

Swiss Attractiveness Survey

What Foreign Companies Say

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Editorial

More and more international companies are choosing Switzerland as the place to establish their International Headquarters or Principal Companies in Europe. Foreign companies generate 8.2% of the total Swiss GDP, but it is often said that as soon as the companies have settled down in Switzerland they weren't well looked after. With a survey based on an inquiry among international firms in Switzerland we wanted to verify this statement. But at the heart of these facts is the basic question – what makes Switzerland so attractive to international businesses?

Traditionally, taxes have been one of the key reasons for locating in Switzerland, but the relative importance of other factors is definitely increasing. The high quality of life in Switzerland is one very attractive incentive for employees, while the highly skilled labor force, the competitive business environment and flexible labor laws make it also very attractive for employers. Additional factors that Switzerland offers include a sophisticated and modern infrastructure with a high degree of operational reliability, easy access to government agencies and services, as well as a diverse and multicultural tradition. Existing industry clusters, such as Biotechnology, Financial Services, Trading and Pharmaceuticals also help define Switzerland as a thriving place to do business.

We hope that this report will provide you with the necessary information and insights to persuade you to make Switzerland a future home for your company. Professionals at Ernst & Young in Switzerland offer a wide range of advisory services and products that can help you settle here successfully. Based on our worldwide Ernst & Young network, we are in the perfect position to quickly access the necessary resources and know-how required to understand all the issues in both your current local environment, as well as here in Switzerland. It is our global presence combined with in-depth local experience that enables us to provide our clients with outstanding business solutions and services. Therefore, if you are considering Switzerland as a future home for your company, we are here to offer you our full support along the way.

It is with great pleasure that we present you the first Ernst & Young Swiss Attractiveness Survey. On behalf of all involved in this project, we also would like to thank **Yvonne Ackermann** (lic. phil., Rochester-Bern Executive MBA, Chief Knowledge Officer) and **Andrea Isler** (lic. oec. HSG, Communication Specialist) for their work on the survey.

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1. Executive Summary

■ This study has three major elements to it. First, it includes an analysis of recent facts and figures regarding Switzerland. Some of these points may be factual, such as the long working hours and ultralow absenteeism, while others like the country's multicultural nature and skilled workforce help create a more complete picture.

The second part contains the results of Ernst & Young's ongoing survey of foreign direct investment (FDI) into Europe, which shows that 2005 was a record year, with Switzerland continuing to be one of the most attractive locations for FDI. In fact, together with Belgium, Switzerland is the only country, among the top 15 European countries, which registered a strong increase in FDI market share in 2005 over 2004.

The third element is the survey we conducted of international executives currently working within Switzerland. A clear message from this survey was that Switzerland is the top destination in Europe for locating an International/European Headquarters. Overall, 74% of the executives surveyed would certainly or probably choose Switzerland again as a business site and are even considering expanding their businesses here. Furthermore, Switzerland is also the most preferred European location to establish either an R&D or an administration/accounting center.

A key reason Switzerland rates so highly is its outstanding quality of life, which 71% of the executives rated as very attractive. 75% of those surveyed also rated as very attractive Switzerland's clear and stable political, legislative and administrative environment, with 65% rating the stable social environment very highly as well. Other particularly strong features include the flexible labor laws and the favorable tax environment or tax incentives with 56% of those surveyed giving each factor the highest rating. Additional important and attractive attributes of Switzerland are the role it plays in the global economy as a center of competences; its great diversity and intercultural tradition; its highly reliable infrastructure which includes transportation, logistics and tele-

communications; its qualified labor market and the accessibility of the Swiss government.

Due to the improvement of Switzerland's attractiveness during the past years, Switzerland has been able to keep up with the other countries in terms of competitiveness. In addition, more than 50% of the executives responding to the survey are convinced that Switzerland is on a good track and will defend its strong position as a place for new business by continually improving what it can offer both employers and employees. Of course some may say that Switzerland has not moved fast enough or far enough in improving itself as a business location over the past few years. However, our survey clearly states that foreign managers investing and working here believe that Switzerland has been on the right track for some time now, and has a clear commitment to continuing to improve in the future.

This study concludes with a SWOT analysis that summarizes the strengths, weaknesses, opportunities and threats that Switzerland faces as it strives to maintain and improve its status as a place where international businesses can thrive on safe ground. While some countries within Western and Central Europe may be feeling fierce pressure from low-cost and low-wage countries within Eastern Europe or Asia, Switzerland is less. Its enduring focus on developing a highly skilled and specialized labor force, as well as a competitive business environment have, to a considerable extent, allowed it to take advantage of the changes created by globalization, rather than fear them. ■

2. Switzerland: Facts and Figures

As a place to do business, Switzerland is nearly always at the top of any international comparison. Its fundamentals regularly achieve top ratings due to its efficient legal system, long-term stability and protection of free competition and property ownership. Additionally, it ranks among the countries with the longest working hours and the highest per-capita spending on science, research and education, which may be one reason it ranks high in regard to the number of patents per capita.

While these issues are clearly important, the three most typical reasons given for why more than 6500 foreign companies are currently operating in Switzerland are:

- Switzerland is an attractive market
- Switzerland offers unique skills and production capabilities
- Switzerland serves as a gateway to Europe

The most important drivers of the contribution of these companies to the Swiss GDP come from employment and associated salaries. As the table (figure 1) shows, foreign companies generate 8.2% of the total Swiss GDP.

International companies also provide strong indirect benefits. For example, foreign headquarters contribute to the growth of many local service suppliers, including professional services, IT services, construction and real estate management, security services, transportation, and travel and entertainment.

2.1 Switzerland's unique selling propositions

Switzerland is proud of its reputation as one of the best business locations in Europe. One simple advantage is its location. It is in the heart of Europe allowing for easy access to the entire European market, as well as the Middle East. But it is also centrally located between the Americas and the Far East, both only a rea-

Comparison of foreign companies' contributions to the Swiss GDP in 2003

	GDP			GDP	
	bn			bn	
Sector	CHF	Share	Canton	CHF	Share
Retail/wholesale	50	12%	Zurich	91	21%
Public administration	47	11%	Berne	52	12%
Banking	40	9%	Vaud	39	9%
Foreign companies	35	8.2%	Foreign companies	8.2%	
Services/real estate	34	8%	Argovia	34	8%
Machinery	29	7%	St. Gall	25	6%
Health care/soc. syst.	25	6%	Geneva	24	6%
Construction	23	5%	Lucerne	17	4%
Insurance	23	5%	Basle-City	17	4%
Chemicals/pharma	23	5%	Others	135	30%
Telecom/IT services	20	5%	Total	434	100%
Others	120	28%			
Total	434	100%			

Figure 1: Foreign companies make a significant contribution to the Swiss GDP.

Source: BFS, SNB, BCG analysis (2006).

sonable plane flight away. However, there are a wide range of other factors that make Switzerland a highly attractive place in which to locate a business, as well as to work and, of course, live.

2.1.1 Center of competence

As most people know, for its small size Switzerland plays quite a large role in international financial markets. But its reach is far greater than simply finances because it is also home to a significant number of international organizations, such as the United Nations, the World Health Organization and the World Trade Organization. In addition to these resources, it has a number of

very substantial industry clusters, including Biotechnology, Pharmaceuticals, Financial Services, Watch Manufacturing and Trading.

And yet, Switzerland is not standing still, which is why its investment in Research & Development already meets the 2010 goals that the EU set for itself in Lisbon (3% of GDP in R&D with two-thirds financed by business). Switzerland currently spends 2.94% of GDP on R&D with more than two-thirds coming from business, while the EU is at 1.9% of GDP with 55% coming from business. Finally, a large number of international trading companies are also located in Switzerland, supported by a wealth of insurance companies, law firms, banks, fiduciary companies, freight forwarding companies, as well as surveillance and security firms, all of which help certify it as a true center of global business.

2.1.2 A diverse and multicultural tradition

For a country with around seven and a half million inhabitants, Switzerland possesses a truly international and multicultural heart, which is one of the reasons that such a wide variety of multinational companies feel comfortable making their home here. Its history, location and well-defined federal structure make the country, which has four national languages, a true meeting point of cultures. Geographically at the crossroads of Europe, Switzerland is also equidistant between the Americas and Asia. Over the years this gathering of people from many different cultures has led to the founding of a wide variety of international and English-speaking clubs and associations. Fundamental to this entire multicultural tradition is the Swiss education system, which maintains outstanding international primary and secondary schools, as well as top-rated public schools and a university system that offers acclaimed programs with an international orientation. Due to this diversity of language and culture, English is commonly used throughout the country making

it easy for English-speaking employees and their families to settle down quickly.

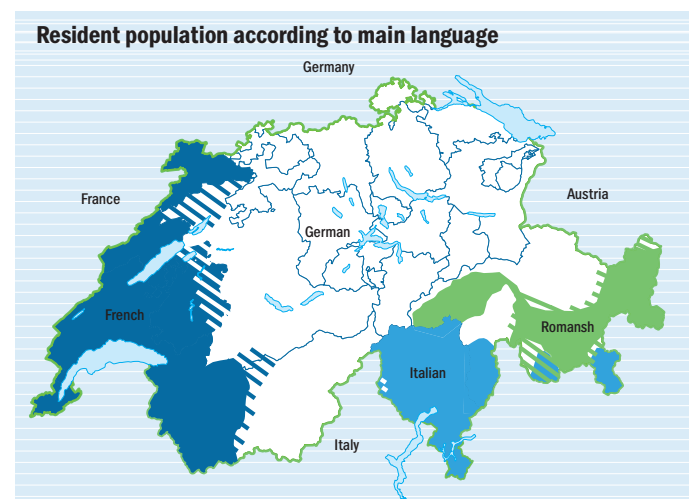


Figure 2: Switzerland's four language regions.

Source: Federal Population Census.

The map above (figure 2) depicts Switzerland's multilingual diversity:

- German (white – 63.7%); spoken in the central and eastern parts of Switzerland. 17 of the 26 cantons are German-speaking.
- French (dark blue – 20.4%); spoken in western Switzerland. Four cantons are French-speaking. Three cantons are bilingual, speaking both French and German: Bern, Fribourg and Valais.
- Italian (light blue – 6.5%); spoken in the southern part of Switzerland. The canton of Ticino and the four southern valleys of canton Grisons are Italian-speaking.

– Romansh (green – 0.5%). This language is spoken only in the canton of Grisons. Almost all Romansh-speaking people are bilingual. Grisons is the only trilingual canton in Switzerland.

Over the last few years there has been a growing importance of English in many cantons. In fact, a number of German-speaking cantons have begun teaching English to children as the first foreign language.

2.1.3 Highly reliable infrastructure

According to international ratings, Switzerland has the best maintained and developed infrastructure after Singapore and Finland. Whether it is telecommunications, rail, auto or air, Switzerland has a well-deserved reputation for reliability and timeliness. Its state-of-the-art telecommunications network is among the most advanced in the world and is constantly being upgraded to take advantage of the latest technological advances. In fact, no other country invests as much per capita on telecommunications as does Switzerland.

Since Switzerland is a relatively small country, travel by car or public transport is easy and efficient. The public transport system is one of the most modern and reliable in the world and relatively inexpensive. All of this makes getting around the country very easy. In fact, it is actually difficult to find a place more than 90 minutes away from any one of the three main airports: Geneva, Basel or Zurich. Once you are in a city, the network of intra-city public transportation on buses and trams meshes seamlessly with the national rail system, which is unrivalled in Europe.

A «Financial Times» journalist noted in a recent article about Zurich that «the city is a place with public transport that provides a system that seems to be running on some divine timetable, drawn up purely for the love of its citizens.» While the transport infrastructure within Switzerland is world class, the Geneva and Zurich airports also offer regular connections with

other world capitals. Recently, many low-fare companies have begun operating to and from Switzerland. In total the Swiss infrastructure allows companies, employees and their families to easily stay connected with the international community whether that is through cyberspace, on the ground or through the air.

Figure 3 illustrates the well-deserved reputation for punctuality of the Swiss rail network. It shows that more than 96.1% of the passenger trains had less than 5 minutes delay on arrival (in 2005, it was 95.5%).

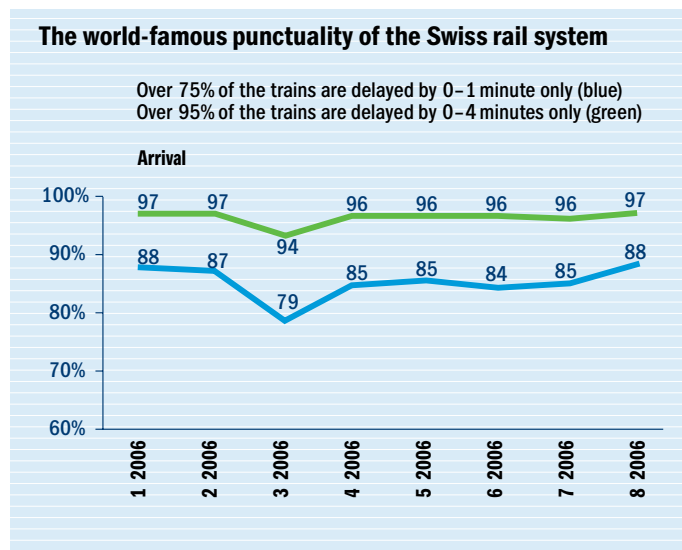


Figure 3: The timeliness of Swiss trains is almost unbeatable.

