

BAROMETER ON CLIMATE AND OUTLOOK **FOR BRITISH INVESTMENT IN SPAIN**

November 2016



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of Commerce in Spain



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British investment in Spain [Climate and Outlook Barometer]

November 2016

Ten Key Points About British FDI in Spain:

- Stock**
 - 1. The United Kingdom is the third most important investor in Spain. In 2014, the British FDI *stock* increased for the first time since 2008.
 - 2. The *stock* of British FDI in Spain is concentrated in telecommunications (where it has doubled since 2013), tobacco and wholesale trade sectors.
- Flows**
 - 3. The UK is Spain's most committed investor, recording the largest cumulative FDI *inflows* into Spain since 1993 (start of current register).
 - 4. Recent *inflows* of British FDI point to increased sectorial diversification in the post-crisis years (2013-2015).
 - 5. Neither the uncertainty surrounding the ability to form a government in Spain in 2016 nor the EU referendum in the UK have affected British FDI flows in the first half of the year. British inflows remained stable, confirming the UK's solid commitment to investing in Spain.
- Nature**
 - 6. British FDI in Spain is predominantly productive investment, rather than investments articulated through foreign security holding companies.
 - 7. The bulk of British investment originates from the UK itself (ultimate investor basis) as opposed to being a staging post for investment from elsewhere.
- Regional**
 - 8. Since the start of the recovery (2013-15), British FDI has mainly concentrated in the Madrid (headquarters effect), Catalan and Basque regions. Furthermore, the UK is the main investor in R&D in Andalusia.
 - 9. Inflows of British FDI on a per capita basis between 2013 and 2015 have been particularly significant in the Basque and Madrid regions.
 - 10. British FDI in Spain has resulted in the creation of 161,353 jobs in total (direct and indirect basis) and €6.1 billion of tax revenues:
 - a. In Andalusia, British FDI accounted for 13,868 jobs in total (0.5% of all those employed in the region in 2014).
 - b. In Catalonia, British FDI accounted for 33,366 jobs (0.9% of the total in 2014).
 - c. In the region of Madrid, British FDI was responsible for 41,585 jobs (1.4% of all those employed in 2014).

The update covers data on FDI stock up to 2014 and FDI flows up to the first half of 2016 (latest available data)

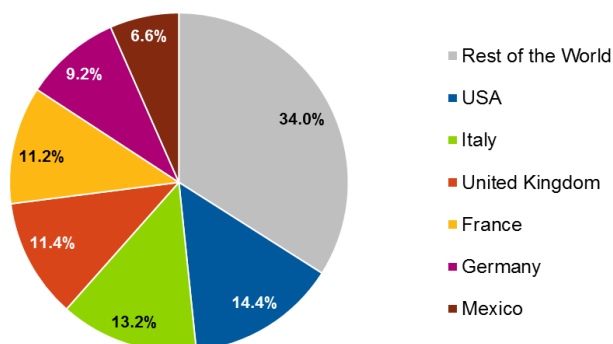
FDI stock by country

The United Kingdom is the third most important investor in Spain. In 2014, the British FDI stock increased for the first time since 2008.

The United Kingdom represented over 11% of the Spanish economy's total stock of FDI in 2014 (€37.7 billion using UIC criteria), **marking growth of €7.3 billion with respect to 2013, leaving the UK with the third-highest stock of FDI in Spain (#4 in 2013).**

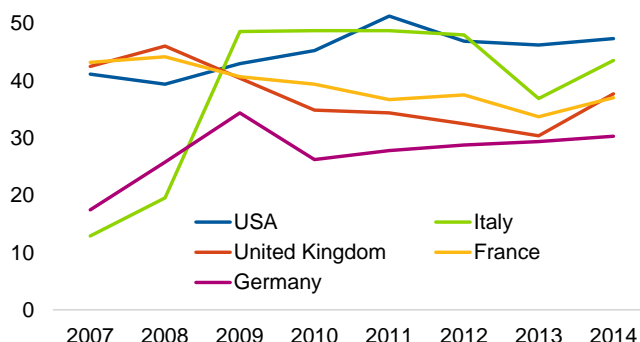
Moreover, this phenomenon marks a change from the trend of recent years, as the stock of British FDI had been falling steadily since 2008.

Stock of FDI by country as of 2014
(percentage breakdown, ETVEs excluded, UIC criteria)



Source: Afi, Foreign Investment Register of the Foreign Investment Register of the Secretary of State for Commerce

Investment position: stock by country
(€ billion, ETVEs excluded, UIC criteria)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

FDI stock by sector

The stock of British FDI in Spain is concentrated in telecommunications (where it has doubled since 2013), tobacco and wholesale trade sectors.

The stock of British FDI in Spain is concentrated primarily in the telecommunications (€14.26 billion), tobacco (€6.2 billion) and wholesaling (€2.1 billion) sectors.

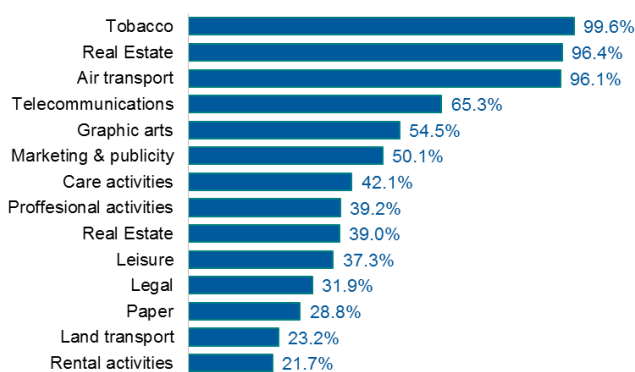
Relative to the overall stock of FDI in Spain, the UK is very heavily invested in the tobacco industry (99.6% of total FDI in the sector), social care assistance (96.4%) and the airline industry (96.1%).

Stock of British FDI in Spain by sector
(2014, € billion, UIC criteria, ETVEs excluded)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

British FDI as a percentage of total FDI per sector in 2014
(UIC criteria, ETVEs excluded)

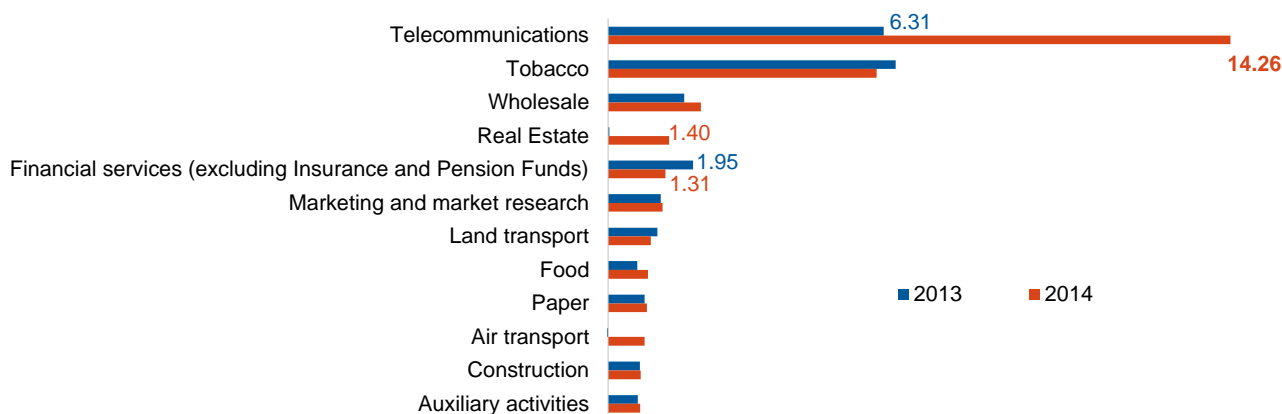


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

In 2014, the stock of British FDI increased significantly in the telecommunications sector, where it more than doubled compared to 2013 (going from €6.3 billion to €14.26 billion). Elsewhere, the stock of FDI in the financial sector fell somewhat, from €1.95 billion to €1.3 billion. Note that these two sectors have been historically the biggest recipients of FDI in Spain.

Stock of British FDI in Spain in 2014 vs. 2013

(UIC criteria, ETVEs excluded, € billion)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Total accumulated flows

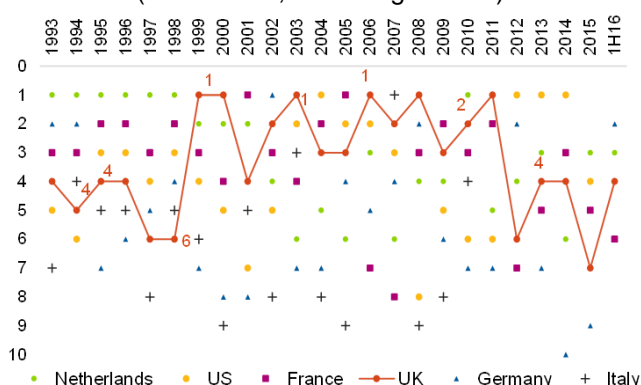
The UK is Spain's most committed investor, recording the largest cumulative FDI inflows into Spain since 1993 (start of current register).

In cumulative terms, throughout the period for which data is available (1993-2015), **the United Kingdom has invested over €66.3 billion in Spain** (gross investment using ultimate investing country - UIC - criteria), 14% of all FDI inflows into Spain during the period.

The UK has consistently ranked among the top seven investors since 1993 (in gross terms) and was the top-ranked investor during six of the last 23 years (1999, 2000, 2003, 2006, 2008, 2011). In 2015, Britain was the seventh-largest source of FDI in Spain, a drop in ranking attributable primarily to the inflows of capital from other countries rather than a reduction in the UK's commitment. In fact, in 2015, British FDI totalled €1.3 billion, in line with the long-run average of €1.37 bn.

Ranking of gross FDI inflows into Spain by country

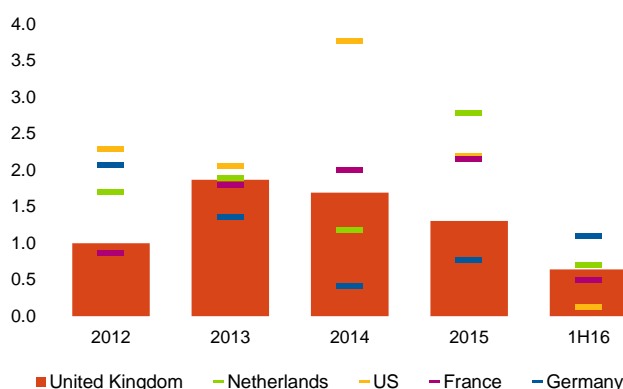
(UIC criteria, excluding ETVEs)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Gross flows of FDI into Spain by country

(€ billion, UIC criteria, excluding ETVEs)



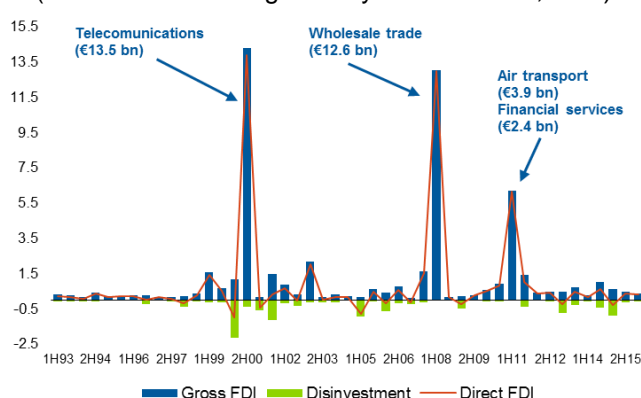
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Net British FDI has been in positive territory since 2005. Moreover, the difference in flows using immediate versus ultimate investing criteria is very small, which means that most investments originate in the UK itself and that the country is not being used as a staging post for foreign investments.

