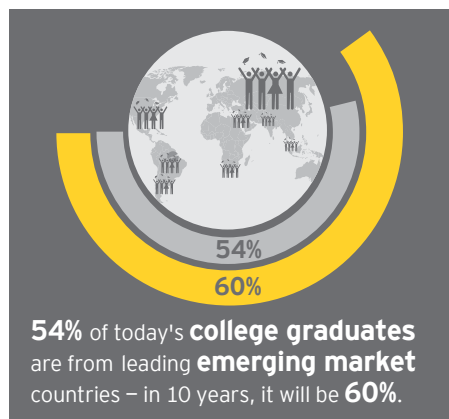
Source: EY Megatrends 2015.

## 7 Accountability or instability

- ▶ Transparency of business conditions is increasingly vital to attract foreign investors.
- ▶ Even though the BaroMed region has progressed on this topic, it still experiences roadblocks to investment and sustainable growth, particularly with regard to the unpredictability and instability of legal and financial environments.
- ▶ E-solutions and e-governance are spreading and helping to resolve transparency issues, enhance service delivery and increase user-friendliness.



Source: EY Megatrends 2015.



Source: EY Megatrends 2015.

## 8 New services or old industry

- ▶ Improved supply chain and skills have helped recapture some manufacturing and back offices that had been offshored to India, China and Eastern Europe.
- ▶ The discovery by companies not only from Europe and the US, but also from China and India, that the region is a viable and quality destination will spur new investment in advanced manufacturing and services.
- ▶ The region's new megacities have been attracting some of the world's brightest minds, and boast world-class universities and museums.

# Business implications

## What does all this mean for business?

Alongside multiple geopolitical, governance and strategic implications are the concrete, pragmatic, short-term, hard questions that will spring to the minds of business leaders.

**1 Making the best compromise between growth and stability.** What are the priority markets? What are consumers' expectations and decision modes? How is it best to segment not only the market, but the go-to-market approach?

**Understanding fast-changing emerging markets.** By 2050, high-growth economies in the region will overtake some mature countries in terms of GDP, growth, innovation and adoption of disruptive technologies. Millions of people across the region will become sophisticated consumers. Countries will need to develop infrastructure fast enough to match the rapidly growing needs of industries and their supply chains. Governments will need to undertake reforms that promote transparency, fairness and openness. And they will need to grasp the benefits brought by inward investment.



### How EY can help

EY professionals have cutting-edge expertise and an unparalleled track record in strategic planning, market studies and financial modeling for complex investments. Building on a presence in all emerging and mature economies, our Assurance, Transaction, Tax and Advisory Teams provide multinationals and entrepreneurs with the most up-to-date insight, helping them design successful growth strategies.

## 2 Making the right location decision. What will be the real costs of doing business today and tomorrow? What skills are available, and where? In which emerging hotspots should you set up your next manufacturing, shared services or R&D facility?

**Seeing beyond apparent direct cost advantages for companies – to a more complex reality.** When preparing a business case in this region, decision-makers must look at the full picture of both apparent and less visible costs and their likely future evolution. More than elsewhere, companies must pay attention to inflation, indirect costs (turnover, productivity, bottlenecks in infrastructure, and shortages of skills and resources), and availability of cash grants and incentives that can reduce capital spending.



### How EY can help

In the past 20 years, our International Location Advisory Services Team has assisted companies of all sizes and sectors in setting up their operations worldwide. EY's approach is to look at the full range of factors affecting international operations: costs (entry, operations and exit), geopolitical risks, market opportunities and infrastructure quality. Our professionals benefit from a vast network of relationships with government bodies, local suppliers and service providers.

**Optimizing talents.** The race is on for skills, talent and creativity in an environment where competition for specific skills gets fiercer every day. Besides paychecks, getting the best out of a talent pool may require shifting to more flexible business operating models, multicultural approaches or collaborative partnerships. New forms of outsourcing and co-sourcing of production and service delivery bring new opportunities.



### How EY can help

Our Human Capital and People and Organizational Change Teams will put their deep knowledge of each sector alongside you to find and secure the right workforce to ensure the present and future success of your business.

### 3 **Opening a new activity.** What are the dos and don'ts when setting up business in the region? How should you navigate the complex and varied procedures? How should you prepare and operate within multiple tax environments? How does this region compare with other regions and countries?

**Risk management is now at the heart of a company's location decisions, prompted by the prevailing climate of uncertainty.** Companies are sharpening their focus on the balance of risks and rewards everywhere across the world, particularly in high-risk countries.



#### How EY can help

EY's global risk teams will identify the key risks for your organization and its international operations, provide rapid diagnosis and assessment, and transform your risk management so that you can optimize your operations.

**Tax and regulatory environments can vary dramatically between countries and are notoriously complex.** Thoroughly understanding current legislation will help you reduce risk and costs for your business. Tax optimization can be crucial in maintaining the competitiveness of your operations in a globalized world. You need to understand how the tax and regulatory landscape may change over time and affect the return on your investment.



#### How EY can help

Covering a wide range of jurisdictions, our global and local teams of tax professionals can help you tackle a range of tax issues, from local tax accounting to tax performance and cross-border taxation, and can help you see how the current environment could affect your business and any regulatory changes that might lie ahead.

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