Source: www.sbb.ch.

2.1.4 Quality of life

Switzerland has a well-known reputation for having a high standard of living, which was again proven recently, when the Swiss cities of Geneva and Zurich were determined to offer the best quality of life according to research published by Mercer Consulting in April 2006. Of course, many factors go into making up a «high standard of living,» but certainly the country's stable

political and social environment, its low crime rate and effective law enforcement, along with its various recreational possibilities and the agreeable natural environment contribute to that high standard. This high quality of life in Switzerland is one very attractive incentive for employees. While the highly skilled labor force, competitive business environment and flexible labor laws created by the stable political and social environment make Switzerland also very attractive for employers.

One area of particular importance for employees and their families who are asked to move to a new country is the availability of leisure activities. Whether you seek adventure, solitude, popular festivals or classical arts, Switzerland's physical landscapes and cultural richness offer activities of every kind:

- The world-famous mountains and lakes provide year-round activities for nature lovers and sports enthusiasts.
- The country is home to major cultural events, such as the music festivals in Montreux and Lucerne and a film festival in Locarno, as well as many other smaller festivals celebrating seasonal events.
- There are regular concerts for music lovers of all kinds, the Zurich Opera House and the B ejart Ballet in Lausanne, and you can find first-rate museums with collections of international arts, national and local arts and industrial developments, such as watches and textiles.
- The towns and villages have numerous clubs for all types of sporting activities, including cycling, skiing, sailing, mountain climbing and horseback riding, among many others.

2.1.5 Qualified labor market

Swiss employees are known for the high quality of their work, as well as for their strong work ethic. Combined with this is the highly skilled and multilingual nature of the workforce, which makes it easy for companies to find a qualified labor force for their business operations in an environment where strikes are uncommon. While it may be easy to find qualified workers, extremely flexible employment legislation also gives employers a large amount of

freedom when concluding employment contracts. Additionally, in the past few years the process for obtaining work permits for qualified foreign employees has been greatly simplified.

With regard to social security and pension obligations, Switzerland has one of the most advantageous and cost-effective systems in Europe. It also has a strong network of totalization agreements with other countries that allow, for example, expatriates to maintain coverage in their country of origin during their placement in Switzerland.

One of the accepted truths about Switzerland is that labor costs are high. In fact, industrial labor costs have risen more slowly than in some other industrialized countries (figure 4).

Industry labor costs				
Country	Labor costs in EUR per hour (year 2002)			Level of labor costs
	Total	Direct wages	Additional costs	Switzerland = 100
Norway	28.52	19.20	9.32	109
Germany (West)	26.36	14.74	11.62	101
Switzerland	26.23	17.20	9.03	100
Denmark	25.73	19.64	6.09	98
Finland	23.20	13.05	10.15	88
Netherlands	22.64	12.63	10.01	86
USA	22.44	16.18	6.26	86
Austria	21.64	1.19	11.45	83
Japan	20.18	12.06	8.12	77
UK	19.90	13.76	6.14	76
France	19.50	10.20	9.30	74
Italy	16.60	8.53	8.08	63
Spain	16.37	8.42	6.96	59

Figure 4: A comparison of labor cost levels among major developed countries. Source: Institute of the German Economy, Cologne (2003). www.iwkoeln.de.

The total cost of labor depends not only on the direct wage and ancillary wage costs, but also on the total number of hours worked per year and the costs of absenteeism (figure 5). In Switzerland, the annual working hours are clearly longer than in other European countries, with a maximum working hour limit of 45 hours for employees in the manufacturing industry and 50 hours for other employees. Statutory minimum vacation for employees is a comparatively low 20 working days per year or 25 for employees under the age of 20.

Working hours, vacation/holidays in international comparison			
Country	Annual costs	Annual costs	Weekly hours
	hours (2004)	paid holidays days	worked hours
Ireland	1,842	35	40.8
Switzerland	1,861	31	40.5
Italy	1,752	39	39.5
USA	1,848	25	39.2
UK	1,710	38	38.4
Germany	1,646	43	37.8
Belgium	1,720	32	37.6
Netherlands	1,632	39	36.8
France	1,580	35	35.0

Figure 5: Switzerland ranks very high on hours worked.

Source: Economic Promotion Geneva, International Comparison 2004, based on: Corporate Consulting & Technology (CCT SA), July 2004.

As the chart below shows (figure 6), the number of days lost to absenteeism due to illness and other reasons in Switzerland is very low. An important factor here is that strikes are practically nonexistent.

Working days lost through absences per year and 1000 employees (average 1993–2003)

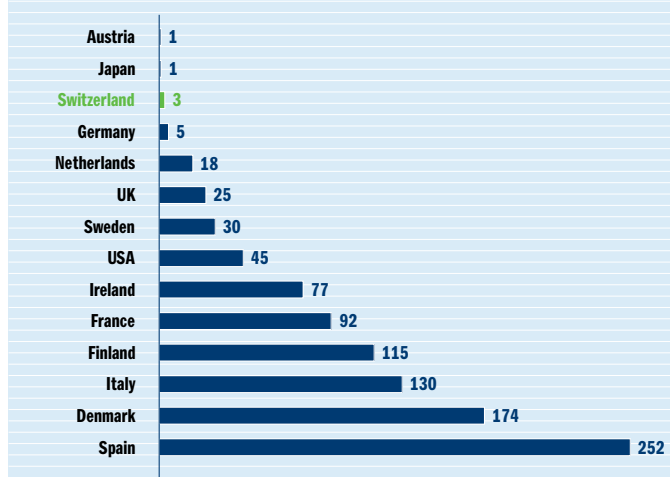


Figure 6: A very low number of working days are lost per year in Switzerland.

Source: Credit Suisse, Spotlight, 10 September 2004, based on: Institut der deutschen Wirtschaft, ICO and OECD 2004.

2.1.6 Access to government agencies and services

Swiss federal and cantonal authorities recognize the importance of having foreign companies invest in Switzerland, which creates an atmosphere of dialogue, collaboration and innovation ready to challenge, if necessary, the currently established processes. For example, the Department of the Economic Promotion can often assist in cutting through some of the administrative issues that newly established Principal Companies or Headquarters face. As an additional assistance to international firms, the government also provides incentives for training employees in new skills and can make low-cost loans available.

In 2005, the Economic Development Departments (Wirtschaftsförderer) of the cantons brought a total of 510 new foreign firms into Switzerland. These companies created 2,470 new employment opportunities in the Swiss economy¹.

¹ <http://www.arbeitgeber.ch>

As the map below (figure 7) illustrates, in Switzerland there are 26 Economic Development Departments (Wirtschaftsförderer), associated with the cantons, as well as two associated with Greater Zurich Area and Western Switzerland.



Figure 7: Departments of Economic Development across Switzerland.

Source: seco.

2.2 Switzerland and Europe

As the EU continues to expand, the pressure on Switzerland to join has increased and is still increasing. However, Switzerland has been able to maintain its strong position within the European market through Bilateral Agreements with the EU. Via a Bilateral Agreement to join the Schengen system, Switzerland will soon have access to the instruments for cooperation on security within the EU. The Schengen agreements abolish controls of persons at the internal frontiers of the EU, and permit the

free movement of persons between member states. Due to these agreements Switzerland often serves as a gateway to Europe for many companies.

The strong relationship between Switzerland and the EU is demonstrated by the over 600,000 EU nationals currently working in Switzerland, who make up almost 16% of the workforce. Another element of this relationship is trade. Switzerland is the third largest goods supplier and second largest customer of the EU, and 47% of the Swiss direct investments are placed in the EU area. While Switzerland is not a member of the EU, the dense network of treaties create close economic ties, and ensure that Switzerland continues to play its role in Europe as a political partner, a location for industry and trade, and a financial center.

2.2.1 Foreign direct investments: project origin by geographic category

In this section there will be additional focus on Switzerland's strongest competitors: Ireland, Luxembourg and the upcoming Eastern European countries Slovenia, the Czech Republic and Hungary.

2005 was an extremely strong year for foreign direct investment (FDI) into Europe – the Ernst & Young European Investment Monitor (EIM) recorded more projects than in any previous year. The 3066 total number of projects represented a 5% increase over 2004, which was itself a record year (figure 8).

This growth in investment in 2004 and 2005 has been stimulated more by the increase in cross-border European investment than anything else. In fact, there has been a continual shift in the source of FDI into Europe towards cross-border European investment and an absolute decline in US and Japanese investment between 1997 and 2004 (figure 9).

This rise in the overall number of investment projects also reflects the strength of the global economy and the growth in

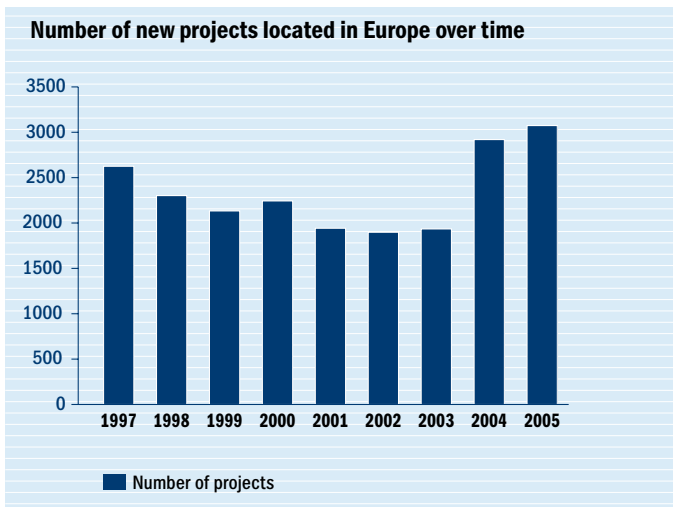


Figure 8: 2005 was a record year for foreign direct investment.

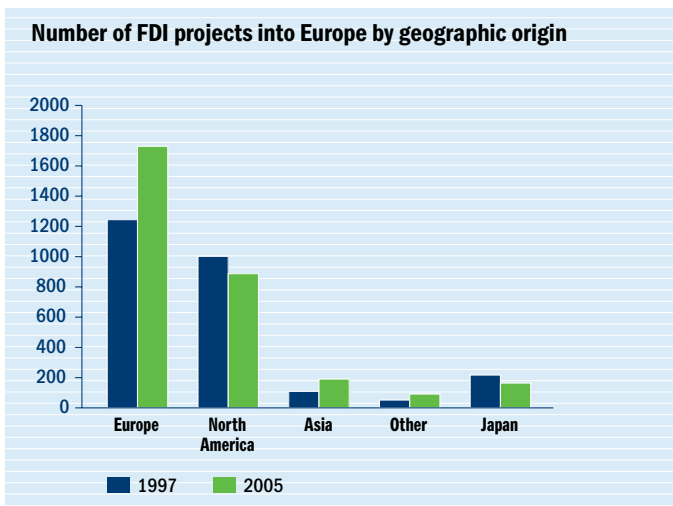


Figure 9: Continual shift in the source of FDI into Europe towards cross-border European investment.

attractiveness of the European market, with the economies of the Baltic, Central Europe and the East not only providing lower cost locations for production, but also representing increasingly important consumer markets in their own right.

As mentioned earlier, the 3066 FDI projects into Europe are a record. Switzerland's market share in 2005 of the total number of projects in 2005 is 3%. Together with Belgium, Switzerland is the only country among the top 15 European countries that

**Winners and losers 2004/2005:
Switzerland is clear winner in 2005**

Countries	Number of FDI in 2005	Market share 2005 (%)	Market share 2004 (%)	Evolution of market share 2004/2005
Belgium	180	5,9%	3,7%	+2,2
Switzerland	93	3,0%	1,5%	+1,5
Netherlands	82	2,7%	1,9%	+0,8
Poland	180	5,9%	5,1%	+0,8
Spain	147	4,8%	4,2%	+0,6
France	538	17,5%	17,0%	+0,5
Germany	181	5,9%	5,7%	+0,2
Czech Republic	116	3,8%	3,9%	-0,1
Sweden	96	3,1%	3,4%	-0,3
Ireland	67	2,2%	2,6%	-0,4
Romania	85	2,8%	3,2%	-0,4
Russia	111	3,6%	4,0%	-0,4
Slovakia	70	2,3%	2,9%	-0,6
Hungary	115	3,8%	4,8%	-1,0
UK	559	18,2%	19,5%	-1,3
Other	446	14,5%	16,6%	-2,1
Total	3066	100,0%	100,0%	

Figure 10: Switzerland is one of the most attractive sites for FDI.

registered a strong increase in market share in 2005 as compared to 2004 (figure 10). The rise in market share of +1.5% for Switzerland and +2.2% for Belgium leaves the three leading European destinations for foreign direct investments clearly behind in terms of market share growth. The United Kingdom's market share actually declined by -1.3%, while France grew by +0.5% and Germany by +0.2%. Switzerland's increase over the last few years is based mostly on investments coming from the USA and Germany. Clearly, Switzerland continues to be one of the most attractive locations for foreign direct investment.