Only twice (in 2001 and 2005) have British disposals exceeded gross investments. Inflows of British FDI into Spain spiked in 2000, 2008 and 2011 on the back of one-off transactions in the telecommunications (2000), wholesale (2008) and airline and financial services industries (2011). In those years, the United Kingdom accounted for 60%, 45% and 31% of all gross FDI in Spain, respectively. **In 1H16, FDI inflows reached €639 million, so if such performance continues throughout the year, 2016 will have shown a pattern similar to the historical average (which reached €1.37bn per annum).**

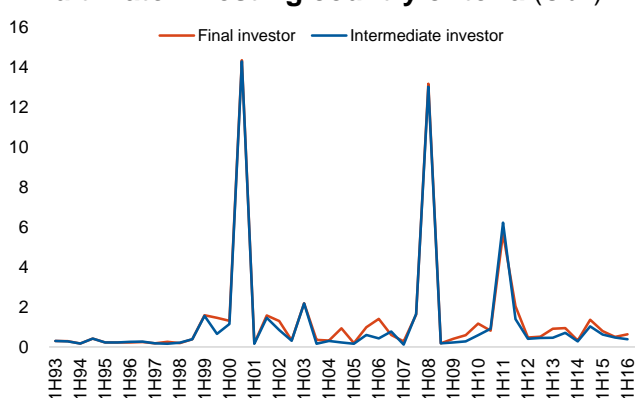
Net UK FDI in Spain

(immediate investing country - IIC - criteria, € bn)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Gross UK FDI in Spain, immediate versus ultimate investing country criteria (€ bn)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

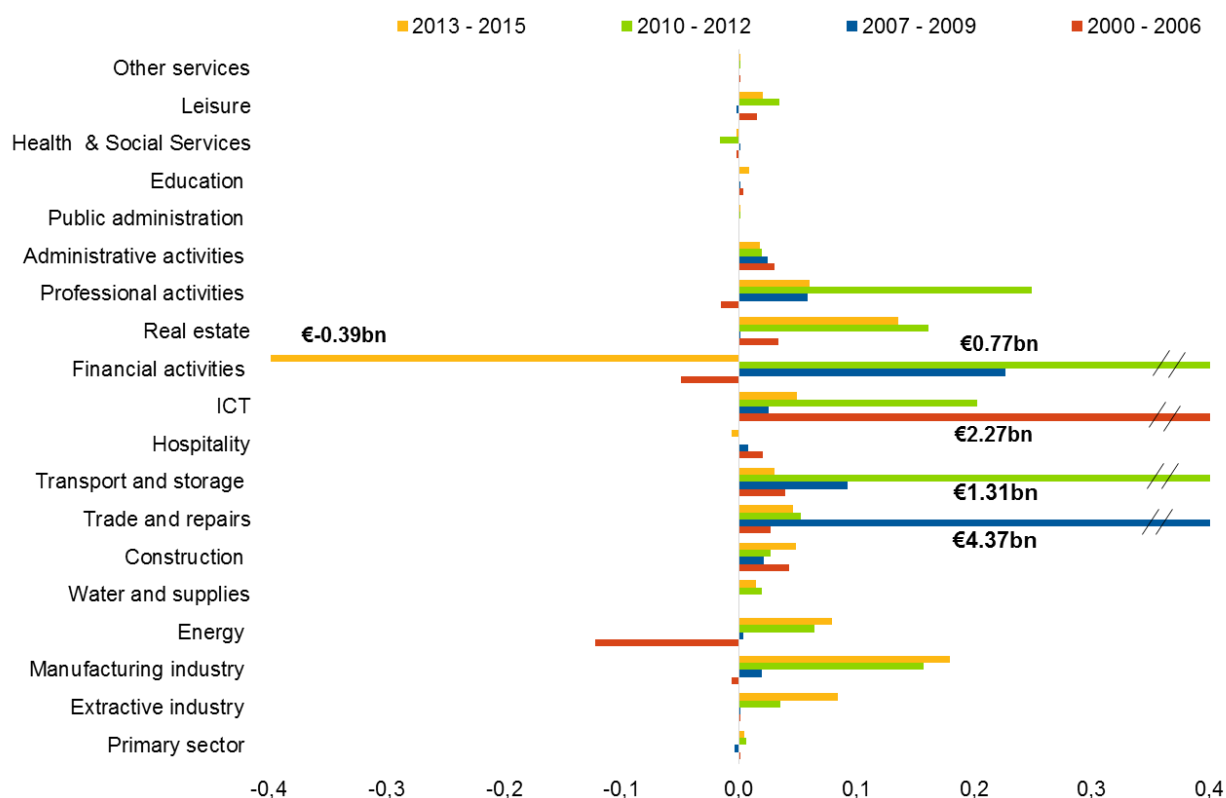
Accumulated inflows by sector

Recent inflows of British FDI point to increased sectorial diversification during the economic recovery years (2013-2015).

If we divide the last few years between the years of recession and growth, we note that the inflows of British FDI follow clear-cut patterns:

- **Pre-crisis (2000-06).** Major investment in telecommunications combined with reduced exposure to the energy and financial sectors
- **First recession (2007-09).** Very strong increase in investment in commerce and to a smaller extent in the financial sector
- **Second recession (2010-12).** Pronounced and widespread increase in investment, notably in the transportation, financial and professional services sectors.
- **Recovery (2013-2015).** Diversification of sectors coupled with reduced exposure to the financial sector.

Average annual net FDI inflows by cycle period during the last 15 years
(€ billion, IIC criteria, ETVEs excluded)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

In 2015, motor vehicles manufacturing, real estate, head office services and management consultancy sectors received the highest sums of gross flows.

Net investment flows in 2015
(€ million, IIC criteria, ETVEs excluded)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

FDI in the wake of heightened political risk in 1H16

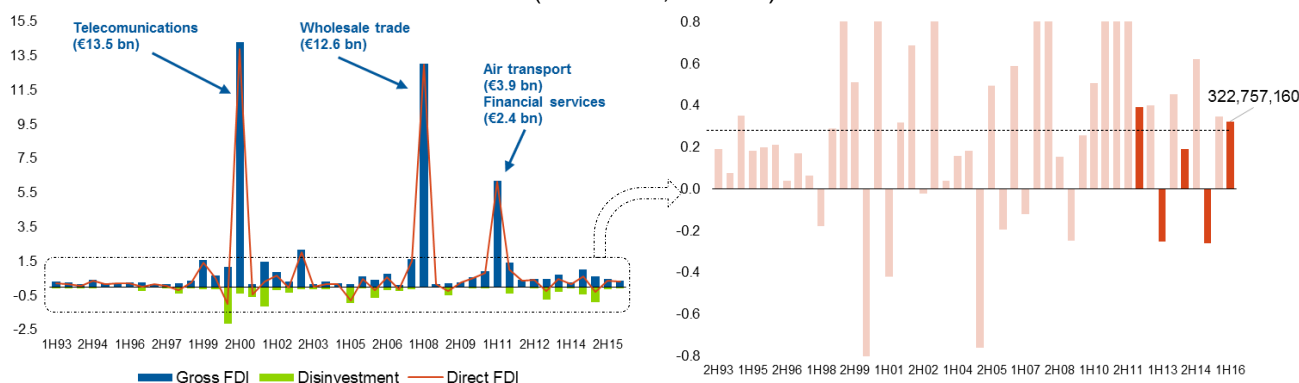
Neither the uncertainty surrounding the ability to form a government in Spain in 2016 nor the EU referendum in the UK have affected British FDI flows in the first half of the year. British inflows remained stable, confirming the UK's solid commitment to investing in Spain.

The uncertainty surrounding the ability to form a government in Spain in 2016, and the referendum on the UK remaining in the EU, do not appear to have affected inward FDI. Generally speaking, both gross and net investment in 1H16 (322€ million) were in line with the semester average in recent years.

Indeed, **UK gross inward FDI actually increased year-on-year in Q116, placing the country second in the rankings** (compared to seventh place in Q415). If this trend were to continue, the UK would invest roughly as much in Spain as it did in 2014.

Net UK FDI in Spain (SemiAnnual)

(IIC criteria, € billion)



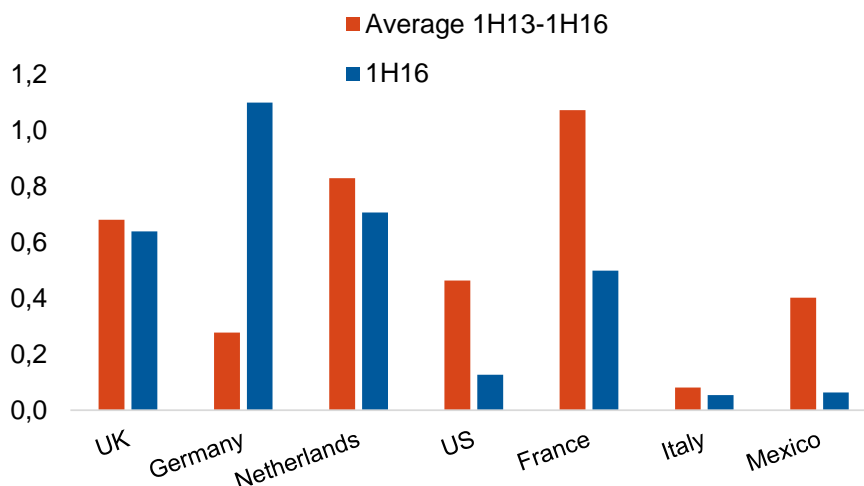
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

In the first half of 2016, British FDI flows have remained at a high level, similar to the first semesters of the last few years. This strong commitment contrasts with the overall decrease in other countries' FDI, which has allowed the United Kingdom to rank fourth in 1H16. If this trend continues in the second half of the year, the United Kingdom would rank similarly as it had in previous years.

Gross British FDI during the first semesters of the economic recovery

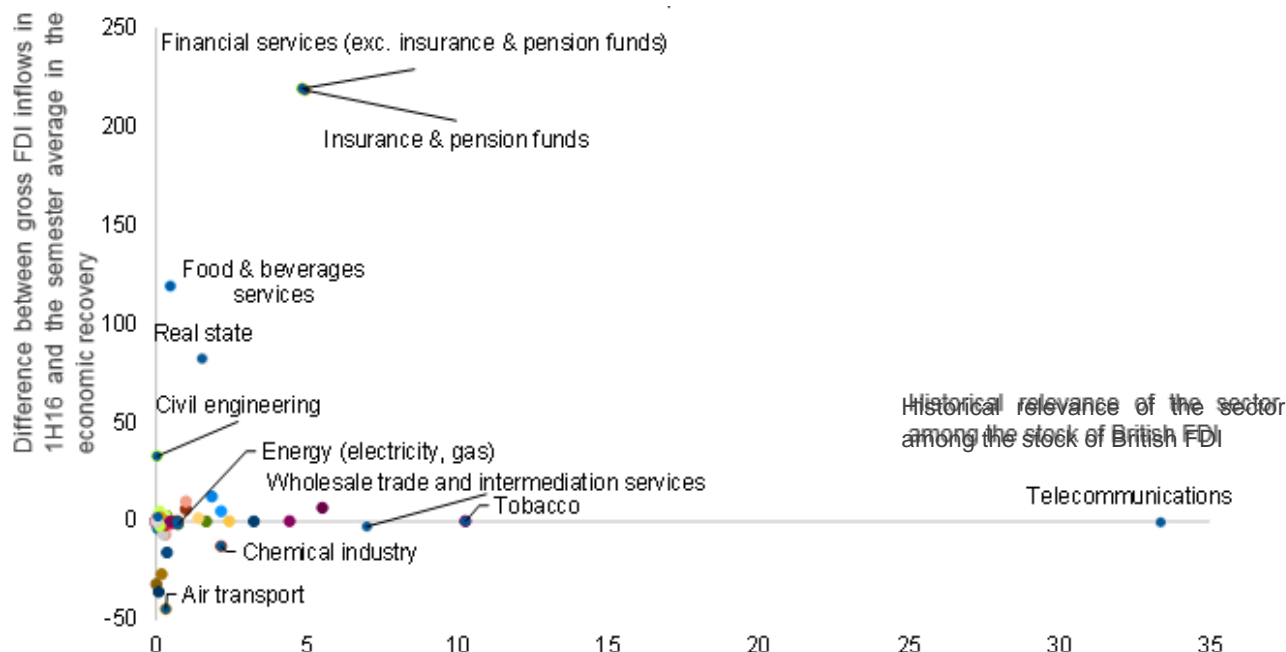
(UIC criteria, € billion, excluding ETVEs)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

The allocation of British FDI inflows among the different economic sectors have followed a similar pattern in 1H16 as in other semesters. Those sectors that have traditionally attracted the largest amount of inflows (like Telecommunications or Wholesale trade) have received approximately the same amount of investment. It is also worth highlighting the relevant inflow of FDI into the financial sector (both insurance services and other financial services) in 1H16, a sector that has traditionally been important for British FDI.

Difference between gross FDI inflows in 1H16 and the semester average in the economic recovery (€ million, vertical axis) vs the historical relevance of investment on each sector (total stock %, horizontal axis)
(UIC criteria, excluding ETVEs)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Other sectors that have received large FDI inflows from Britain have been **Food and Beverage Services and Real Estate activities**, both of which have been favoured by **SOCIMIs** (real estate investment vehicles that are similar to REITs).

Net investment inflows in 1H16 (IIC, € million)



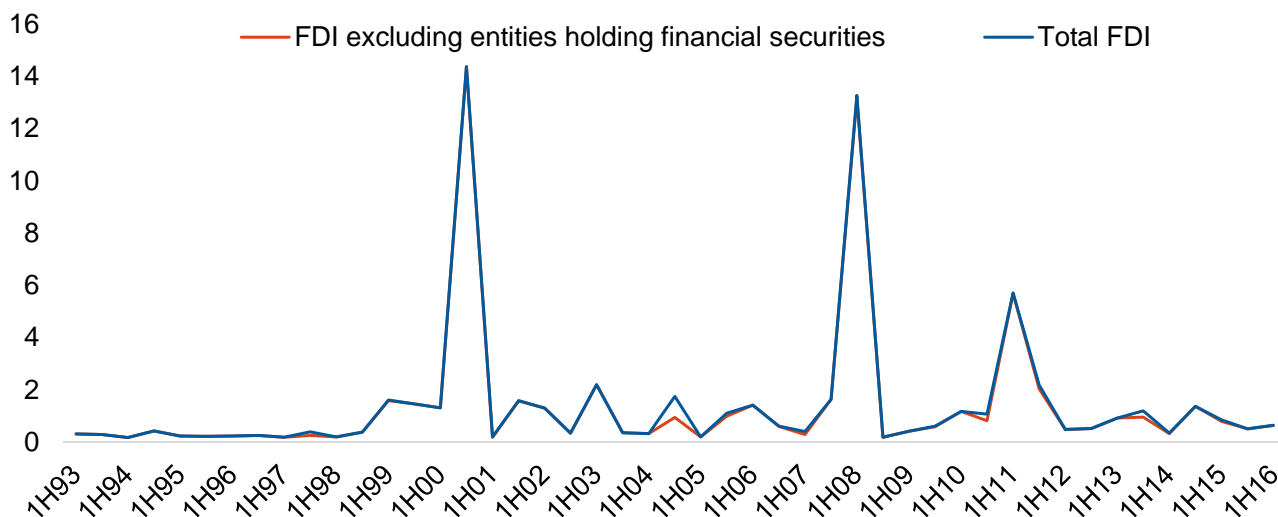
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Investment via foreign security holding companies (ETVEs)

British FDI in Spain is predominantly productive investment, rather than investments articulated through foreign security holding companies.

Since 1993, just 5.9% of all British FDI inflows into Spain were made through foreign security holding companies (ETVEs). Relative to the overall stock, non-productive British FDI represented a scant 0.84% of all British FDI in 2014.

Gross UK FDI in Spain broken down by productive versus ETVE investments
(UIC criteria, € billion)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Flows by Spanish region

Since the start of the recovery (2013-1H16), British FDI has mainly concentrated in the Madrid (headquarters effect), Catalan and Basque regions.

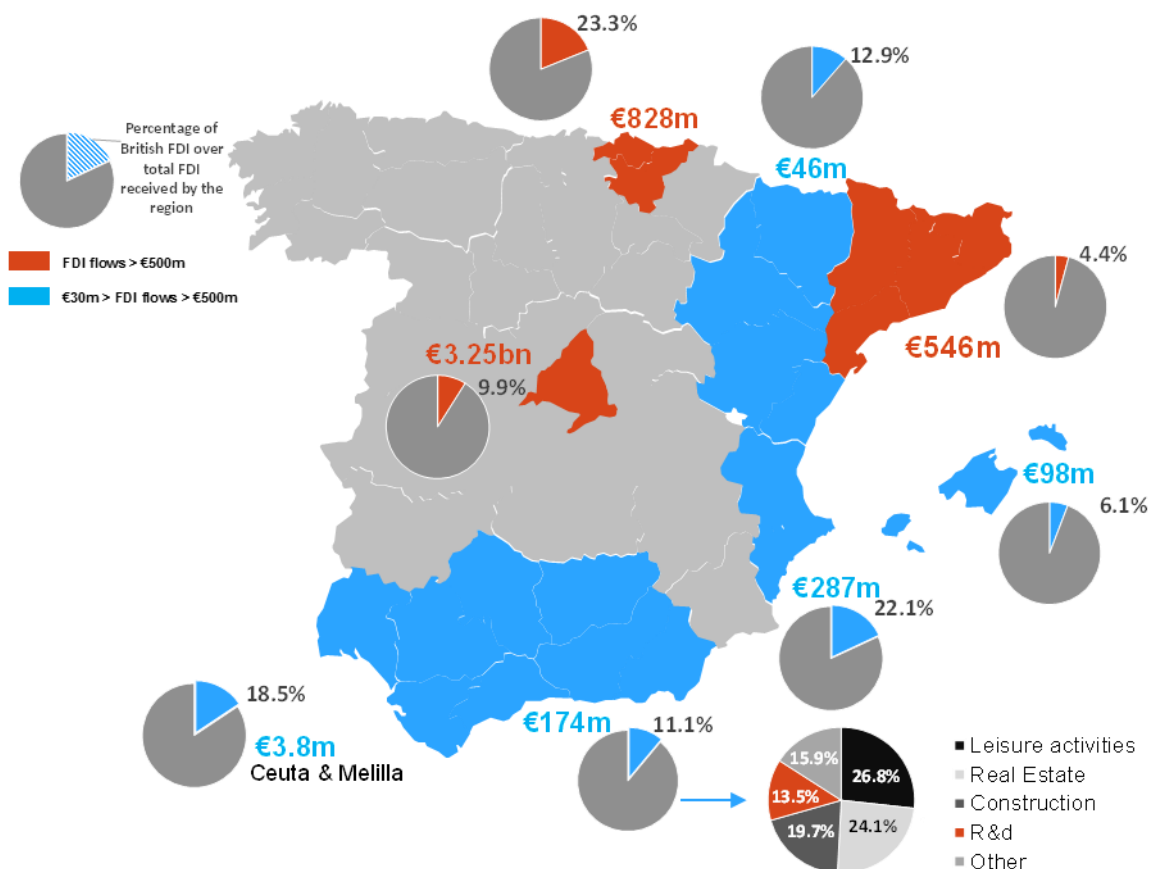
As with the FDI received from the rest of the world, inward FDI from the United Kingdom is concentrated in the Madrid, Basque and Catalan regions. Aragon and the region of Valencia have also garnered considerable amounts of FDI in recent years.

In percentage terms, British FDI is particularly significant in the Basque and Valencia regions, representing over 20% of all FDI received by these two regions. Although the overall volume of FDI is small, the percentage of British FDI in Ceuta and Melilla, at close to 20%, is also significant.

It is also worth highlighting that the UK has been the main investor in R&D in Andalusia since the start of the series. This investment has been done mainly in the recent recovery period (2013-1H16) and it meant over 14% of the British inflows in the region within that time frame. Even though data disaggregated at a provincial level is not available, evidence points towards the region of Malaga as the main focus of all British FDI.

Main recipients of British FDI during the economic recovery, 2013-1H16

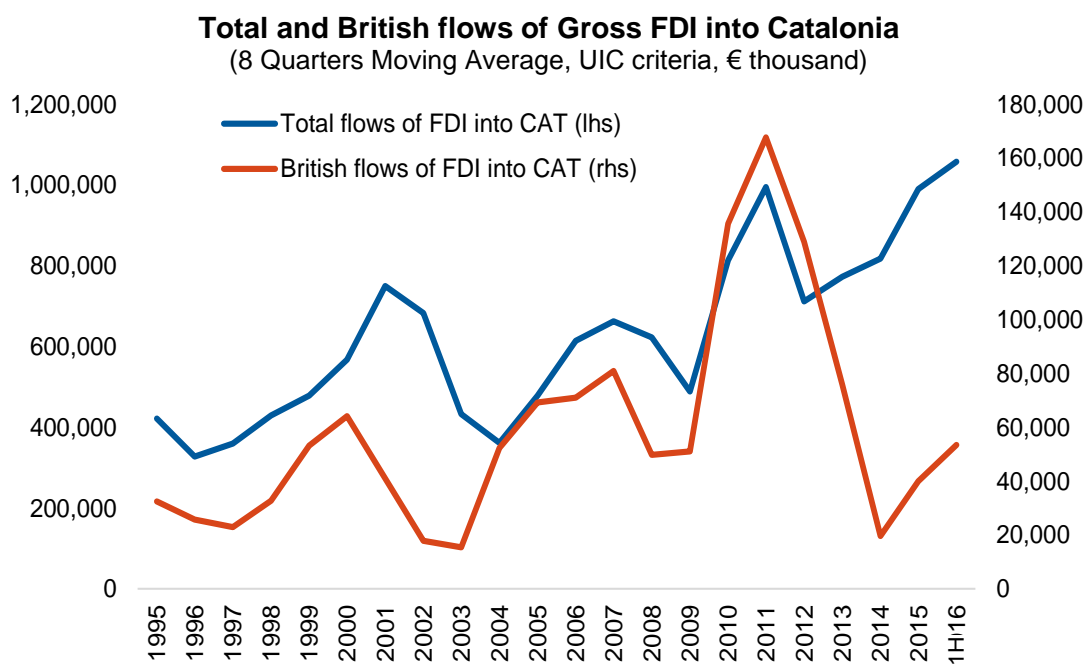
(Volume of gross inflows in millions of euros excluding ETVE and corresponding percentage of total gross inflows)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Regarding Catalonia, the percentage of British FDI in the region has diminished in the last three years of economic recovery, when it reached an average of 4.4% compared to an average of 11.8% in previous years (2000-2011).

Total flows into Catalonia have not shown such a trend, which might be signaling a greater concern about the political instability of the region from British investors. However, the decreasing trend in British FDI appears to have been reversed in recent quarters.



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

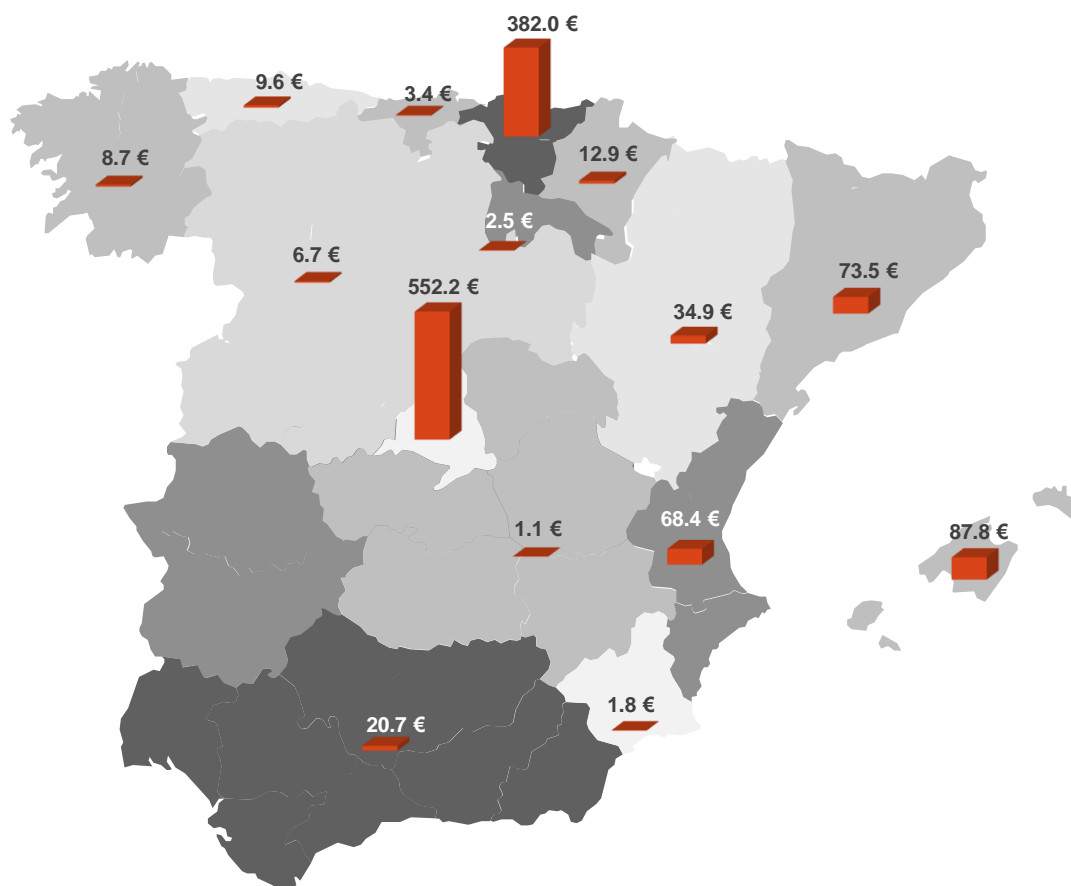
Inflows per capita per region

Inflows of British FDI on a per capita basis between 2013 and 1H16 have been particularly significant in the Basque and Madrid regions.

Inflows of British FDI per capita between 2013 and 1H16 were particularly strong in the Madrid region (€552.2 per capita), revealing a degree of bias caused by the capital city's "headquarters effect". The equivalent Basque figures are also noteworthy (€382.0 per capita). These figures are in line with overall inward flows from the UK which account for 23.3% of all flows received in the region.

Besides these two regions, inward British FDI per capita has also been healthy in the Balearics (€87.8), Catalonia (€73.5) and the Valencia region (€68.4).

Total gross flows of British FDI during the economic recovery, 2013-1H16
(€ per capita by region)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

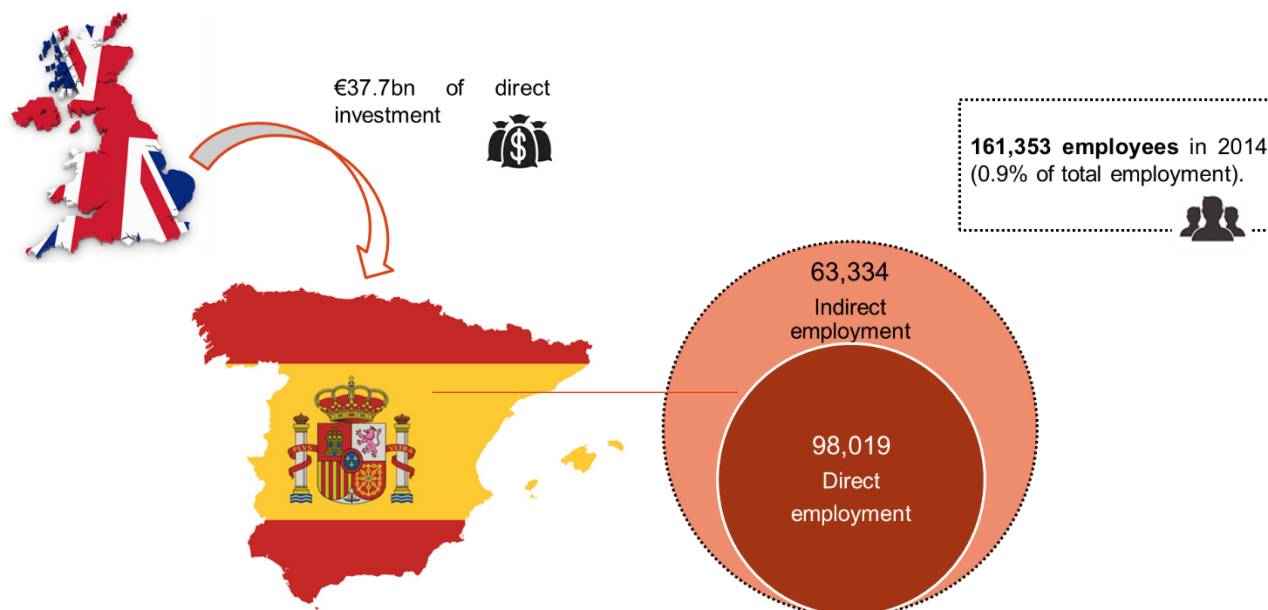
Effects of British FDI on jobs and tax revenue

British FDI in Spain has resulted in the creation of 161,353 jobs in total (direct and indirect basis) and €6.1 billion of tax revenues.