2.2.2 Origins of foreign direct investments

In every year since 1997, the single largest source of investment in Europe has been the United States. This remained the case in 2005, although, as figure 9 demonstrates, the proportion of investment from the USA as a total of all European investment has fallen. In absolute terms, the USA generated 811 projects in 2005, and while this is the highest number of projects since 2000, the actual number of projects remains below the levels recorded in each of the years prior to 2000.

For Switzerland the USA still remain the largest investor with 42 investments in 2005 (figure 11). Moreover, US investment in Switzerland has jumped in recent years to roughly 100 billion USD annually². The majority of the US investment goes toward the support of headquarters locations, as well as sales and marketing (figure 11). As an example, around 650 American companies, including Google, IBM and McDonald's, operate in Switzerland, and some, such as General Motors, Procter & Gamble and Hewlett-Packard, have chosen Switzerland as the location for their European or International Headquarters. Another important investor is Germany. German investments in Switzerland flow mostly into sales and marketing activities, followed far behind by investments in manufacturing and logistics.

² Andersen, Robert. «CH and US: the ties that bind: Switzerland and America have a lot more in common than most people think.» In: *Swiss News*, 1st March 2006.

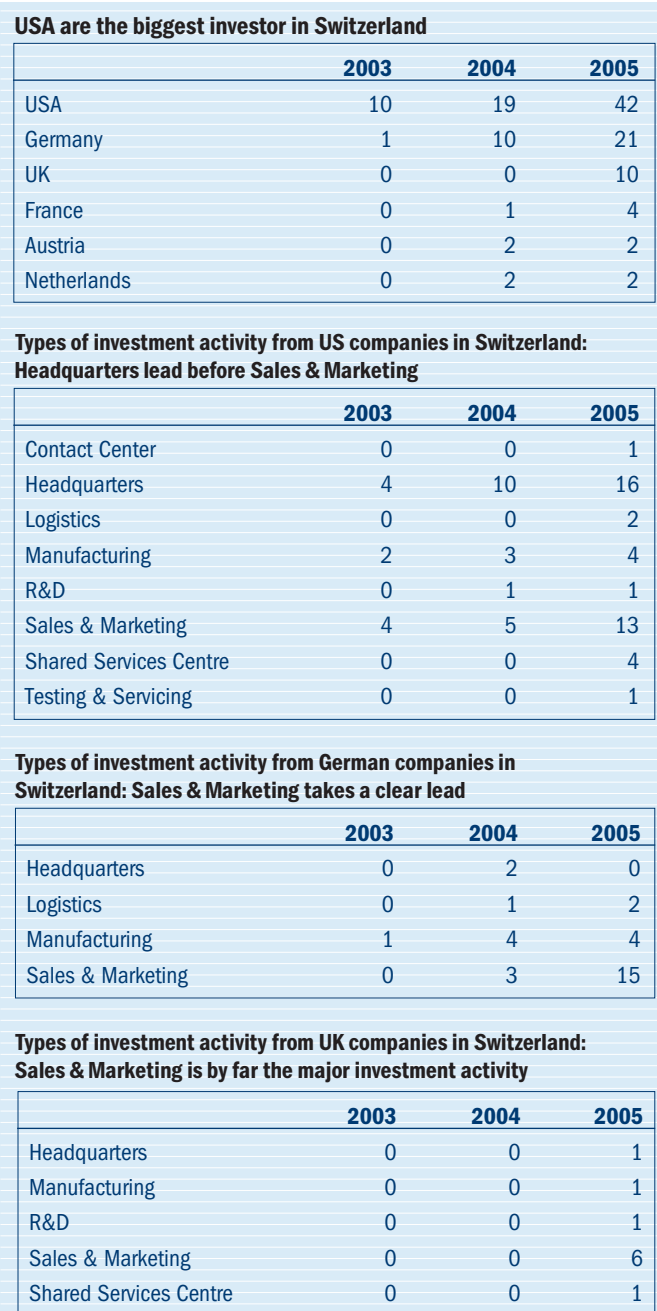


Figure 11: US investment in Switzerland has made an enormous jump in recent years.

2.2.3 Preferred sectors for foreign direct investment

To make a successful investment, a company requires a number of things, including the availability of the right skills, the appropriate business infrastructure and an effective supply chain. As a result, single sectors tend to favor certain locations.

When looking at the data, what becomes apparent is the continued importance of Western Europe as a location for investment. Despite the growing increase in the performance of lower-cost European locations, France and the UK still lead in each sector, and it is only within the automotive sector that Eastern and Central European locations threaten to take the lead.

The relative position of the five leading sectors in generating investment projects between 1997 and 2005 is illustrated below (figure 12). Switzerland is a typical services-oriented country: with an increase of over 170% in the Business Services sector from 2004 to 2005, which continued the strong growth that started in 2003. The second strong sector into which Switzerland has

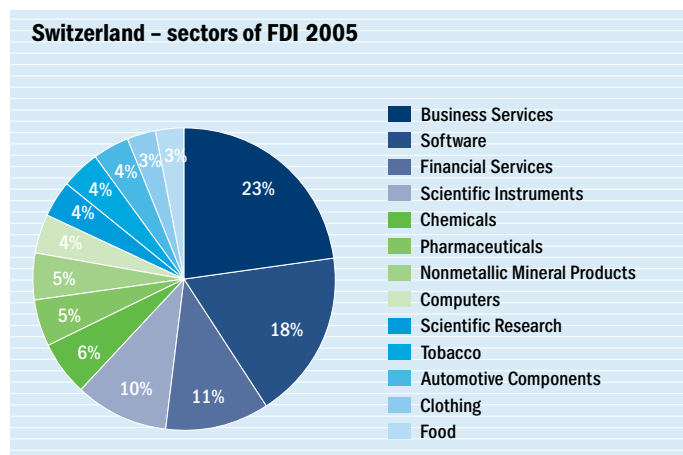


Figure 13: Switzerland has received major investments in the Business Services and Software sectors.

received major investments is the Software sector. This is one of the reasons why it is home to more than 600 enterprises engaged in research and development of new IT products and services.

Switzerland's two dominant investment sectors, Business Services and Software, reflect the major European developments since 1997 in which business services have seen an explosive growth and software has managed to hold on to its leading position during the same period of time (figure 13). ■

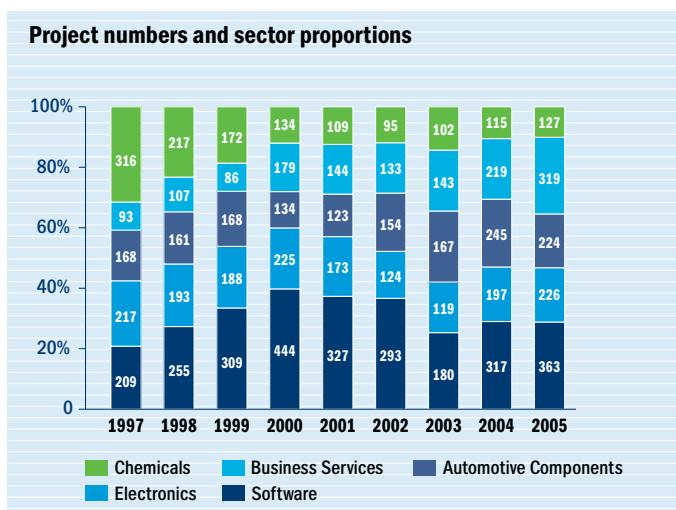


Figure 12: According to the number of newly launched projects, the top sectors in Europe are the above five.

3. Switzerland from within: Reflection and Experience

What is the actual day-to-day experience of leading international executives who have their businesses located in Switzerland? This is the question that will be answered in this section through a series of graphs showing their responses to our survey, along with a number of key insights that help put their responses in context. These insights were gathered from experts at Ernst & Young, as well as through an analysis of many of the issues discussed in chapter three. Together, this information demonstrates why it is not just tax issues that make Switzerland attractive according to the 46 top executives surveyed.

3.1 Criteria for choosing Switzerland

What makes Switzerland an attractive location? What are the criteria a foreign company is analyzing when considering a possible move to Switzerland? What criteria play a crucial role in leading to a positive decision?

The **quality of life** in Switzerland is clearly a key factor of its attractiveness – 72% of the executives rated the quality of life as very attractive and 28% noted it as fairly attractive (figure 14). None of the surveyed executives rated Switzerland little or not at all attractive. Key factors in this area include:

- High-quality homes and apartments are available that can satisfy the most demanding requirements.
- Large urban areas with anonymous housing developments are relatively rare in Switzerland.
- Children can go to school unaccompanied by an adult in all areas of the country.
- The availability of high-quality medical specialists, as well as renowned clinics and institutes using the most advanced medical technologies contribute to a public health care system among the best in the world.
- Switzerland’s physical and cultural landscapes create an ideal location for leisure time activities, many of which were discussed in section 2.1.4.

Switzerland’s **clear and stable political, legislative and administrative environment** (70%; figure 15) as well as **the stable social environment** (65%; figure 16) are the next qualities that are rated as very attractive by the executives. Key factors in this area include:

- Switzerland’s neutrality and stability create a safe place to do business.

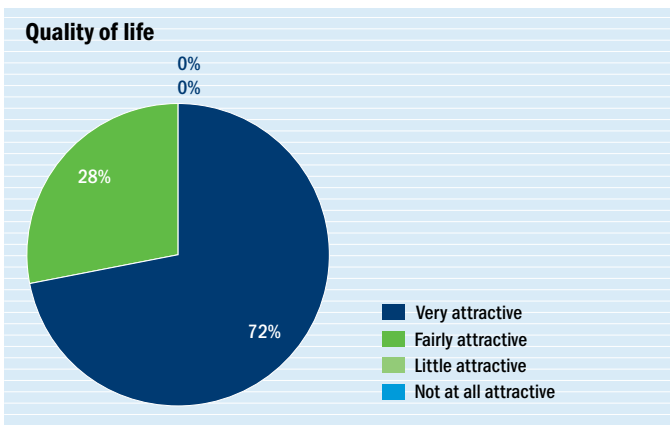


Figure 14: Quality of life is very attractive.

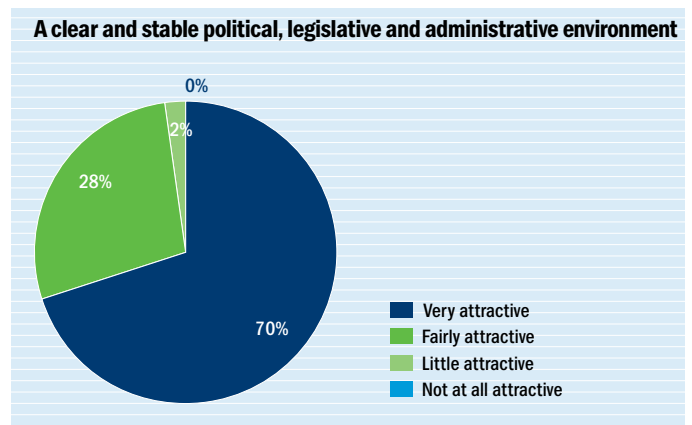


Figure 15: The executives rated the Swiss political, legislative and administrative environment as very attractive.

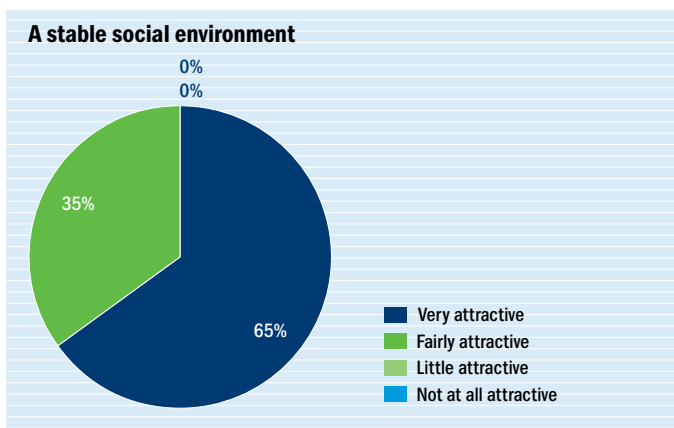


Figure 16: Switzerland's overall stability is rated very attractive.