British FDI in Spain helped sustain 98,019 direct jobs in the Spanish economy, which is equivalent to 8.5% of all jobs generated by overall FDI in Spain.

It also generated a total of 63,334 indirect jobs in supply chain and auxiliary activities¹. The total impact in terms of jobs (direct plus indirect) is **161,353 jobs, equivalent to 0.9% of all employment in 2014.**

Impact of British FDI on employment in Spain, 2014



Source: Afi, Foreign Investment Register of the Foreign Investment Register of the Secretary of State for Commerce, INE

Meanwhile, the income generated by British FDI generated €3.65 billion of tax revenue for the Spanish tax authorities² via various taxes. In addition, British investments contributed **€2.46 billion** to the Social Security Administration. In all, the contribution came to €6.14 billion, which was **3.5% of all tax revenue³ at the state level** in 2014.

Fiscal contribution of British FDI to Spanish Treasury and Social Security, 2014

Tax figure	€ bn	% Share on tax contribution
Taxes	3.7	2.1%
Payroll Taxes Employer	2.5	1.4%
Total	6.1	3.5%

Source: Afi, Foreign Investment Register of the Foreign Investment Register of the Secretary of State for Commerce , INE, IGAE.

¹ Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2010 Input-Output Tables).

² The tax contribution has been estimated using the effective tax rates associated with the various different taxes (corporate income tax, personal income tax, VAT)

³ The state total includes some of the revenue collected by the regional and local governments. However, certain regional and local taxes are excluded.

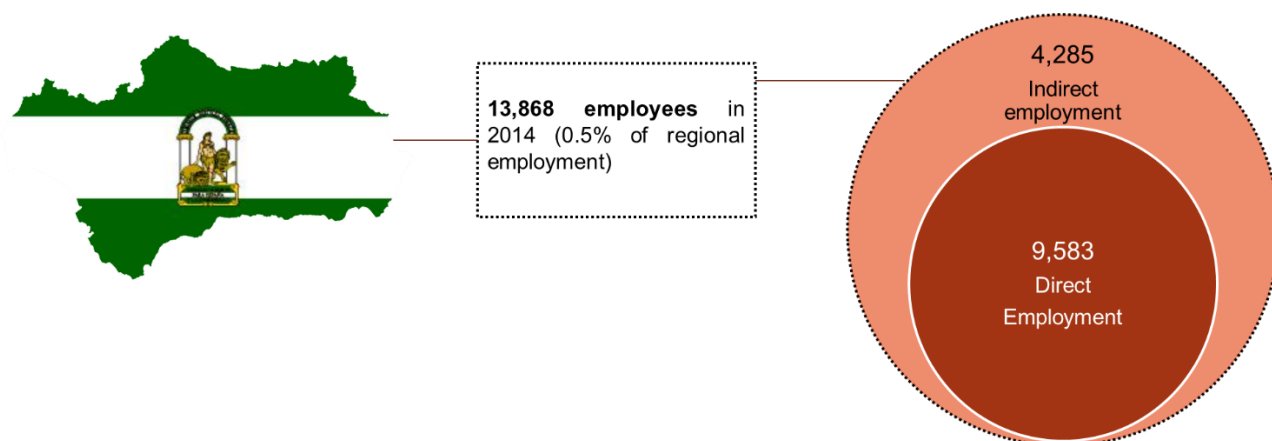
Effects of British FDI on jobs in Andalusia

British FDI in Andalusia accounted for 13,868 jobs in total (0.5% of all those employed in the region in 2014).

British FDI was responsible for sustaining 13,868 jobs in the Andalusian economy. This is equivalent to 8.5% of total employment created by FDI in Spain and 0.5% of total employment in Andalusia.

9,583 jobs were created directly, with the remaining 4,285 corresponding to supply chain effects associated with British FDI.

Impact of British FDI on employment in Andalusia, 2014



Source: Afi, Foreign Investment Register of the Foreign Investment Register of the Secretary of State for Commerce, INE

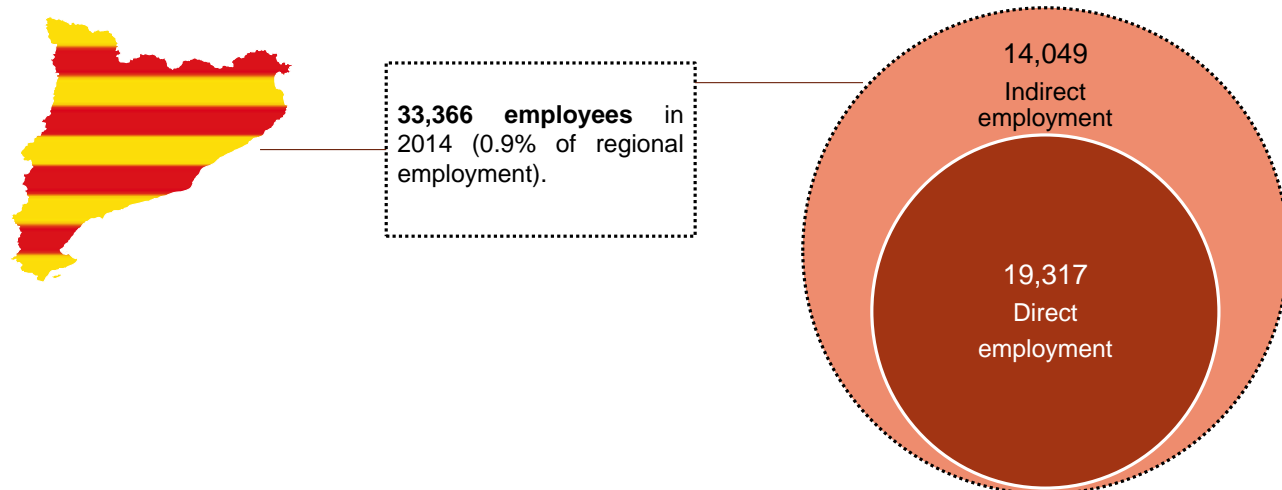
Effects of British FDI on jobs in Catalonia

British FDI in Catalonia was responsible for sustaining 33,366 jobs, which is equivalent to 0.9% of total employment in the region in 2014.

In Catalonia, British FDI was responsible for sustaining 33,366 jobs, which is equivalent to 20.6% of all jobs created by overall FDI on a national level. Moreover, these jobs accounted for 0.9% of all jobs in Catalonia in 2014.

A total of 19,317 jobs were generated directly, while the remaining 14,049 were created indirectly⁴ by related supply chain activities.

Impact of British FDI on employment in Catalonia, 2014



Source: Afi, Foreign Investment Register of the Foreign Investment Register of the Secretary of State for Commerce, INE

⁴ Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2011 Input-Output Tables).

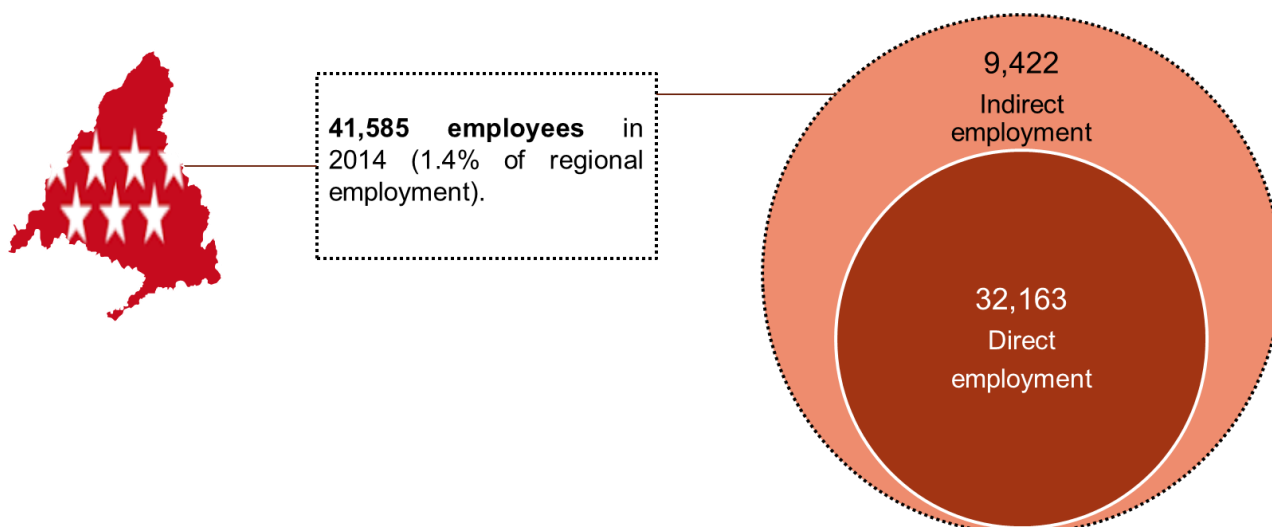
Effects of British FDI on jobs in Madrid (region)

British FDI in the Madrid region was responsible for 41,585 jobs in the Madrid economy, which is equivalent to 25.7% of all jobs generated by British FDI in Spain and 1.4% of all jobs in the region in 2014.

British FDI in the Madrid region generated 41,585 jobs in the local economy. That is equivalent to 25.7% of all jobs generated by British FDI in Spain and 1.4% of region-wide jobs in 2014.

The breakdown between direct and indirect jobs reveals a reduced knock-on effect compared to other regions as 77% of these jobs (or 32,163) are direct jobs, while the remaining 23% (9,422 jobs) are accounted for by auxiliary and supplier activities⁵. The reasons for this reduced knock-on effect are, firstly, the nature of the activities receiving these investments, which are more oriented towards services than industrial activities, whose presence in the Madrid region is relatively smaller. Secondly, Madrid is relatively more dependent on other neighbouring regions (Castile and León and Castile-La Mancha) to supply it with goods and services than Andalusia and Catalonia, which on account of their size boast larger inter-regional supply networks.

Impact of British FDI on employment in Madrid, 2014



Source: Afi, Foreign Investment Register of the Foreign Investment Register of the Secretary of State for Commerce, INE

⁵ Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2007 Input-Output Tables).

British companies' assessment of the business climate and outlook in Spain

[Barometer on climate and outlook]

November 2016

Key aspects of the business climate in Spain in the eyes of British companies:

General 11. British companies continue to rate the business climate as acceptable and their outlook for two to three years' time has improved considerably from last year. The only area they believe requires a stronger governmental commitment is R&D&I expenditure.

Although British companies reported an improvement in their key business variables year-over-year, they observed a deterioration in the environment, probably on account of the economic deceleration anticipated for the coming years.

Outlook 12. More than half of the British companies plan on increasing their investments in Spain within the next two years with the aim of expanding their business lines and boosting labour productivity although investment in innovation is also becoming more important to them.

Government 13. Relations with the public authorities (specifically referring to bureaucracy and regulatory stability) are seen by British companies as the third-biggest business climate weakness, despite scoring acceptably.

Political risk 14. Political risk is the second lowest-scoring business climate attribute in Spain. Moreover, its score deteriorated year-over-year, probably due to the lack of a central government and the surge in separatist sentiment.

Financing conditions 15. The improvement in financing conditions (bank financing and alternative sources) is enhancing the business climate in Spain and encouraging British investment.

Labour market 16. The assessment of the labour market has also improved compared to 2015, underpinned by more than acceptable skill levels and commitment on the part of British companies to employees' continuous learning.

Market structure 17. The perception of the market structure was stable year-over-year, scoring acceptably, favoured once again by the fact that Spain constitutes a valuable gateway to Latin America.

Digitalisation 18. Although British companies have adequately embraced digitalisation, it would be desirable for their stakeholders (suppliers, customers and the economy as a whole) to accompany them on this transformation.

R&D&I 19. Although the 30% of the British companies expect to increase their R&D&I spending in 2016, they believe greater public support is necessary to encourage additional corporate investment in research.

Supplier costs 20. The assessment of the availability, quality and cost-competitiveness of the firms supplying British companies has improved from last year and is deemed more than acceptable.

Quality of life 21. Quality of life is once again the business climate attribute best rated by British companies, scoring even higher than in 2015.

CSR 22. British companies plan to maintain or even step up their CSR spending.

Brexit 23. Over 60% of British companies expect that Britain's exit from the European Union will not affect their investments in Spain. However, nearly 30% believe Brexit will adversely affect their investments, with the majority of these firms expecting to scale them back by over 10%.

General

British companies continue to rate the business climate as acceptable and their outlook for two to three years' time has improved considerably from last year. The only area they believe requires a stronger governmental commitment is R&D&I expenditure.

Although British companies reported an improvement in their key business variables year-over-year, they observed a deterioration in the environment, probably on account of the economic slowdown anticipated for the coming years.

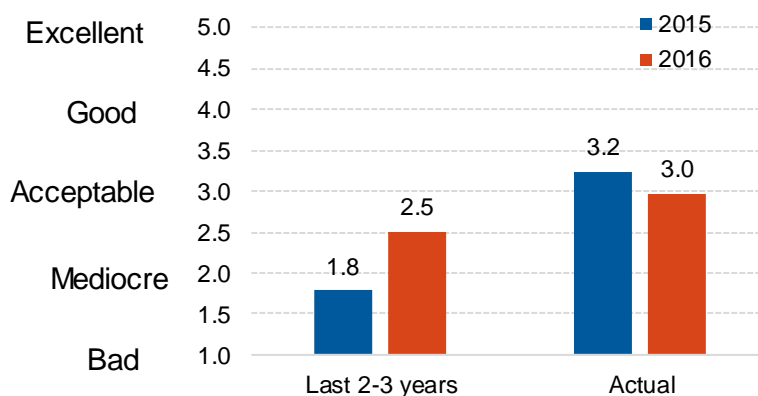
In order to analyse how the Spanish business climate is perceived by British companies, a representative sample of firms (62) were surveyed between July and September. For further information on the structure of the survey, size of the sample and characteristics of the companies surveyed, please go to the methodological description in the appendix.

This survey enables identification of the outlook for investment in the months to come as well as detection of strengths and areas for improvement in order to shore up growth. It also permits analysis of shifts in how British companies perceive various aspects of Spain's business climate.

British investment in Spain is once again underpinned by the perception that the business climate in Spain is positive. British companies continue to rate the business climate as acceptable and their outlook for two to three years' time has improved considerably from last year.

Forty-one per cent of the British companies ranked the business climate in Spain between good and excellent, which is similar to last year (43%). However, 43% of the companies view the business climate as mediocre, compared to 23% in 2015. On a scale from 1 to 5, where 1 is bad and 5 is excellent, Spain's business climate is currently rated a 3.0, up from an average of 2.4 points during the last 2-3 years.

General assessment of the Spanish business climate by the British companies
(% of total)

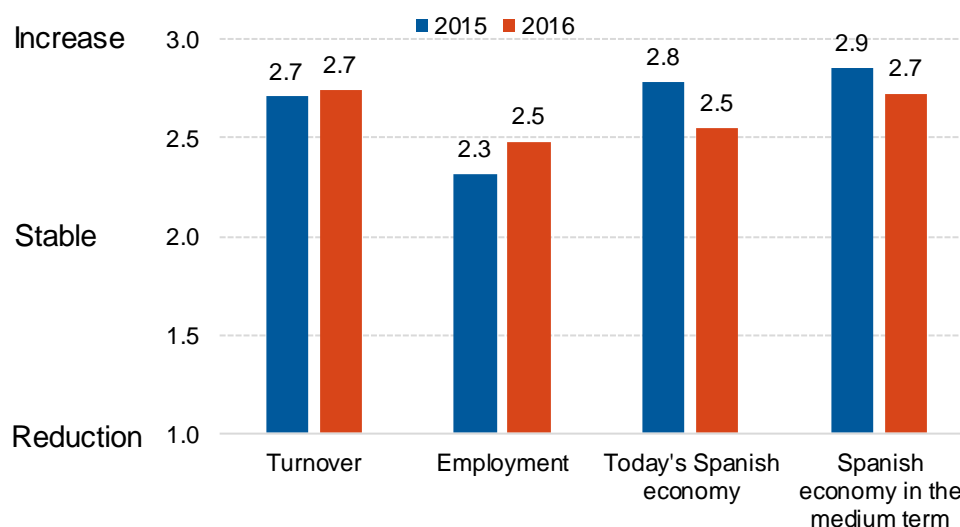


Source: Afi, "Survey of British investment in Spain".

The consolidating economic recovery in Spain is translating into brighter expectations for growth in the British companies' key business variables and, in turn, the business climate in Spain. Specifically, 79% of British companies expect their revenues to rise and 52% expect to increase their employment levels (compared to 75% and 41% in 2015, respectively).

As for the outlook for economic growth, in both the short and medium terms, the scores fell somewhat from 2015. However, it is possible that more than reflecting an expectation that the Spanish economy will slow or contract, this score indicates the sentiment that it will stabilise, in keeping with the current estimates of most research firms. Indeed, 45% of the British companies view the Spanish economy as stable, 23 percentage points more than in 2015.

British companies' outlook for their key business variables
(scores weighted from responses, where 1 indicates decrease and 3 increase)



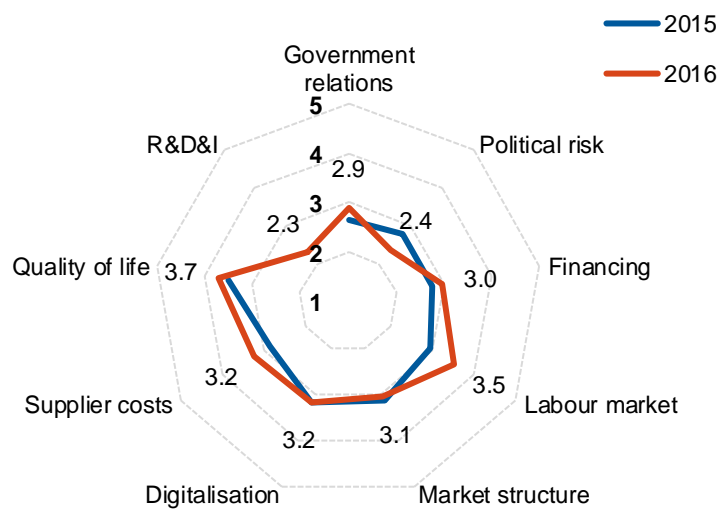
Source: Afi, "Survey of British investment in Spain".

Moving on from the general assessment, it is important to identify which aspects within the categories analysed favour or, to the contrary, impede British investment in Spain. Two new categories were added to this year's survey: related to the firms' R&D&I and corporate social responsibility (CSR) efforts, and further questions in order to complement the pertaining to the categories already analysed for last year's edition of this report. As for R&D&I, the low score assigned to the research effort was the main cause of the slight deterioration in the general perception of the business climate in Spain.

In the following, the strengths and weaknesses are examined in respect of the various categories assessed, with the exception of the firms' CSR efforts for which it is not possible to construct an average score from the questions asked, all of which addressed a range of qualitative issues.

The analysed categories as a whole present an average score deemed within the range considered acceptable (a score of 3.2 out of 5), except for the research category, which obtained a score of 2.3 points from the British companies. Throughout the report, the main aspects assessed will be analysed in detail for each of the categories analysed.

Assessment of the business climate in Spain by category (scores weighted from responses, where 1 is poor and 5 is excellent)



Source: Afi, "Survey of British investment in Spain".

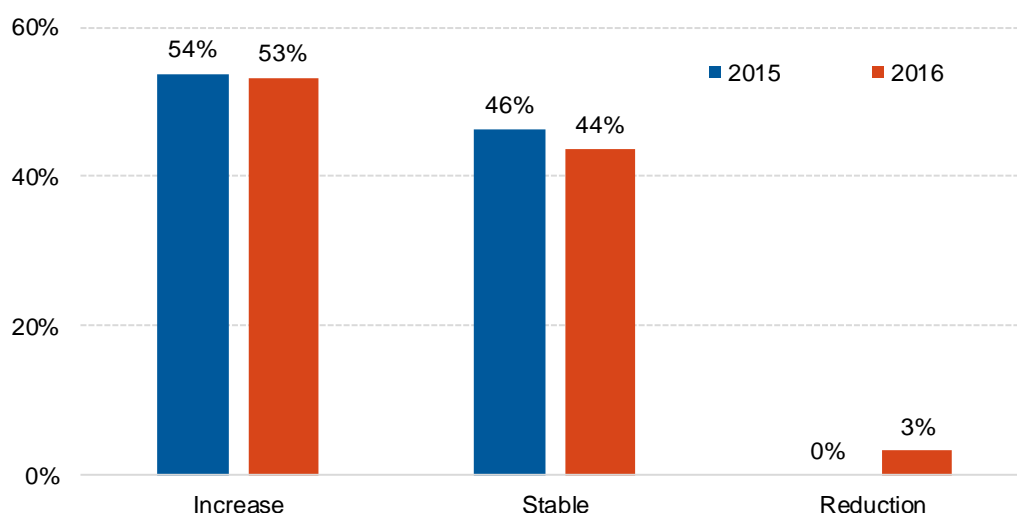
Outlook for British investment in Spain

More than half of the British companies plan on increasing their investments in Spain within the next two years with the aim of expanding their business lines and boosting labour productivity although investment in innovation is also becoming more important to them.

Over half of the British companies plan on increasing their investments in Spain within the next couple of years, similar to the percentage indicating similar intentions in last year's edition of the Barometer. Over 40% plan on maintaining their existing investment levels. Both affirmations corroborate the British firms' commitment to the Spanish economy.

A scant 3% of the companies plan on scaling back their investments in Spain, in all probability triggered by the negative impact of Britain's exit from the European Union.

British companies' outlook for their investments in Spain (% of total)



Source: Afi, "Survey of British investment in Spain".

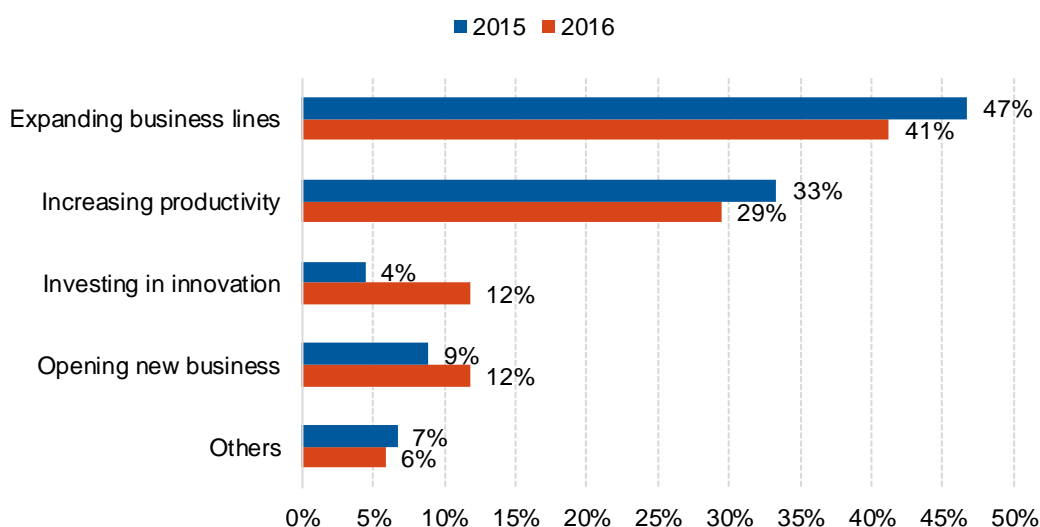
These new investments will once again be earmarked predominantly to expansion of these entities' business lines (41% of the total), followed by investments designed to boost employee productivity (29% of the total).

The percentage which British companies plan on investing in Spain in order to drive innovation (12% of the total) has multiplied three-fold since last year, innovation being one of the key drivers of their competitiveness.

Moreover, a trend of growing investment in opening new businesses, in a clear sign of these companies' strategic commitment to the Spanish market, indicate that the business climate in Spain is increasingly drawing new business.

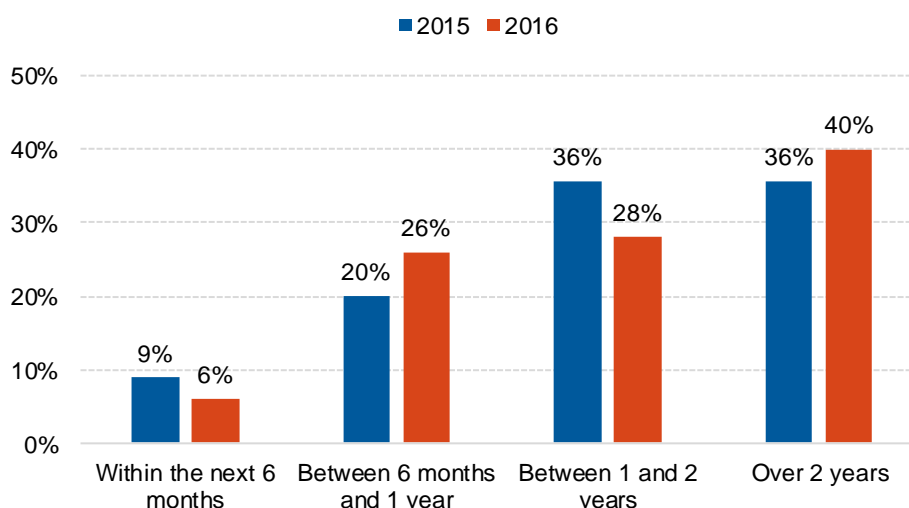
Regarding the timeline for executing these investments, 68% of the British companies said they plan on carrying them out within the next two years, which is down slightly year-on-year (namely 4 percentage points from 2015). That being said, the British firms' notable involvement with the Spanish market has barely shifted.

Forecasted duration of increase in British investment in Spain (% of total)



Source: Afi, "Survey of British investment in Spain".