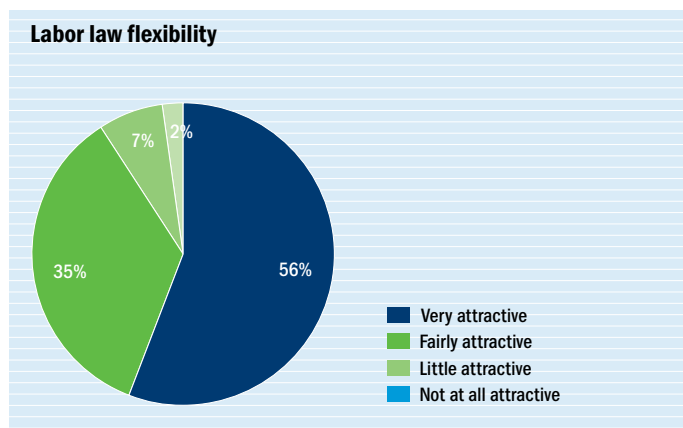


Figure 17: The flexible Swiss labor law is highly appreciated.

- The inflation rate in recent years has continually remained below 1% and is, therefore, clearly lower than in the EU or the USA.
- Low long-term capital costs, a good investment climate, sound public finances and almost no labor strikes guarantee the prosperity and stability of the Swiss economy.
- The Swiss government has created an investment climate that encourages foreign direct investment in the country.

The two features **flexible labor law** (56%; figure 17) and the **availability of low tax rates or tax incentives** (57%; figure 18) are also among the top-rated qualities. Key factors in this area include:

- The Swiss labor laws contain fewer regulations than the EU.
- In accordance with mutual agreements, labor groups seek solutions to conflicts through discussions without resorting to strikes.
- The tax laws include provisions that take into consideration the specific situation of newly established Operations, Headquarters and Principal Companies, as well as the particular issues of expatriates working for these companies.
- «Lex Bonny» allows the government to grant companies tax reductions of up to 100% for as long as 10 years if they settle

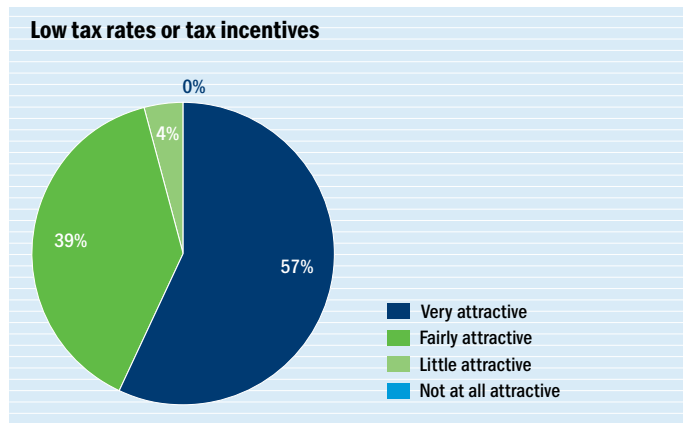


Figure 18: Low tax rates are very attractive.

down in economically weak regions in Switzerland and create new jobs. «Lex Bonny» legally expired on 30 June 2006. The intention is for this law to be replaced by a «New Regional Policy», which would grant similar relief, but which would only enter into force on 1 January 2008. In order to bridge the gap between 1 July 2006, and the entry into vigor of the new law, the Swiss Council of States has accepted to extend the

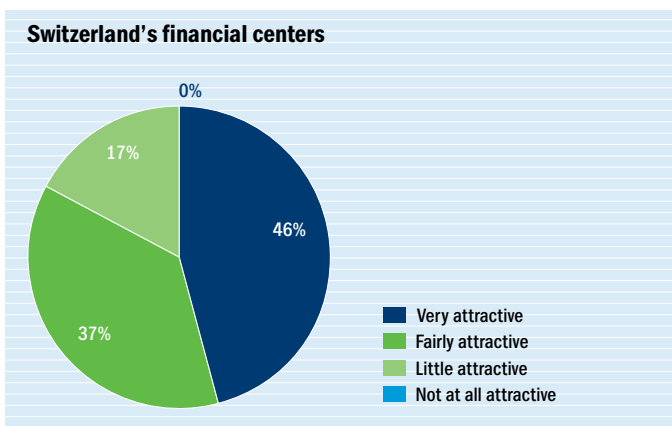


Figure 19: The well-known Swiss financial centers are rated as very attractive.

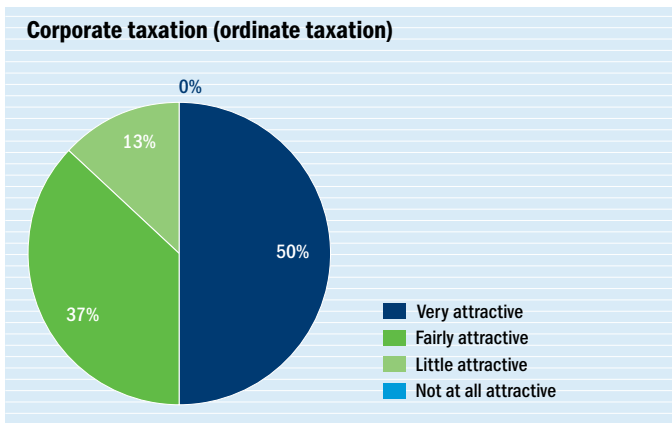


Figure 20: The corporate tax policy is rated as very attractive.

- Bonny Law until 31 December 2008. This is still to be approved by the National Council in the autumn session (18 September – 6 October, Flims) before it becomes applicable.
- In all cantons, the cantonal government may promote the founding of new companies that are of economic importance for the canton or the region by granting total or partial tax relief (e.g. accelerated depreciation rates and higher provi-

sions). Such privileges are always limited to a maximum of 10 years.

Financial centers (46%; figure 19) are together with **corporate taxation** (50%; figure 20) considered to be also very attractive Swiss attributes. Key factors in this area include:

- The banking industry is one of the most important sectors of the Swiss economy.
- The laws regulating the banking system offer extensive protection for domestic as well as foreign investors.
- Only the Confederation can levy indirect taxes and duties on consumption.
- To prevent or alleviate the effects of double taxation in Switzerland and abroad, Switzerland has executed over 60 double taxation conventions, which largely follow the OECD Model treaty.
- Switzerland uses the tax exemption method and does not tax income or net worth that is allocated to the source country.
- Full tax relief is often available for newly established companies for limited periods of time, followed by reduced rates for their international business.

Availability of schooling has been rated either very attractive or fairly attractive by 89% (figure 21) of those surveyed. Key factors in this area include:

- Education has always been a top priority in Switzerland, as evidenced by the high level of financial investment made in Swiss schools, universities and technical institutes.
- The fields of science and technology are promoted by the Federal government and by private industry, encouraging research and development projects in all areas of advanced science.
- Switzerland's unique dual education and training system includes a vast range of education options for students, from vocational training and apprenticeships to university-level courses.
- Swiss universities and institutes of technology are world-renowned for their excellence and high academic standards.

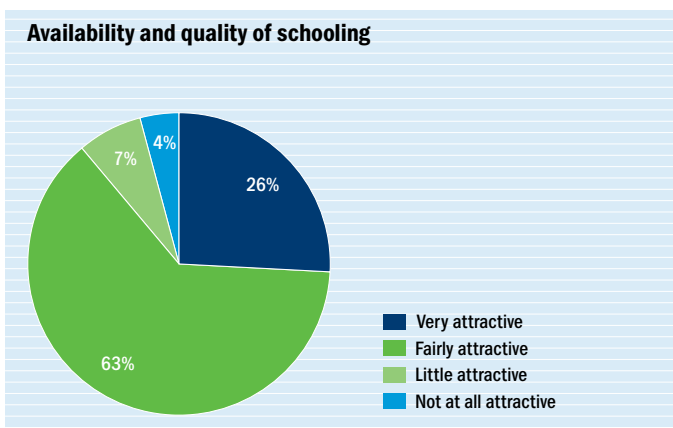


Figure 21: The Swiss schooling system is top rated.

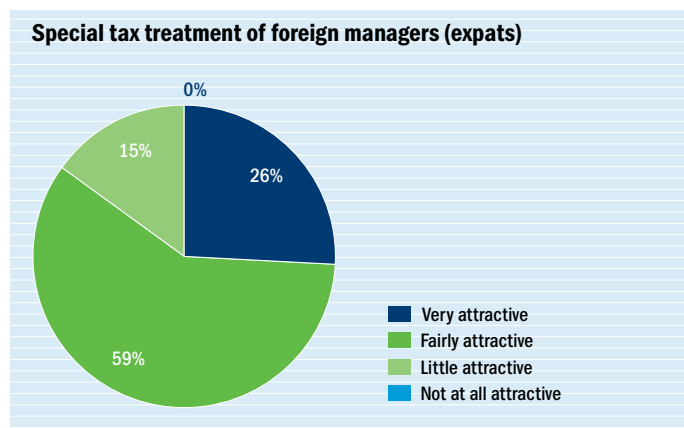


Figure 22: The tax treatment of expatriates is quite attractive.

- Supplementing the public school system are the numerous private and international schools, which enjoy an excellent reputation.
- Beginning in elementary school, students gain foreign language skills, giving them a head start in the multiple languages used in international business and research projects today.

The tax treatment of expatriates has been rated fairly attractive by 59% of those surveyed with 26% rating it very attractive (figure 22). Key factors in this area include:

- Capital gains on the sale of privately held shares are generally tax exempt.
- The following are some of these tax planning opportunities:
- *Cost-of-living allowances*
This is a tax-deductible allowance available for expatriates sent temporarily to Switzerland. In certain cantons, as much as 10% of the total compensation may be characterized as a cost-of-living allowance and deductible for Swiss federal and cantonal income tax purposes for periods of five to ten years.

- *Business expense allowances*
Business expenses reported by the employee on his or her periodic expense report can be reimbursed without any tax implications for the individual. In addition, the Swiss-based Headquarters may provide a flat rate business expense reimbursement designed to compensate the employee for sundry business expenses such as entertaining of customers and other small items incurred in the course of doing business. This amount, commonly referred to as a representation allowance, is deductible from the employees' taxable income and, to a certain extent, from income subject to social security.
- *Schooling allowances*
Swiss-based multinational companies may enter into a «cooperation agreement» with an international school whereby the school undertakes, against a lump sum payment from the company, to educate a specified number of children of the contracting corporation's employees. While currently the lump sum is treated as a deductible business expense for the Headquarters, no earned income is attributed to the employee.

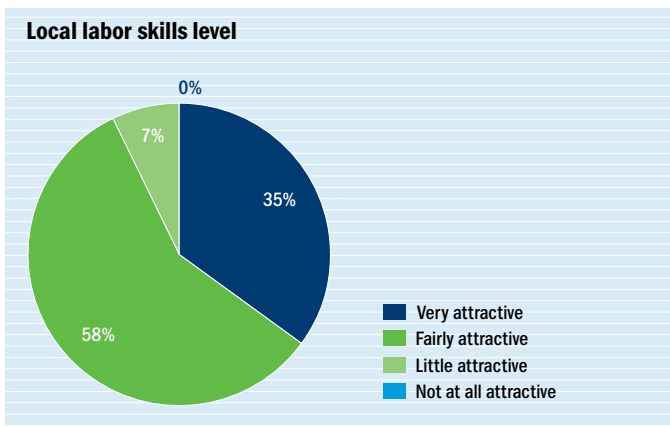


Figure 23: The skills level of Swiss employees is rated as very attractive.

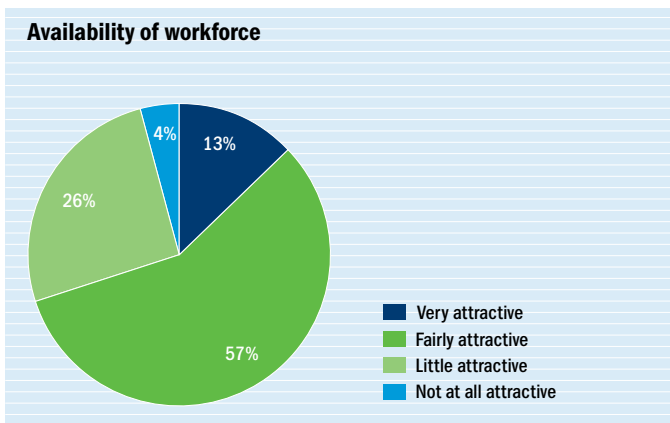


Figure 24: The availability of Swiss employees is highly rated.

Local labor skills which 58% of those that responded rated as fairly attractive, when combined with the 35% that rated it as very attractive, shows that the labor market is a very strong factor for Switzerland (figure 23). This result is supported by the fact that 57% of the executives rated the **availability of workforce** as fairly attractive (figure 24). Key factors in this area include:

- Switzerland’s education system ranks among the best in the world and produces a well-qualified workforce at all levels.

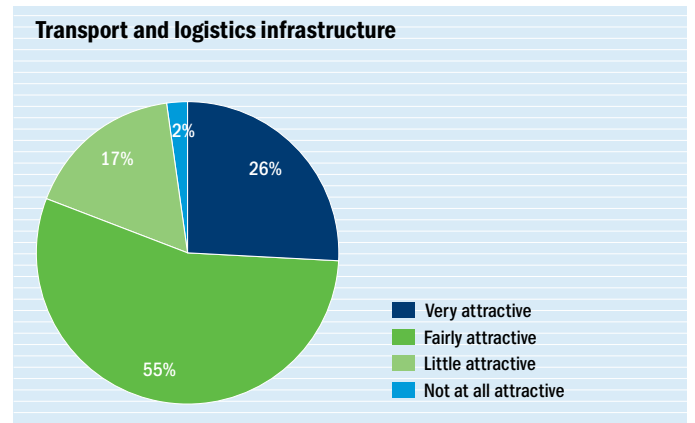


Figure 25: Switzerland is highly appreciated for transport and logistics infrastructure.

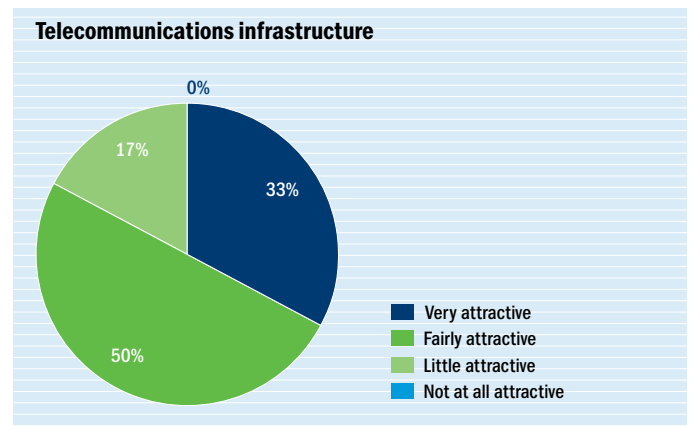


Figure 26: In terms of telecommunications infrastructure Switzerland has a well-deserved reputation for reliability.

- As a result of the high-quality education system and the multicultural society, a large part of the population is fluent in multiple languages.
- With respect to overall productivity, Switzerland ranks fifth among the world’s leading national economies, while its labor force ranks among the highest.
- The workforce is highly motivated and strikes are almost non-existent.
- Liberal labor laws, few regulations and consistent social stability characterize the labor market.
- Labor conflicts are solved through productive negotiations between the parties.
- The social insurance system for workers is jointly funded by the workforce and the employers.
- Ancillary labor costs and social security costs remain moderate.
- Although salaries seem relatively high, the overall labor costs are much lower than in competing countries.

The **transport system and logistics infrastructure** (55%; figure 25) and the **telecommunications infrastructure** (50%; figure 26) were considered fairly attractive. Adding to this the fact that 26% and 33% rated these respective issues as very attractive, it is clear

that Switzerland's overall infrastructure is a very strong feature for the country. Key factors in this area include:

- As described earlier in section 2.1.3, the Swiss transport system and logistics infrastructure are world class.
- The high level of investment in telecommunications is good news for business investors, who have stated in the past that the telecommunications infrastructure is one of the three most important factors in selecting a business location.
- The mobile communications network covers 98% of the populated area of Switzerland.

Switzerland's famous **language diversity**, as well as its cultural openness is considered with 48% a fairly attractive feature. This positive rating is enhanced with an additional 26% very attractive rating (figure 27). Key factors in this area include:

- Substantial diversity in a very small area contributes to the different capabilities and strengths of the Swiss people.
- The existence of various language groups, different religions, and the large proportion of foreign residents result in a high level of openness and tolerance.
- The cosmopolitan environment makes it easy for foreign companies to conduct business from Switzerland.

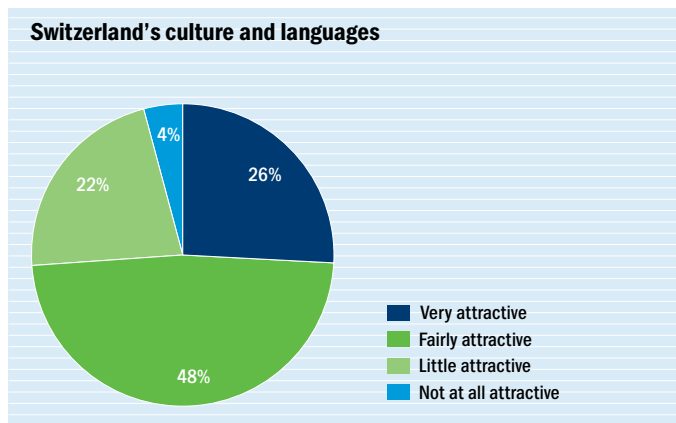


Figure 27: Switzerland's history and geographic location make the country - with its four spoken languages - a true meeting point of cultures.

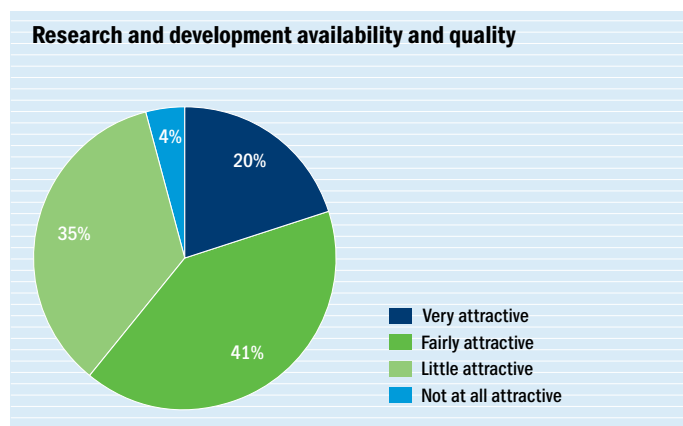


Figure 28: The availability and quality of research and development is rated as fairly attractive.

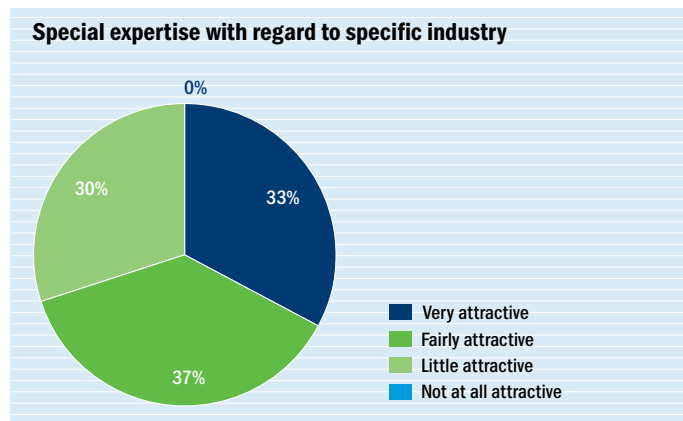


Figure 29: The special expertise in Switzerland with regard to specific industries is appreciated.

Almost two-thirds of the executives judge the Swiss **research and development availability and quality** either fairly attractive (41%) or very attractive (20%; figure 28). The other characteristics where Switzerland received a positive answer (37% fairly and 33% very attractive) from the executives is the **special expertise** available in the Swiss market with regard to the industry the foreign company is doing business in (figure 29).

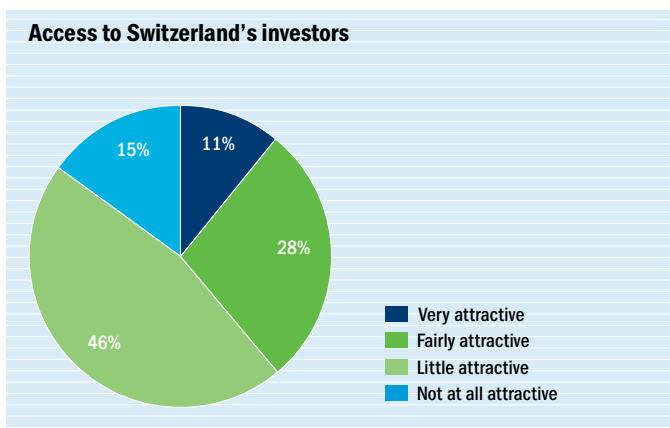


Figure 30: The access to Switzerland's investors is rated as little attractive.

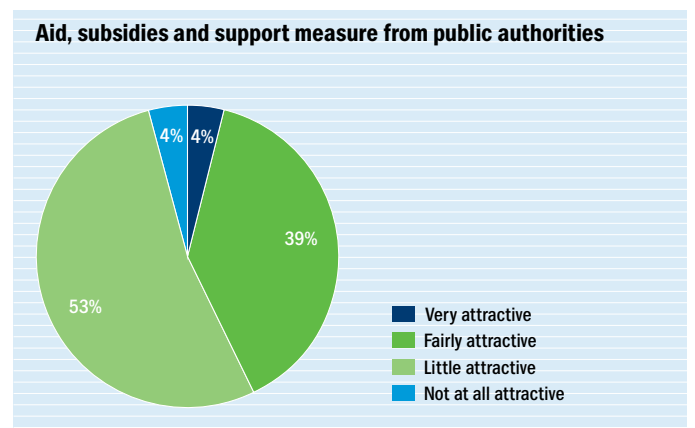


Figure 32: Half of the executives interviewed rated the availability of aid, subsidies and support measure from public authorities as little attractive.

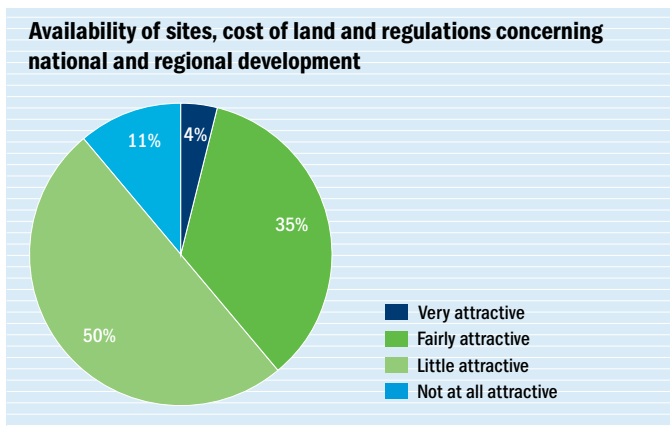


Figure 31: The diversity of responses to these questions depends mostly on which specific sectors the companies are working in.

Access to Switzerland's investors (figure 30); the availability of sites, cost of land and regulations (figure 31) concerning national and regional development, as well as aid, subsidies and support measures from public authorities (figure 32) are three criteria that were evaluated as fairly to very attractive by half of the executives and as little attractive by the other half. The diversity of these responses may be due to the fact that the access to

Switzerland's investors depends on the attractiveness of the sector in which the company is working. Switzerland is a very attractive place for Venture Capital (VC) investments in certain sectors such as Biopharmaceuticals, Health Care Services, Medical Devices/Equipment and Medical Software.

3.2 Preferred business locations for different units or divisions

Switzerland is the top choice for establishing, developing or restructuring a European/International Head Office (figure 33). The second choice as a first preference was the UK, followed by countries outside Europe. In fact as a first preference, Switzerland had more than a 2:1 ratio over any other country in Europe. This is mainly due to its ideal geographic location allowing to cover the European market. In this respect, the Bilateral Agreements – as mentioned above – between Switzerland and the EU are an important factor in the continuing expansion of the trade and investment relationship between them. Other important factors that encourage the establishment of headquarters are the long-term, stable decision-making fundamentals, liberal legislation, protection of free competition and coopera-

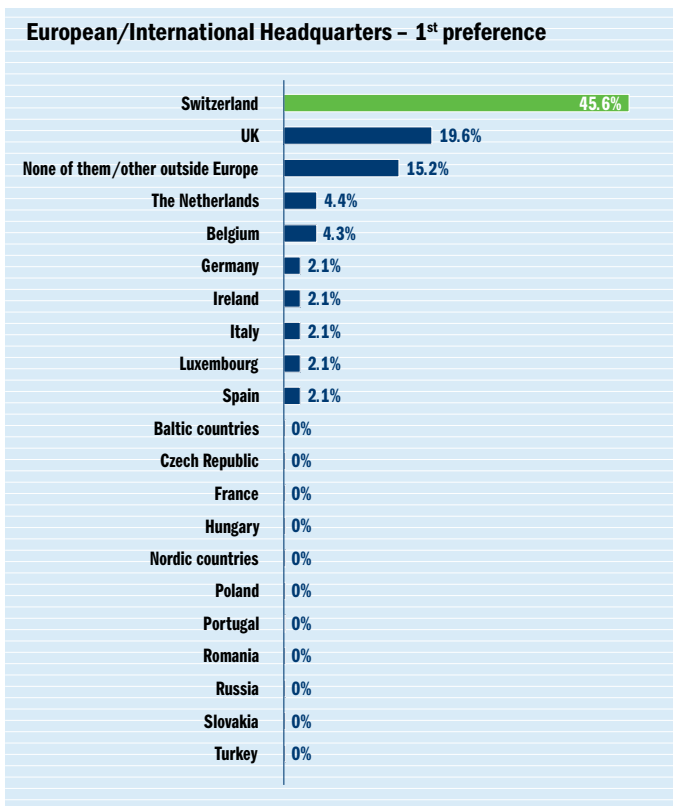


Figure 33: Switzerland is the preferred location to establish an International/European Headquarters.