Aim of British investment in Spain (% of total)

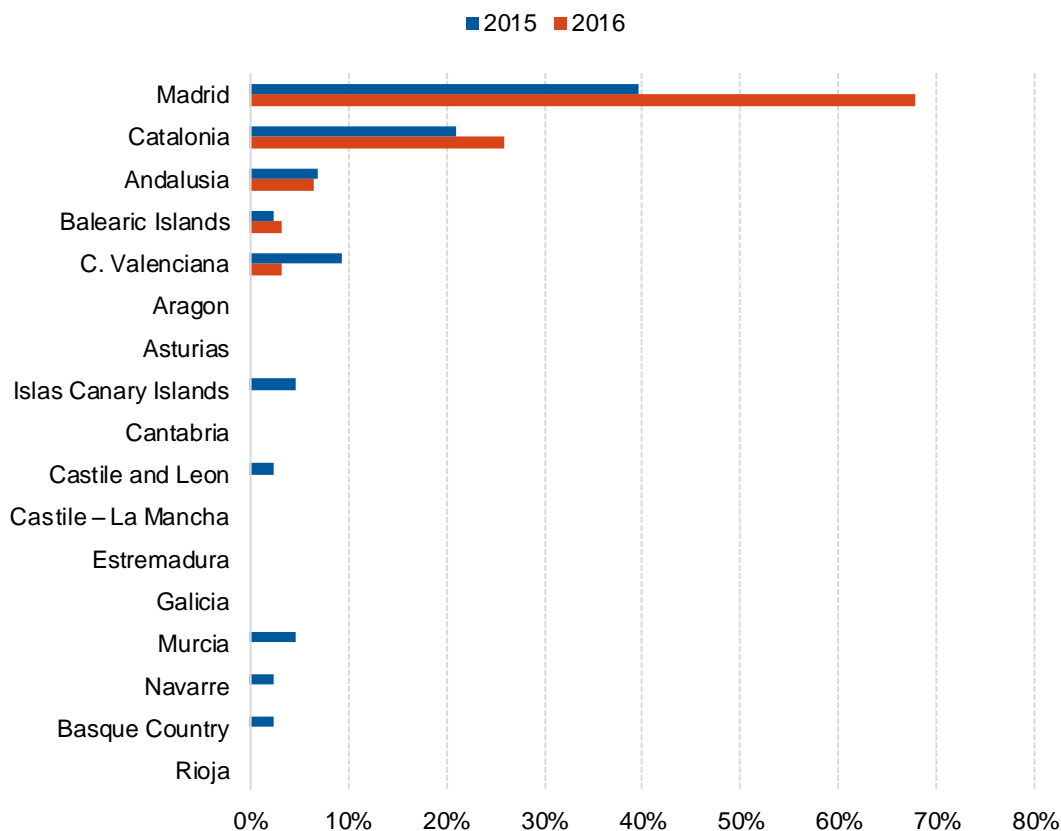


Source: Afi, "Survey of British investment in Spain".

In geographic terms, the responses indicate a degree of concentration of new investments in the regions that have traditionally attracted more British investment, in contrast to the trend observed last year. In 2016, the firms indicated that they would invest nearly all of their additional capital expenditure in the regions in which their registered offices are located (80% of the total), with Madrid (68%), Catalonia (26%) and Andalusia (7%) standing out.

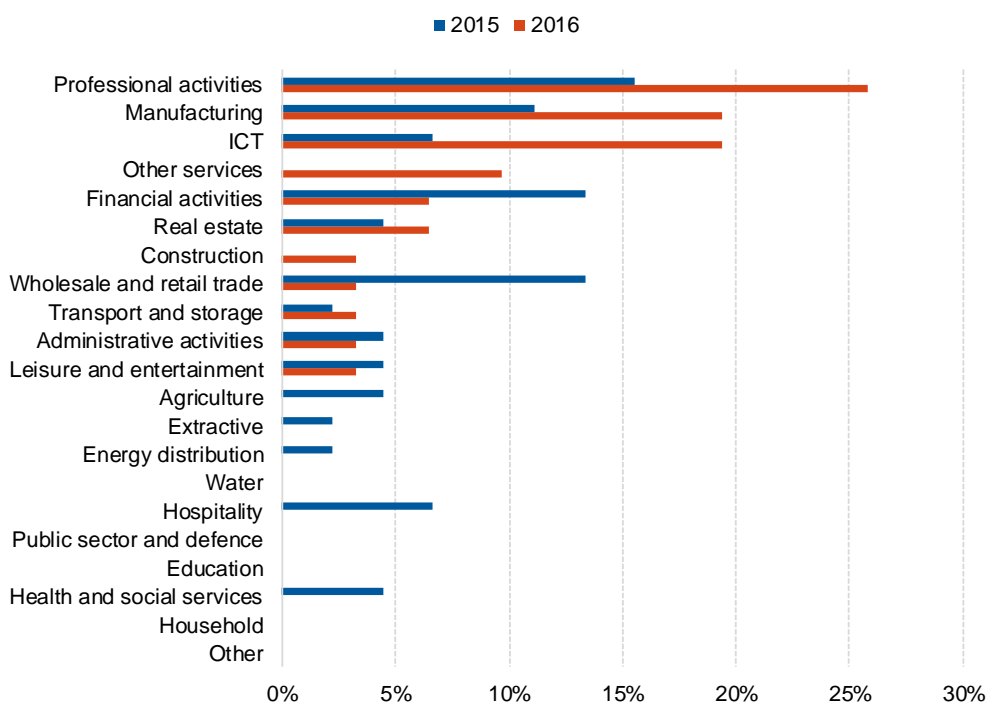
A similar pattern is observed looking at the sectors at which these new investments will be targeted. The new investments planned for the next two years will be earmarked mainly to the various sectors in which the British companies operate (96% of the time). Sector-wise, the professionals, scientific and technical services (which account for 26% of planned new investment), manufacturing (19%) and ICT (19%) industries stand out.

Regions to which the new investments planned for Spain will be allocated (% of total)



Source: Afi, "Survey of British investment in Spain".

Sectors to which the new investments planned for Spain will be allocated (% of total)



Fuente: Afi, "Encuesta de la inversión británica en España".

Relations with the public authorities

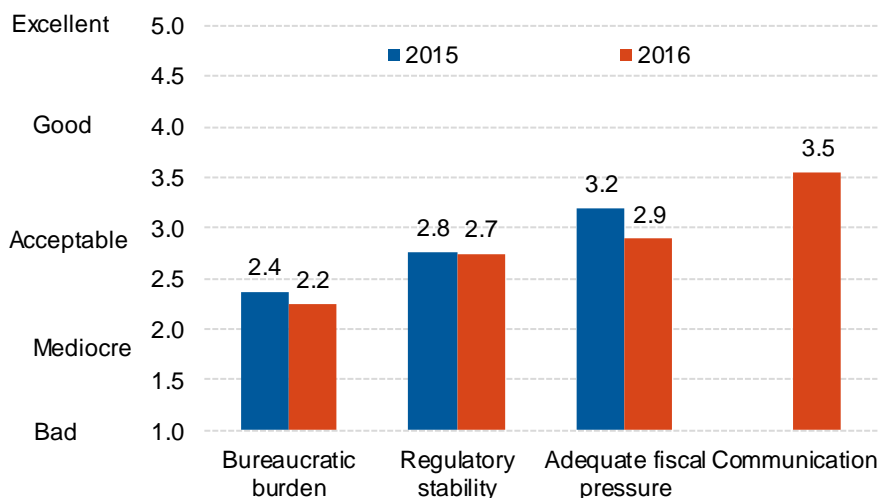
Relations with the public authorities (specifically referring to bureaucracy and regulatory stability) are seen by British companies as the third-biggest business climate weakness, despite scoring acceptably.

Relations with the public authorities, which obtained a score of 2.9 out of 5.0, are seen by the British companies as Spain's third-greatest weakness, albeit bordering on the acceptable.

The greatest shortcoming is once again the perceived bureaucracy burden. Bureaucracy is in fact the lowest-scoring contributor to the overall score in this category, scoring 2.2 points out of 5.0. Sixty-one per cent of the British companies believe that the current level of bureaucracy is not acceptable (5% more than in 2015). Regulatory stability, while also close to the acceptable threshold, also presents room for improvement. Eleven per cent of the companies assessed continue to give this attribute the lowest possible score (1 out of 5).

On the other hand, the British companies believe that communication with the public authorities is smooth and constructive in terms of the firms' operations, giving this aspect a notable 3.5 out of 5.0. It is also worth noting the fact that although the overall perception of the tax burden has deteriorated slightly from last year, the percentage of companies that rate it as excellent or good has increased substantially (42% in 2016 vs. 29% in 2015).

Assessment of relations with the public authorities in Spain by British companies
(scores weighted from responses)



Source: Afi, "Survey of British investment in Spain".

Political risk

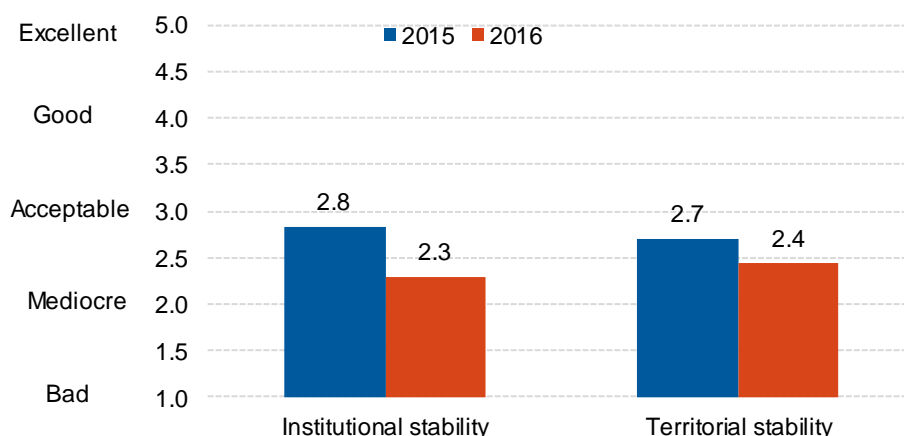
Political risk is the second lowest-scoring business climate attribute in Spain. Moreover, its score deteriorated year-over-year, probably due to the lack of a central government and the surge in separatist sentiment.

Political risk is the second lowest-scoring business climate attribute in Spain. Having scored 2.4 out of 5.0, it is only lagged by perceived public support for R&D&I.

The two indicators comprising this category scored below the 'acceptable' threshold, with institutional stability scoring a 2.3 and regional stability, a 2.4. Both scores deteriorated year-over-year. The deterioration in perceived institutional stability is more pronounced, with 65% of the British companies rating this attribute as poor or fair. The trend is similar with respect to perceived regional stability in Spain.

Clearly the political instability prevailing in Spain, shaped by the difficulties in forming a central government and the surge in separatist sentiment in certain regions and the tension this may have caused, has been key to this category's assessment.

Assessment of political risk in Spain by British companies (scores weighted from responses)



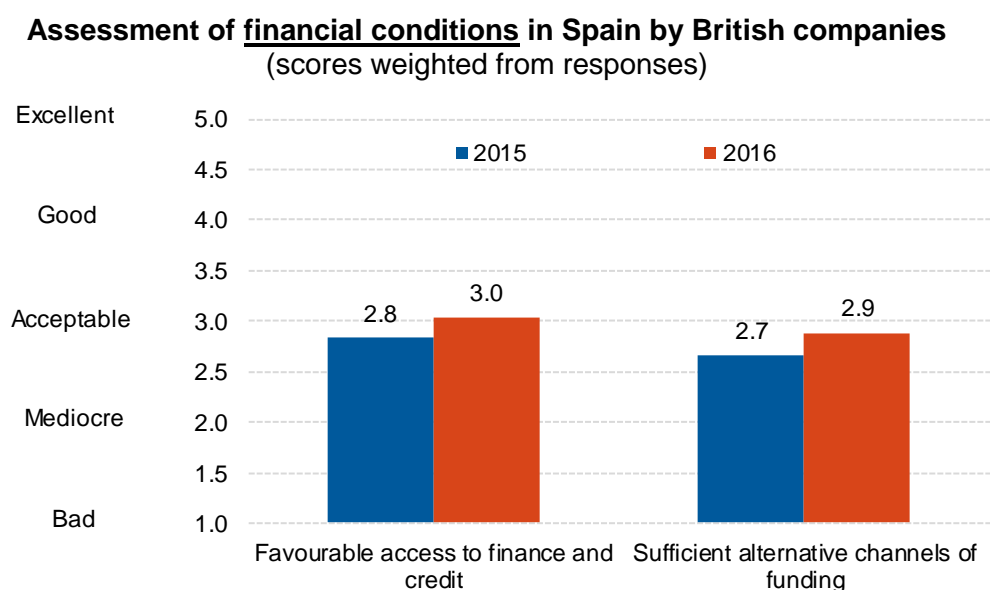
Source: Afi, "Survey of British investment in Spain".

Financing conditions

The improvement in financing conditions (bank financing and alternative sources) is enhancing the business climate in Spain and encouraging British investment.

The British companies believe that their financing conditions, in terms of both bank financing and alternative sources of financing, have improved from the year before and are currently at acceptable levels.

This improved perception in 2016 is attributable mainly to the fact that 76% of the British firms assessed rated their access to bank loans as acceptable or better. The expansive monetary policy rolled out by the European Central Bank, coupled with consolidation of the economic recovery, underpin this improvement.



Source: Afi, "Survey of British investment in Spain".

Labour market

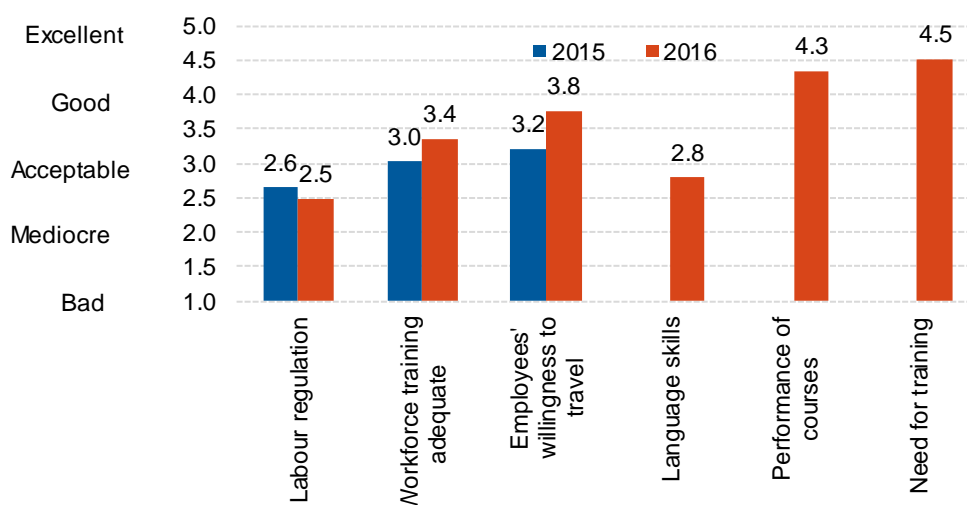
The assessment of the labour market has also improved compared to 2015, underpinned by more than acceptable skill levels and commitment on the part of British companies to employees' continuous learning.