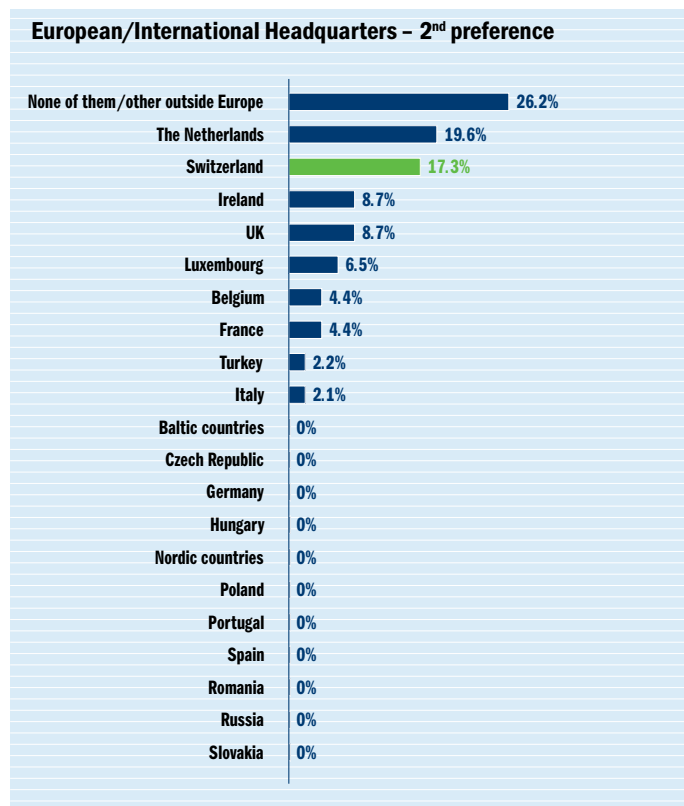


Figure 34: Switzerland is also named as one of the top three 2nd preferred locations.

tive governmental authorities. Another important fact is the growing awareness of the attractiveness of Switzerland for employees, which makes it more likely that operations can be relocated successfully into Switzerland without losing many key employees.

Somewhat surprisingly, those surveyed would rather go outside of Europe than locate in any country in Europe other than Switzerland or the UK. This is a clear contradiction to the results

in the European Investment Monitor (EIM), which stated that Europe's attractiveness is growing because of the economies of the Baltic, Central Europe and the East. However, this confirms the previous results and observations about the attractiveness of Switzerland for foreign investors. Furthermore, Switzerland's top-ranking position is once more confirmed by the fact that it is also named as one of the top three 2nd preferred locations (figure 34). Again quite a considerable group would consider establishing an International/European Headquarters outside Europe.

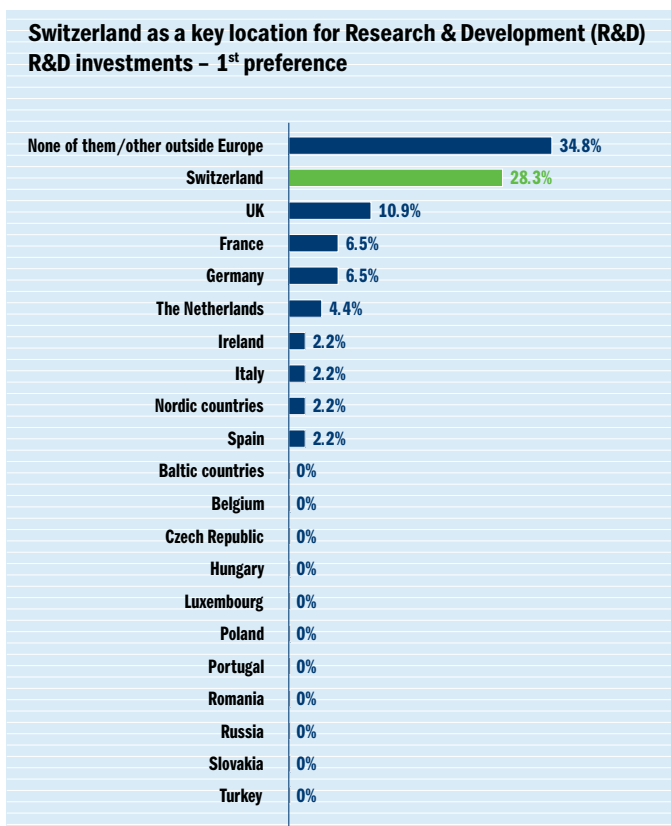


Figure 35: Switzerland is one of the only countries in terms of R&D investments able to keep up with the countries outside Europe.

The fact that Switzerland possesses a true, globally networked economy also adds to its attractiveness for investors. Today, globalization means more than just global outsourcing, it also means having access to global markets. Switzerland with its strong national economy and affluent consumer base has profited greatly by having access to the ever-expanding market created by globalization, which in turn has helped those who have invested here as well.

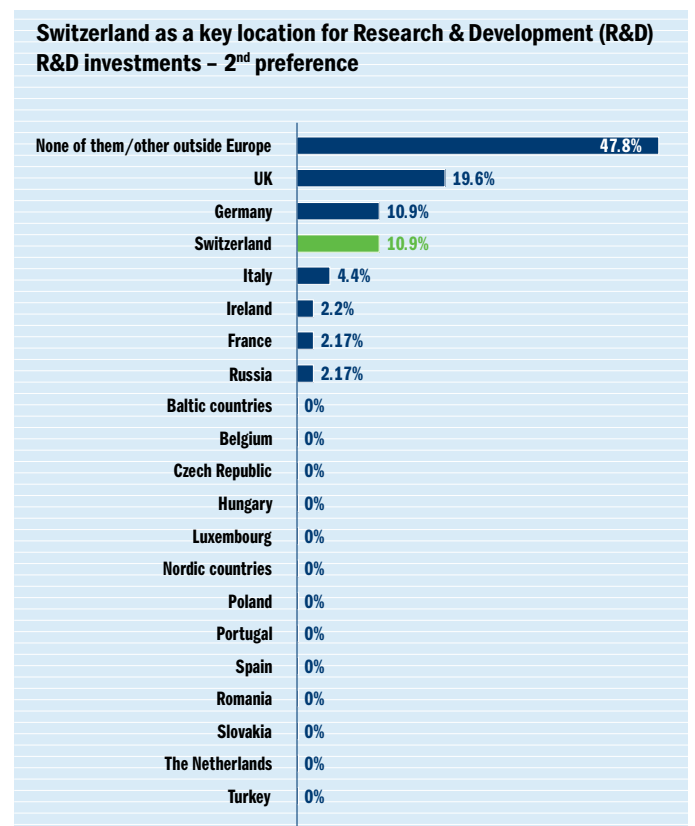


Figure 36: Switzerland comes in third place as the 2nd preference.

The countries outside Europe are also real competitors for R&D investments. Switzerland is one of the only countries that compare favorably with regard to R&D investment attractiveness to these countries. It comes in second place as the 1st preference (figure 35) and in third as the 2nd preference (figure 36). The already existing strong clusters play an important role in regard to the allocation of R&D in Switzerland. The skilled labor force with degrees from universities with an established reputation such as ETH (Swiss Federal Institute of Technology Zurich) or

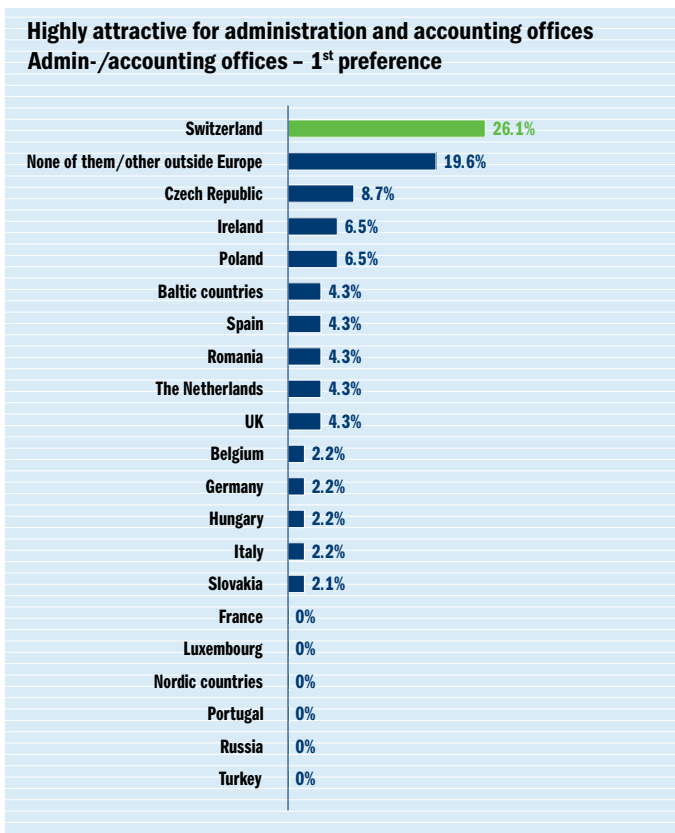


Figure 37: Due to Switzerland's cost-effective business location it is strongly preferred for administrative and accounting services investment.

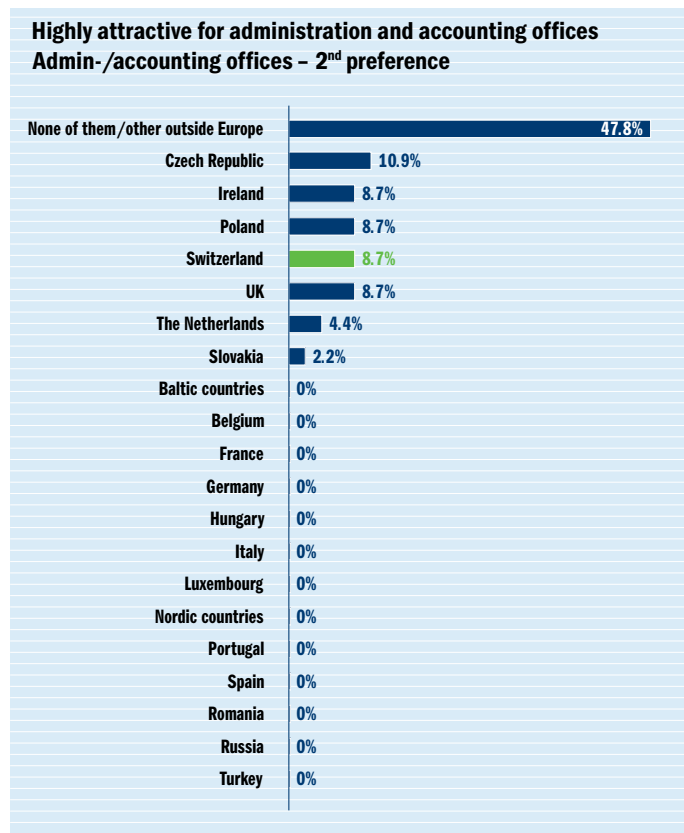


Figure 38: Switzerland is for admin./accounting as well one of the preferred locations.

EPFL (Ecole Polytechnique Fédérale de Lausanne) is another important attribute of the attractiveness of Switzerland.

For the area of «admin/accounting» investment, Switzerland and the other countries outside Europe are strongly preferred (figures 37/38). Although Switzerland is perceived to have very high labor costs, it more than holds its own in comparison to low-cost countries, since the level and structure of salaries are seen as reflecting the high productivity of the Swiss labor force.

As a result of the country's comparatively low ancillary labor costs, the motivation of the workforce and generally longer working hours than in other countries, Switzerland continues to be a very cost-effective business location.

3.3 Perception of Switzerland as a business location in the past and in the future

A total of 70 % of the people surveyed stated that Switzerland has either fairly or significantly **improved as a business**

location over the past few years (figure 39). Switzerland is seen as a location that is continually enhancing what it can offer companies and has clearly improved the circumstances and con-

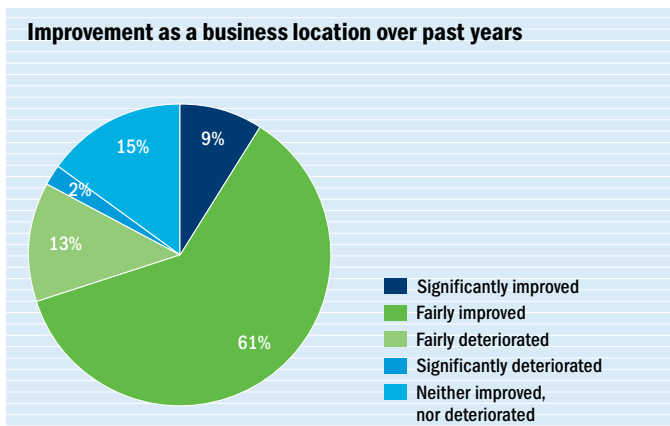


Figure 39: Switzerland has improved as a business location over the past years.

ditions to do business for those companies over the past few years.

More than half of the executives questioned are convinced that Switzerland is on a good track and by continual improvement will be able **to defend its strong position as a place for new business** (figure 40). Only 20% think that it will fairly deteriorate, whereas 24% believe it will neither improve nor deteriorate. Therefore, the prevailing mood is optimistic with the majority believing in the continued attractiveness of Switzerland.

If a company has already settled down in Switzerland, it will most probably stay and add further activities or amend already existing ones. 74% of the executives surveyed stated that they would certainly or probably **choose Switzerland again to establish their business or to further expand their business** (figure 41).

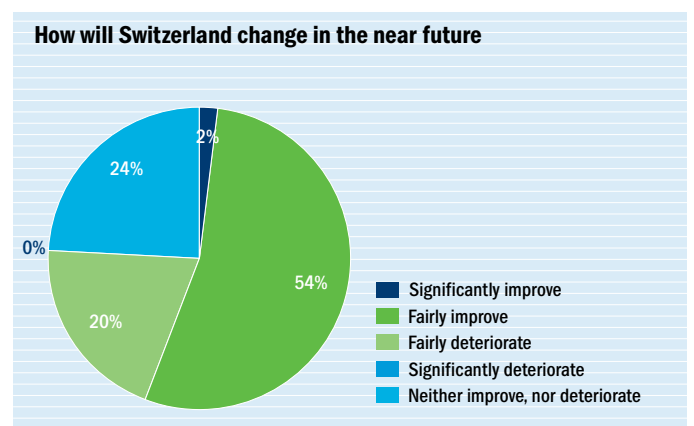


Figure 40: The prevailing mood is optimistic with the majority believing in the continued attractiveness of Switzerland as a business location.

Some of the recently accomplished activities within Switzerland include:

- The improvement of the transport infrastructure as evidenced by Rail 2000 Project, the construction of two new rail tunnels beneath the alps and the connection of Switzerland to the European high-speed railway network.

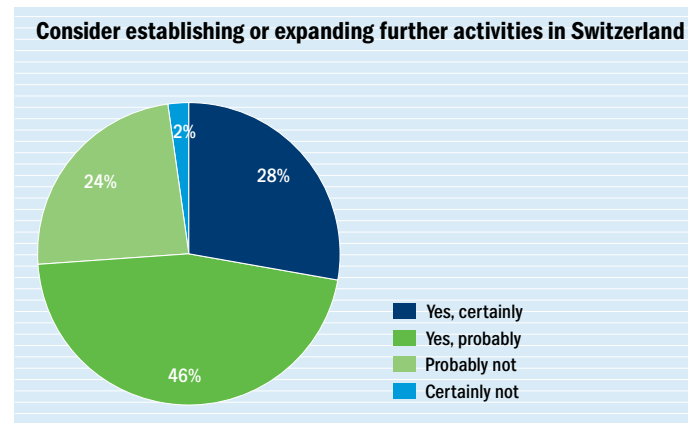


Figure 41: If a company has settled down in Switzerland it will most probably stay.

- Switzerland has kept pace with the European Community in liberalizing the various telecommunications markets with the aim of improving the structures involved and simultaneously enhancing competition.
- The federal law to liberalize the data traffic market (the first wave of liberalization) came into effect on 1 January 1998 (on the same date as the countries of the European Community).
- During the two years which preceded liberalization, a considerable number of companies established themselves in Switzerland and set about preparing for entering this new competitive market.
- In March 2006 the «last mile» of fixed-line telephone connections has been opened up to competition.
- By implementing, very early and far ahead of the other European countries, the Bologna reform, which states that by 2010 all universities from Lisbon to Vladivostok should apply the same education standards, Switzerland has demonstrated its awareness of the importance of highly innovative educational performance to business today.
- Another important factor is the creation of universities of applied sciences in the past decade which led to a new type of university that in a short time has become firmly established as part of Switzerland's educational system.
- The universities of applied sciences offer practical university-level education and training and are in great demand from both students and employers.
- Foundation of the universities of applied sciences increased the status of vocational training because they provided the opportunity for qualified people to continue their studies at university level.
- The universities of applied sciences also contribute significantly to innovation promotion and knowledge transfer. They provide education for management staff and young artists, as well as engaging in applied engineering research and development.

- In the innovation process the universities of applied sciences are performing a bridging role linking science, the economy and society.

3.4 Direct investments planned in Switzerland

In their **current investment planning** 43% of the executives are specifically aiming to make expansion investments at existing locations (figure 42). This type of investment leads all the others by far. In second place is the goal to form subsidiaries or branches, as well as to set up a new headquarters or similar, which count for 13% each.

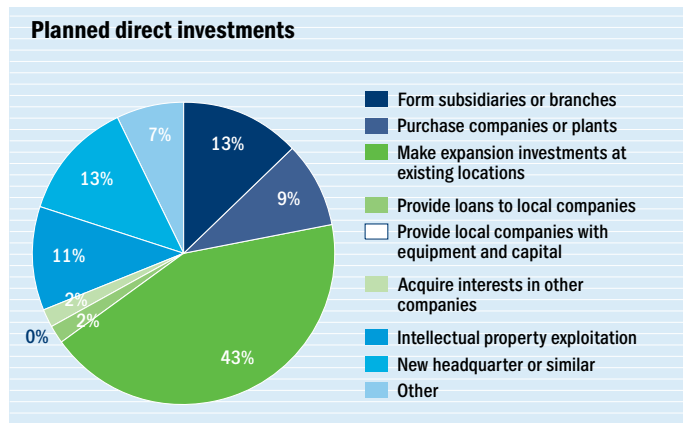


Figure 42: Most of the executives are planning to expand investments at existing locations.

3.5 Relocate activities from Switzerland to another country?

It is a great pleasure to learn that 76% of the executives are certainly not or probably not considering **relocating part of their**

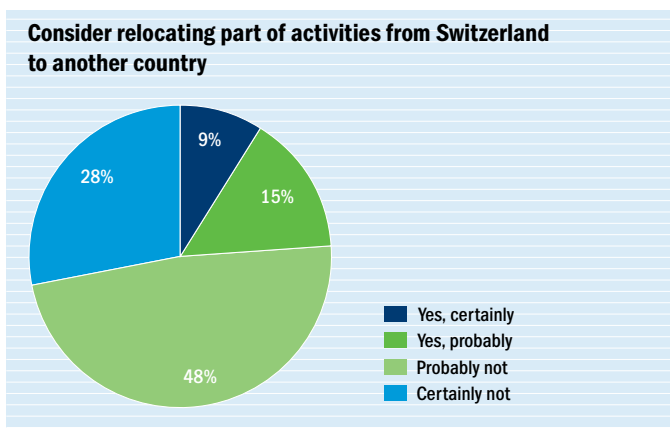


Figure 43: An overwhelming majority of the interviewed executives aren't considering relocating activities.

activities from Switzerland to another country (figure 43). Only 15% are quoted with a probably yes.

These points once more emphasize the findings in the section above that once a company has settled down in Switzerland it will most probably stay.

3.6 Switzerland and the EU

Over 50% of those surveyed are convinced that it is significantly or fairly **an advantage that Switzerland is not part of the EU** (figure 44). Moreover, 35% think that it is neither an advantage nor a disadvantage. Only a very small sample of our online survey answered that not being part of the EU is a disadvantage. This shows clearly that the current Swiss approach, which has its primary focus on maintaining and strengthening economic relations with EU, is on the right track. Key factors in this area include:

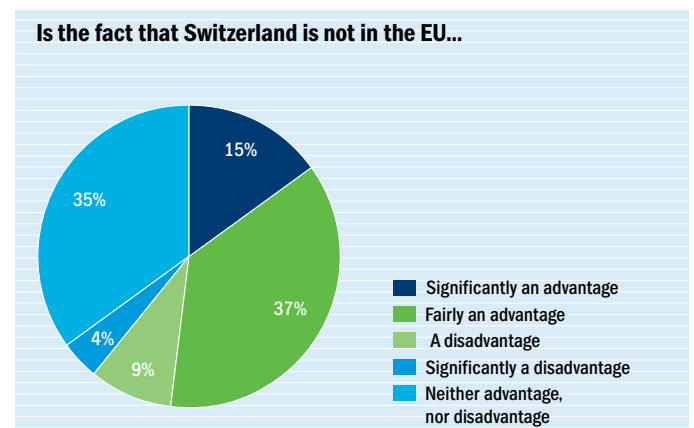


Figure 44: The majority believes that it is an advantage for Switzerland not to be part of the EU.

- The bilateral approach with the EU has proven successful so far.
- The ratification and the implementation of existing agreements need to take place in an efficient manner.
- The efficiency won with an accession to the EU is not worth the numerous economic disadvantages.
- A lot of attributes, like monetary policy, finance and fiscal policy, labor market and social policy, that make Switzerland attractive could be lost.
- The location of Switzerland in the heart of Europe and the possibilities it offers with the Bilateral Agreements make it a very attractive starting point for exploring the European market.

3.7 Suggested focus of improvements

The surveyed executives suggested that the Swiss government could improve **research and innovation** by focusing much more on the links between industry and research (39%; figure 45).

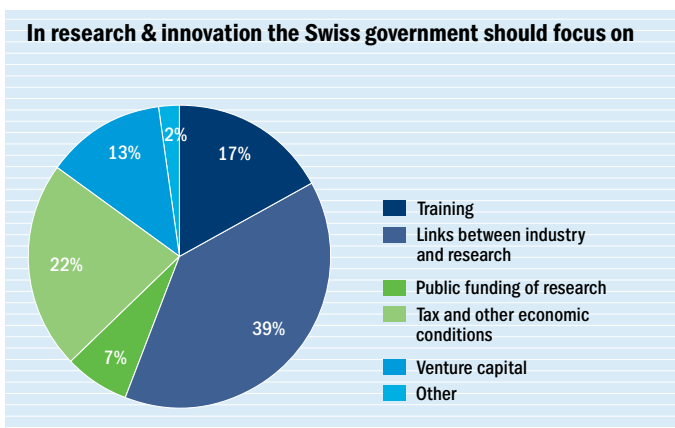


Figure 45: The executives suggest that Switzerland should focus more on the link between industry and research.

International investors apparently feel good about Switzerland. The question on how attractive the current policy is towards international investors shows a remarkable 81% of «yes, fairly»-answers (figure 46). Only 17% claim the Swiss policy to be not fairly attractive towards international investors. ■

Other actions mentioned are taxes and other economic conditions with 22% and training with 17%. Venture capital with 13% and public funding of research with 7% are rated rather low.

3.8 Switzerland's attractiveness for international investors

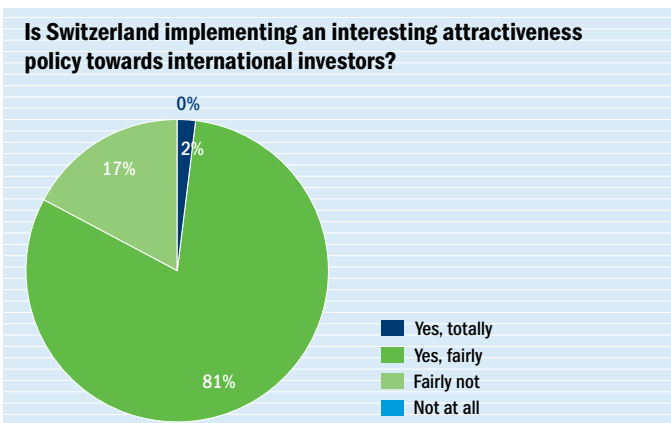


Figure 46: Switzerland is highly attractive for international investors.