The overall score assigned to the labour market improved to 3.5 points in 2016, emerging as the second highest-rated category of attributes.

Three new indicators related to employee training were added this year. Two of the new indicators are directly related to continuous training (need for training and performance of courses) and score close to the excellence mark. As for the business activities performed by the British companies themselves, rather than the environment they operate in, 65% of the firms consulted said that over 20% of their employees had completed training courses in 2016. This evidences the British firms' commitment to their employees' continuous learning. The third new indicator has to do with proficiency in English, the working language of any British company: in this instance, the score was nearer the acceptable threshold, indicating clear room for improvement.

All the other indicators in this category meanwhile scored better than in 2015 (most notably employee willingness to travel for professional purposes), except for the indicator related to labour legislation. Over 40% of the British companies said that Spanish labour market regulations were not sufficiently conducive to the needs of the corporate landscape.

Assessment of the labour market in Spain by British companies
(scores weighted from responses)



Source: Afi, "Survey of British investment in Spain".

Market structure

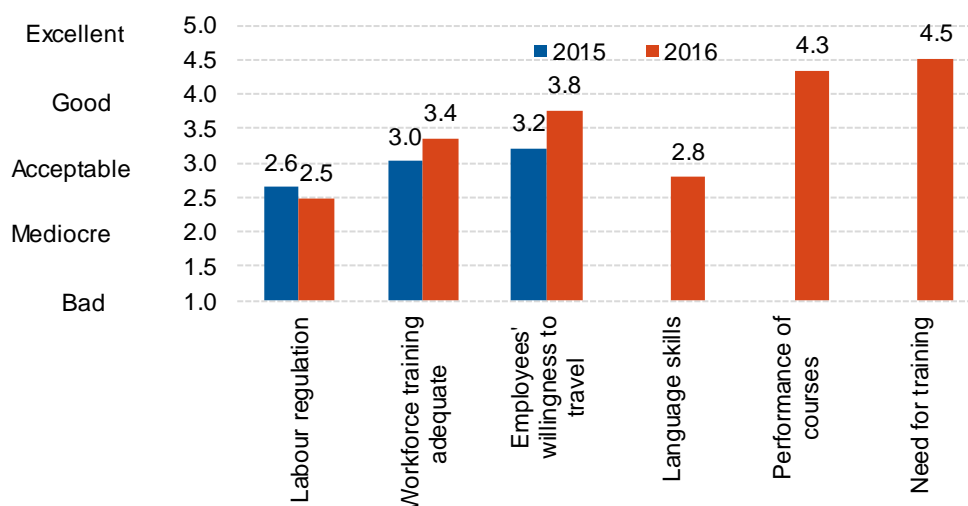
The perception of the market structure was stable year-over-year, scoring acceptably, favoured once again by the fact that Spain constitutes a valuable gateway to Latin America.

The perception of the market structure was stable year-over-year (3.1 out of 5.0), favoured once again by the opportunity represented by Spain as a valuable gateway to the Latin American market.

Market uniformity across the various regions remains the category's Achilles heel, with over half of the firms consulted rating this indicator as less than acceptable.

Regarding the two new indicators included in this year's survey - price-setting power and unfair competition - they were both deemed acceptable. The British firms represented consider that the Spanish market does not present issues that would hinder their business development in this respect. That being said, 21% of the respondents believe that unfair competition exists and 24% said that some companies had significant price-setting power.

Assessment of the market structure in Spain by British companies
(scores weighted from responses)



Source: Afi, "Survey of British investment in Spain".

Digitalisation

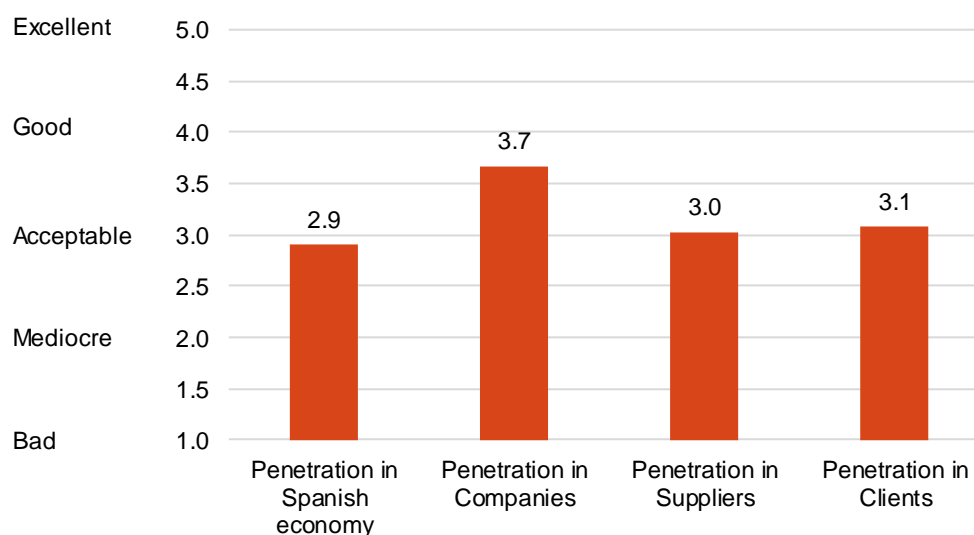
Although British companies have adequately embraced digitalisation, it would be desirable for their stakeholders (suppliers, customers and the economy as a whole) to accompany them on this transformation.

Digital transformation in firms has turned out to be the fourth industrial revolution, a process which must be embraced by all manner of companies, no matter their sector or size. Against this backdrop, the British companies gave the Spanish economy's digitalisation level a score of 3.2 out of 5.0. All of the indicators appraised, without exception, were rated as at least acceptable, indicating a positive perception of the digital transformation process in Spain.

However, the British respondents believe they are much further along the digitalisation process than their stakeholders: suppliers, customers and the Spanish economy as a whole. By way of example, while 61% of the British companies consider the digitalisation of their own companies to be acceptable or good, this percentage falls to 21%, 23% and 29% in the case of the economic environment, their suppliers and their customers, respectively.

The British companies were more critical in assessing the digitalisation of stakeholders belonging to sectors in which the level of digitalisation is below the Spanish average. The lag in the digital transformation process in these sectors is attributable not only to reduced penetration of new technologies but also reduced use thereof, particularly in relation to: (i) using the website to share supply chain information electronically; (ii) using social networks to connect directly with the end consumer and for the purpose of goods/service development/innovation; and (iii) the contracting of cloud computing services for the purpose of managing the company's data.

Assessment of digitalisation in Spain by British companies
(scores weighted from responses), 2016



Source: Afi, "Survey of British investment in Spain".

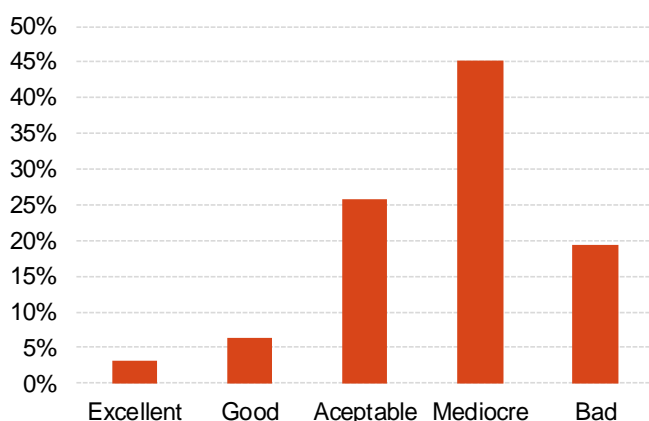
R&D&I

Although some 30% of the British companies expect to increase their R&D&I spending in 2016, they believe greater public support is necessary to encourage additional corporate R&D&I investment.

Expenditure on R&D&I across the research community in Spain, including companies, universities and research centres, remains below European targets (2% of GDP). This is why the British companies believe there is still significant room for improvement in this area, with over half of the respondents stating that public support for R&D&I is mediocre or bad in Spain. Generation of an innovation ecosystem has a crucial role to play in fostering the competitiveness of Spain's companies and the economy in general.

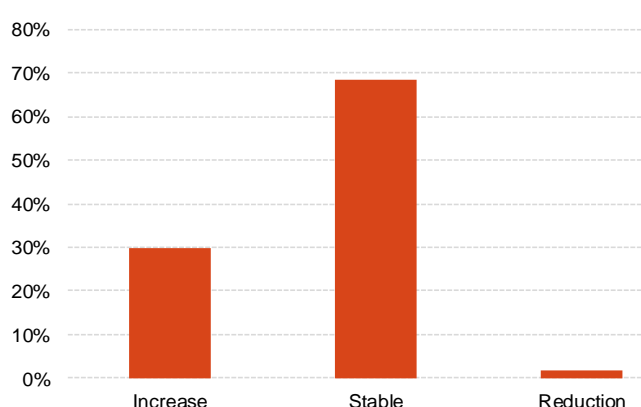
Against this backdrop, British companies' strategic commitment is key, as their support could help increase R&D&I spending by companies based in Spain. In fact, 30% of the firms surveyed said they expected to increase their R&D&I spending in 2016 and nearly 70% planned to keep it at current - meaningful - levels.

Assessment of public support for R&D&I spending in Spain by British companies
(% of responses), 2016



Source: Afi, "Survey of British investment in Spain".

Outlook for change in R&D&I spending in Spain by British companies (% of responses), 2016



Source: Afi, "Survey of British investment in Spain".

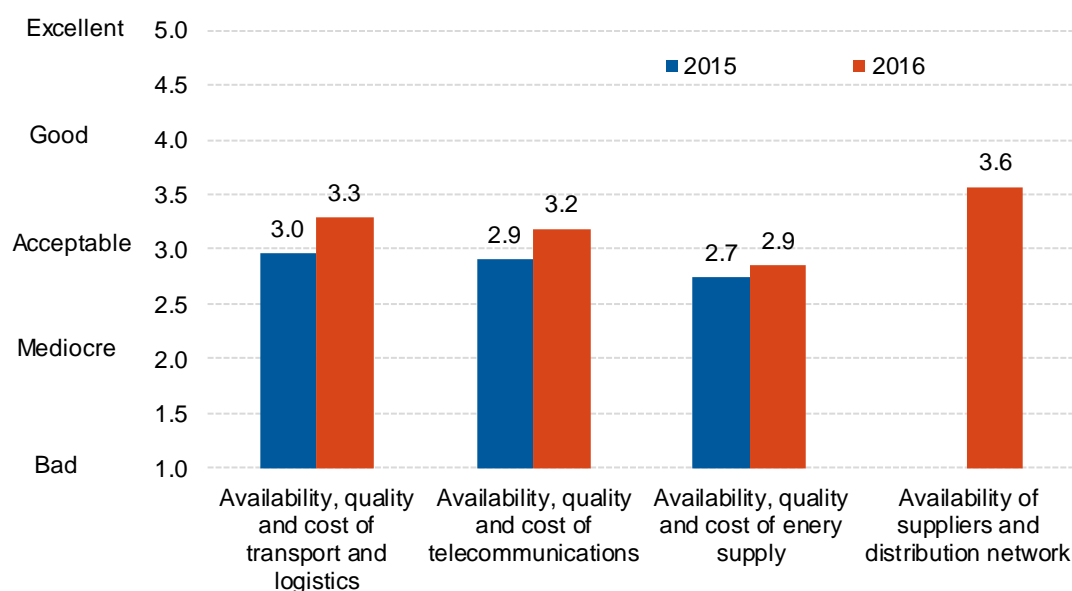
Supplier costs

The assessment of the availability, quality and cost-competitiveness of the firms supplying British companies has improved from last year and is deemed more than acceptable.

The overall assessment of the availability, quality and cost-competitiveness of the respondents' main suppliers surpassed the acceptable threshold in 2016, emerging as the third best-rated business climate category in the eyes of British companies. Every indicator's score improved from last year, most notably those related with the quality and costs of transportation and logistics services.

Significantly, the British companies consider the availability of supplier and distribution networks in Spain to be acceptable insofar as they facilitate execution of their production and distribution chains. On the other hand, they perceive room for improvement in terms of the availability, quality and cost of energy (power, gas, etc.), with 30% of respondents rating this aspect as mediocre or bad. That being said, this aspect's score did improve considerably from 2015.

Assessment of supplier costs in Spain by British companies (scores weighted from responses)



Source: Afi, "Survey of British investment in Spain".