4. Conclusion

4.1 Looking forward

Measures that the Swiss government should take into consideration in order to satisfy the current international companies located in the country, and at the same time to attract new companies to choose Switzerland as their business location abroad were the following (figure 47):

The sectors in which the executives judged that Switzerland will **become the most attractive over the next three years** are Financial Services along with Banking, Finance, Insurance and Biotechnology (figure 48). These will according to their opinion

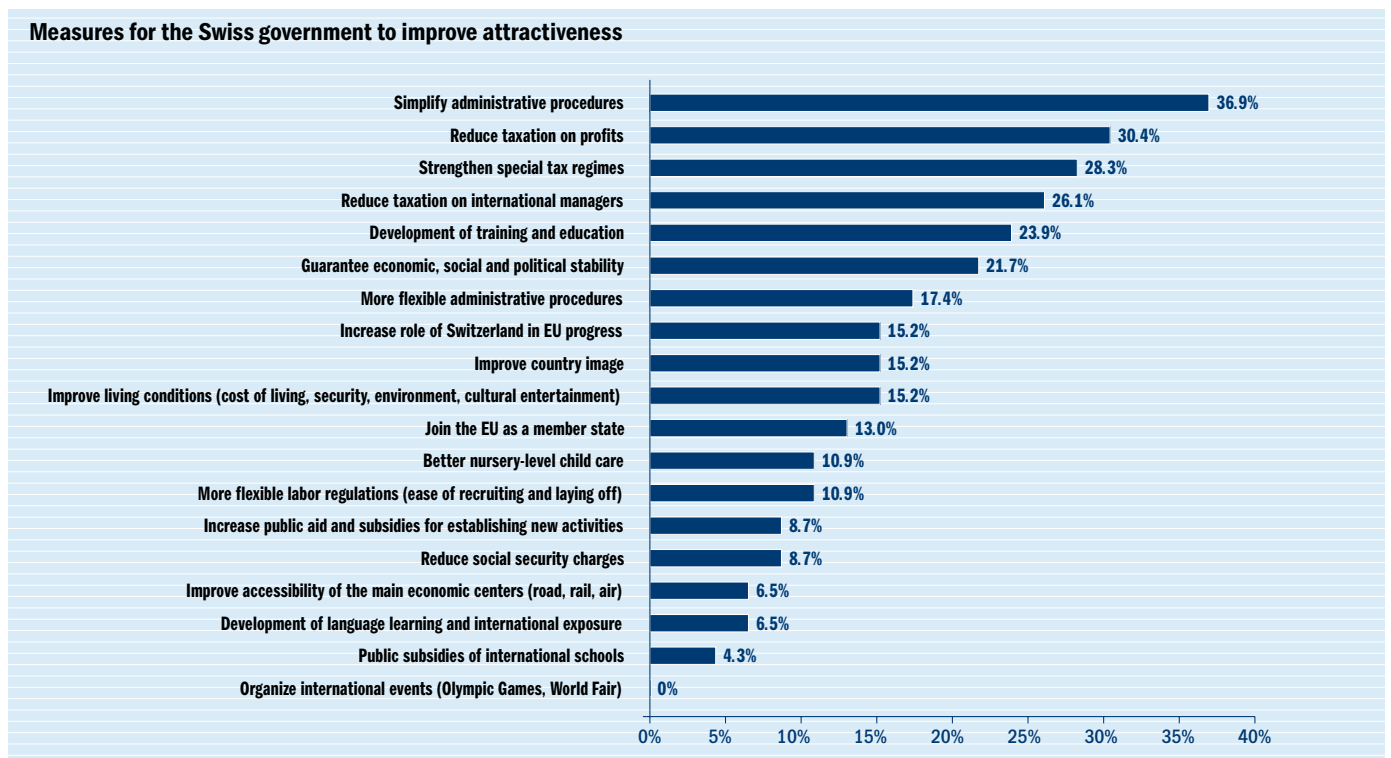


Figure 47: There is an urgent need to further simplify administrative procedures.

The need to simplify administrative procedures was the strongest suggestion expressed. The development of training and education is an additional issue with room for improvement according to the executives.

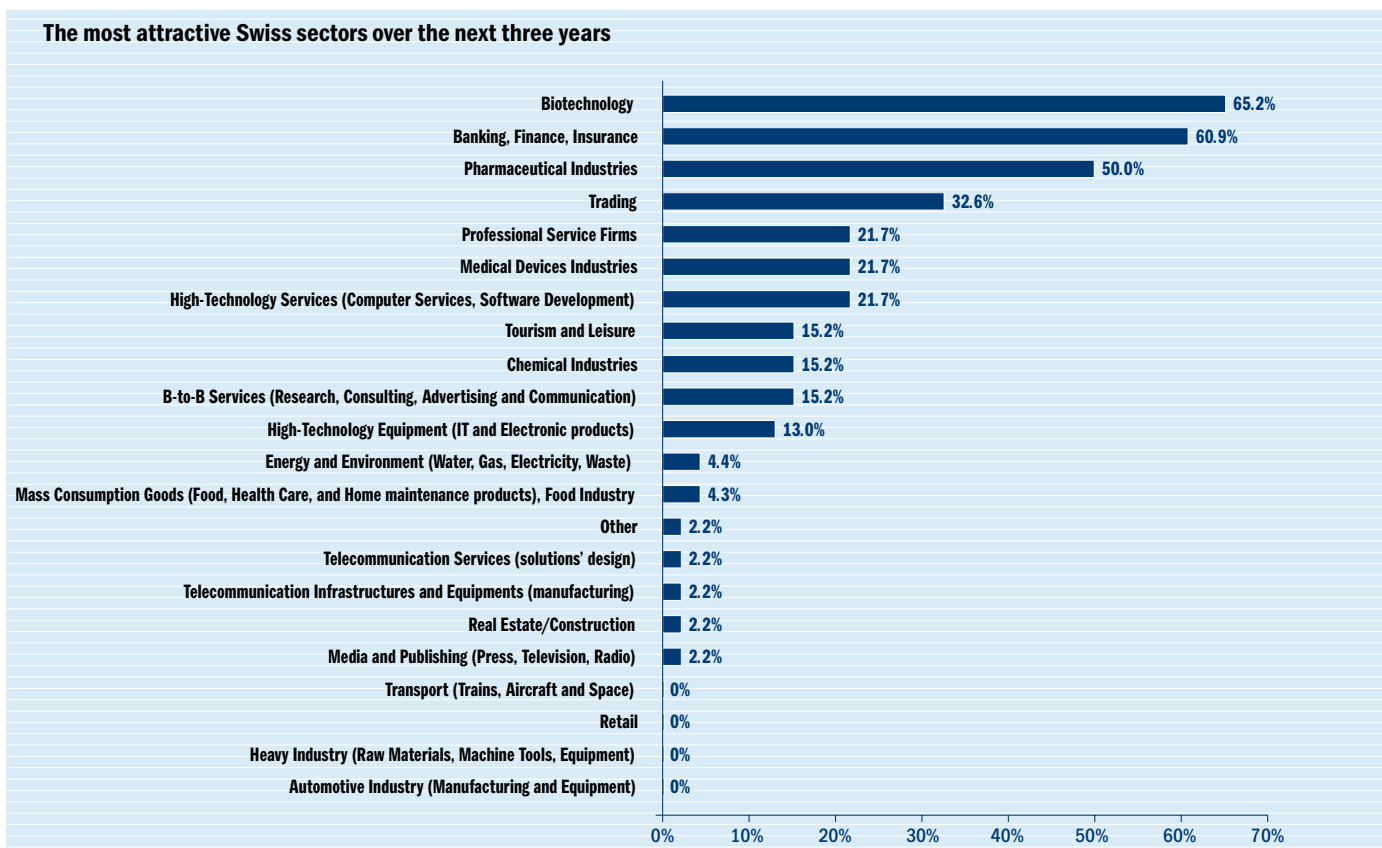


Figure 48: The sectors that will become the most attractive over the next three years are Financial Services, Banking, Finance and Insurance, and Biotechnology.

show the most promising future. The other two sectors with high potentials are Pharmaceuticals and the Trading Industry.

4.2 Staying ahead

While some countries within Western and Central Europe may be feeling the pressure from low-cost and low-wage countries within Eastern Europe or Asia, Switzerland is not. Its enduring focus on developing a highly skilled and specialized labor force, as well as a competitive business environment have allowed it to

take advantage of the changes created by globalization, rather than fear them.

Some may say that Switzerland has not moved fast enough or far enough in improving itself as a business location over the past few years. However, our survey clearly states that foreign managers investing and working in Switzerland believe that the country has been on the right track for some time now, and has a clear commitment to continuing to improve in the future.

This approach has helped Switzerland become for those surveyed the preferred European location for establishing R&D centers and administration/accounting offices, as well as for setting up European/International Headquarters. Yet, a number of the executives expressed a concern about how the diminishing availability of sites and the increasing cost of land may affect their consideration of new locations or expansions.

From the survey and our EIM study, it is clear that Switzerland continues to maintain its traditional role as a worldwide business center, though it must continue to simplify administrative procedures for investors in order to maintain and develop this position.

4.3 Ernst & Young's Swiss Attractiveness SWOT 2006

Strengths	Weaknesses
Population/education <ul style="list-style-type: none"> - International, multilingual population - Top-rated school system - High standard of living 	Population/education
Economy <ul style="list-style-type: none"> - Competitive business environment - Valued for foreign direct investments - Substantial industry clusters - Strong home market 	Economy <ul style="list-style-type: none"> - High cost of land
Legal & political system <ul style="list-style-type: none"> - Efficient legal system - Long-term stability - Protection of free competition and property ownership - Access to government agencies and services 	Legal & political system <ul style="list-style-type: none"> - Time-consuming decision-making processes due to direct democracy and federalism - Cartels, market protectors, regionalists - Restrictive environment protection - Strong lobbies
Tax system <ul style="list-style-type: none"> - Low corporate taxes - Avoidance of double taxation - Provisions considering the specific situation of expatriates - Lowest value added tax in Europe - Full tax relief for newly established companies 	Tax system <ul style="list-style-type: none"> - Rather complex VAT system
Labor <ul style="list-style-type: none"> - Liberal labor laws - Joint resolution of conflicts - Financial strain from social insurance 	Labor <ul style="list-style-type: none"> - Lack of international schools in specific regions
Cooperation with EU <ul style="list-style-type: none"> - Good integration due to Bilateral Agreements - EU university degrees acknowledged in Switzerland - Allowance to work in Switzerland 	Cooperation with EU <ul style="list-style-type: none"> - Possible exclusion from the performance of certain business activities
Infrastructure <ul style="list-style-type: none"> - Highly reliable - Timeliness 	Infrastructure <ul style="list-style-type: none"> - Stagnation in the expansion of the air connections

Opportunities	Threats
Population/education <ul style="list-style-type: none"> - Continuing to lead the way in the Bologna reform - Internal diversity of schooling system is currently being addressed 	Population/education <ul style="list-style-type: none"> - Rests on its laurels - Shortages in international schooling
Economy <ul style="list-style-type: none"> - Ongoing improvement as a business location - Defending the strong position as a place for new business - Current foreign direct investments planned in Switzerland - Improve and simplify access to Swiss investors - Focus on the links between industry and research 	Economy <ul style="list-style-type: none"> - Growing attractiveness of the countries outside Europe - Easy access to government only for attractive sectors for Switzerland - Increasing cost of land
Legal & political system <ul style="list-style-type: none"> - Banking secrecy policies 	Legal & political system <ul style="list-style-type: none"> - Regulations concerning national and regional development - Missing aid, subsidies and support measures from public authorities - Diminishing availability of sites and housing
Labor <ul style="list-style-type: none"> - Simplify the process and handling of obtaining the legal documents for work permits for non-EU residents 	
Cooperation EU <ul style="list-style-type: none"> - Maintaining and further strengthening economic relations with EU 	

5. Annex

5.1 Methodology

5.1.1 The Survey

The Ernst & Young Switzerland Attractiveness Survey 2006 is based on a threefold approach:

- Analysis of recent facts and figures regarding Switzerland
- An analysis of actual investment projects tracked and recorded on a yearly basis in the Ernst & Young European Investment Monitor (EIM) database.
- A survey of the experiences and reflections of international senior executives working in Switzerland with a focus on Europe as a potential and attractive investment region.

5.1.2 European Investment Monitor

To track the investment activity taking place in Europe, Ernst & Young created the Ernst & Young European Investment Monitor (EIM) database in 1997 to monitor investments and expansions of activity in the region. In 2004, methodological changes were implemented to the EIM to better reflect the diversity of European investments and the evolution of investment tracking methods in regions and countries.

Consequently, the database, which is powered by Oxford Intelligence, has been able to measure new projects even more effectively, allowing for a more precise analysis in terms of market share (for countries, industry and origins), with the certainty of consistent and reliable data.

5.1.3 Ernst & Young Attractiveness Survey 2006 (online)

Data was collected largely between July and August 2006 and was updated regularly to take into account changing circumstances based on the feedback received. 231 questionnaires were sent out to top executives of the surveyed companies in question. The return rate was around 20%.

The size of the revenues of the participating companies are as follows:

- More than 10 bn USD (34.78%)
- From 1 bn to 10 bn USD (45.65%)
- Less than 1 bn USD (19.57%) ■

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