Quality of life

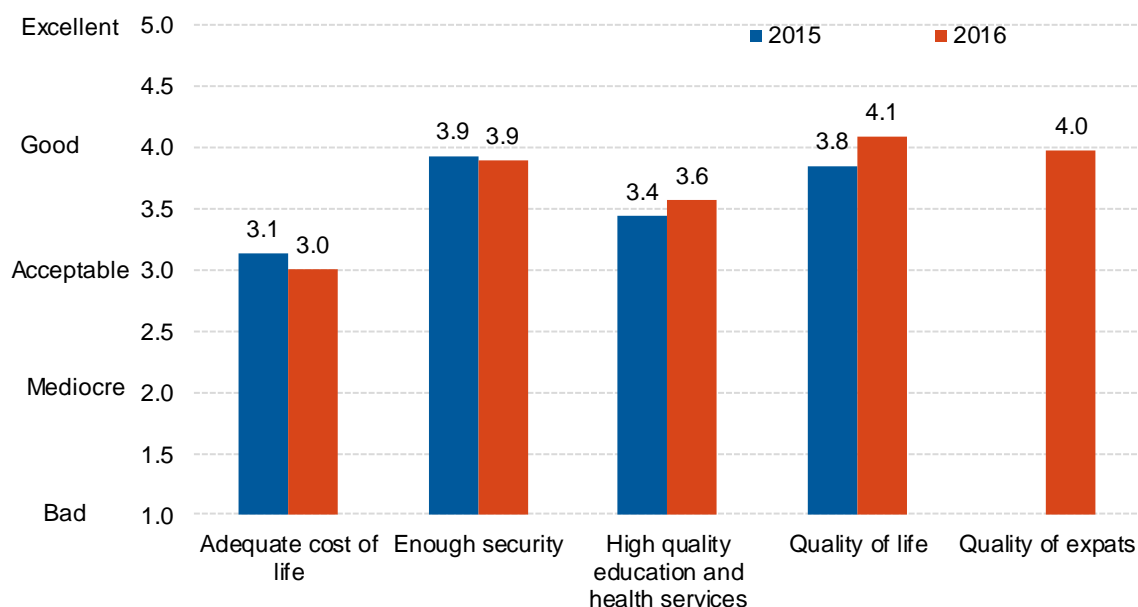
Quality of life is once again the business climate attribute best rated by British companies, scoring even higher than in 2015.

Quality of life is once again the business climate attribute best rated by British companies, obtaining a score of 3.7 out of 5.0. All of the underlying indicators were rated acceptable or better.

Lifestyle remains the highest-rated attribute within this category, receiving a rating of excellent from 30% of the British companies consulted.

The cost of living indicator fared a little worse than in 2015, with 27% of respondents deeming it unacceptable, compared to 15% last year, in other words, the British companies are experiencing a somewhat higher cost of living in Spain, a development that makes sense in light of the economic recovery.

Assessment of the quality of life in Spain by British companies
(scores weighted from responses)



Source: Afi, "Survey of British investment in Spain".

Corporate social responsibility (CSR)

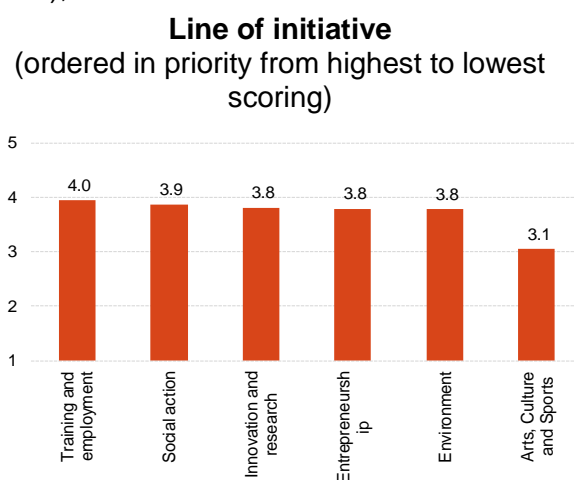
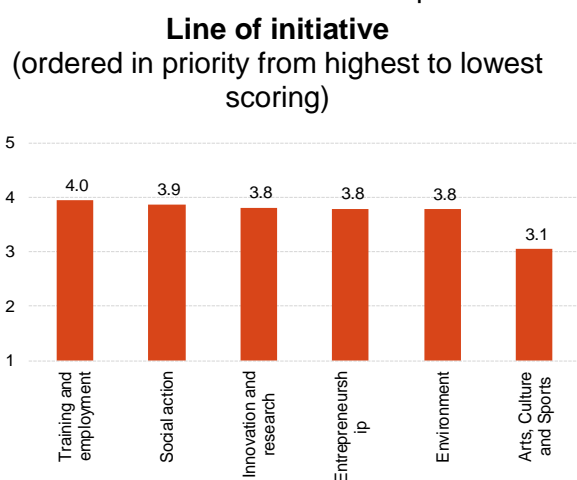
British companies plan to maintain or even step up their corporate social responsibility (CSR) spending.

As for corporate social responsibility (CSR) spending, British companies do not express a preference for any one specific line of initiative or stakeholders group, rather they approach their CSR efforts as all-encompassing initiatives.

Within the various lines of initiative, the one most highly valued by the British companies was 'training and employment', one of the Spanish economy's key concerns. In this context, it is hardly surprising that the priority interest expressed by the British companies is their human capital.

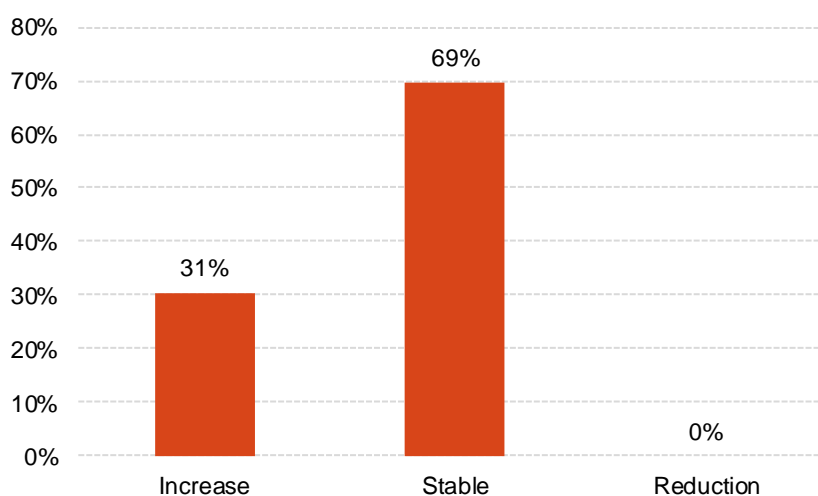
The British investment community's commitment to CSR is once again evident in the fact that all of the companies said that they were planning to maintain if not increase (over 30% of the time) the budget earmarked to this item of expense.

Assessment of CSR in Spain by British companies (scores weighted from responses, where 1 is poor and 5 is excellent), 2016



Source: Afi, "Survey of British investment in Spain".

Outlook for CSR spending in Spain by British companies (scores weighted from responses), 2016



Source: Afi, "Survey of British investment in Spain".

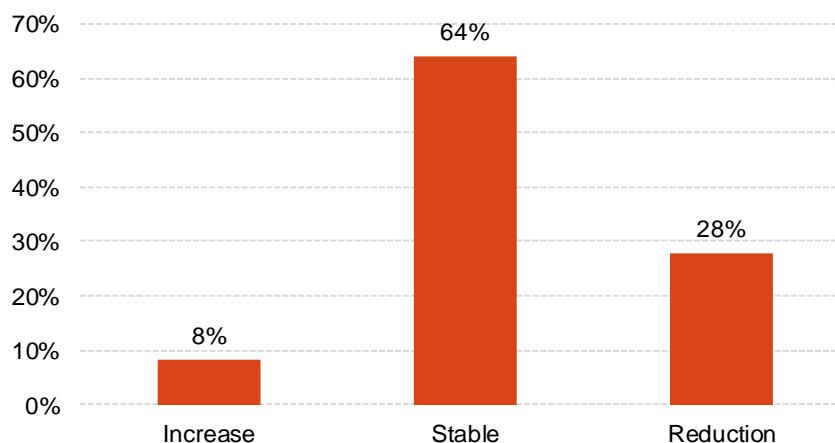
Other aspects of importance to the British companies: *Brexit*

Over 60% of British companies expect that Britain's exit from the European Union will not affect their investments in Spain. However, nearly 30% believe Brexit will adversely affect their investments, with the majority of these firms expecting to scale them back by over 10%.

One of the developments of greatest impact for British companies this year was the potential fallout from the UK's decision to exit the European Union (popularly known as Brexit), particularly on their investments in Spain.

According to the Barometer on climate and outlook for British investment in Spain, over 60% of the British companies consulted expect that Brexit will not affect their investments in Spain. However, nearly 30% believe it will adversely affect their investments, with the majority of these firms expecting to scale them back by over 10%.

Assessment of the impact of Brexit on British investment in Spain (scores weighted from responses), 2016



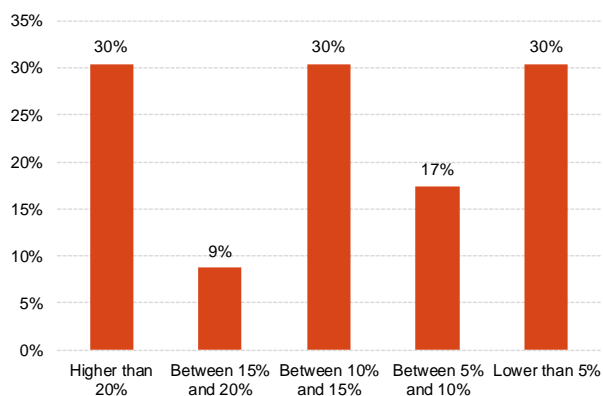
Source: Afi, "Survey of British investment in Spain".

As the survey was conducted between July, immediately after the British referendum on the subject of Brexit, and September, one might have expected the more pessimistic companies to be those that responded in July, when neither the timing of nor the positions of the two sides vis-a-vis the exit process were known. However, analysing the trend in the responses received, it cannot be concluded that the month in which the surveys were filled in had any impact on the assessment of the outcome of the vote in terms of intentions or magnitude.

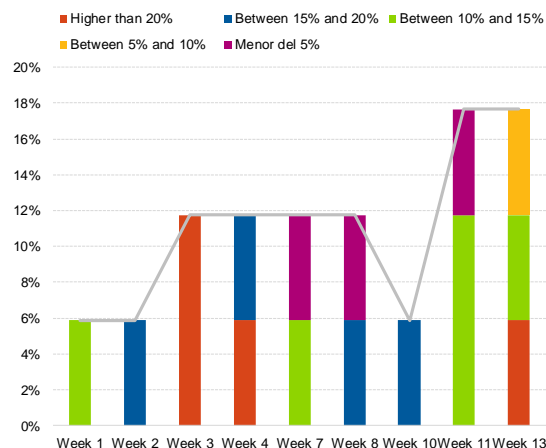
The profile of the companies which assessed the fallout from Brexit as adverse for their investments in Spain is highly heterogeneous, encompassing all kinds of sectors and geographic locations (albeit concentrated in the Madrid region, in keeping with the breakdown of overall British investment in Spain; see appendix on the survey methodology).

Nevertheless, nearly all of the British companies consulted believe it is feasible, over the medium term, to create a new framework for economic ties conducive to stable flows of direct British investment in Spain.

Breakdown of the British companies that believe that Brexit will lead them to reduce their investments in Spain by magnitude of the reduction (% of total), 2016

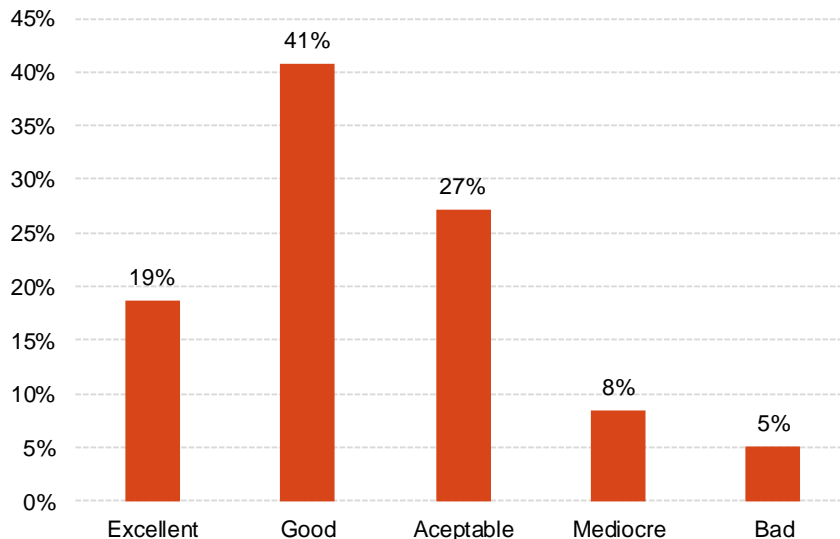


Breakdown of the British companies that believe that Brexit will lead them to reduce their investments in Spain by magnitude of the reduction AND classified by the proximity of their responses to the referendum (% of total), 2016



Source: Afi, "Survey of British investment in Spain".

Assessment of the scope for generating a new framework, in the medium term, for economic ties conducive to stable flows of British investment in Spain (scores weighted from responses), 2016



Source: Afi, "Survey of British investment in Spain".

Appendix: methodology and characteristics of the company sample

The sample of British companies used as the basis of the results of the Barometer on climate and outlook for British investment in Spain consists of 62 companies deemed representative of the entire corporate population.

The results outlined in this report regarding British firms' assessment of the climate and outlook for British investment in Spain are articulated around the results obtained from a survey of British companies that carry out business operations on Spanish soil.

The field work implied by this annual survey was conducted via an online platform which enabled the gathering of all of the information needed for subsequent handling, analysis and application. The platform can be reached at the following link:

https://docs.google.com/a/afi.es/forms/d/e/1FAIpQLSe7LdppRDITTXRgZYevA11dX6ljCzg_f7DIZ54DBnXjRK_mIQ/viewform?c=0&w=1

The survey was similar in structure to last year's edition with the aim of facilitating a comparative analysis of the British companies' perceptions and assessments. The survey comprises a section intended to delineate the company in question (essentially size, sector or CNAE code and region of registered office), a section on the business outlook in Spain and another on British investment in Spain, wrapping up with a section devoted to the business climate.

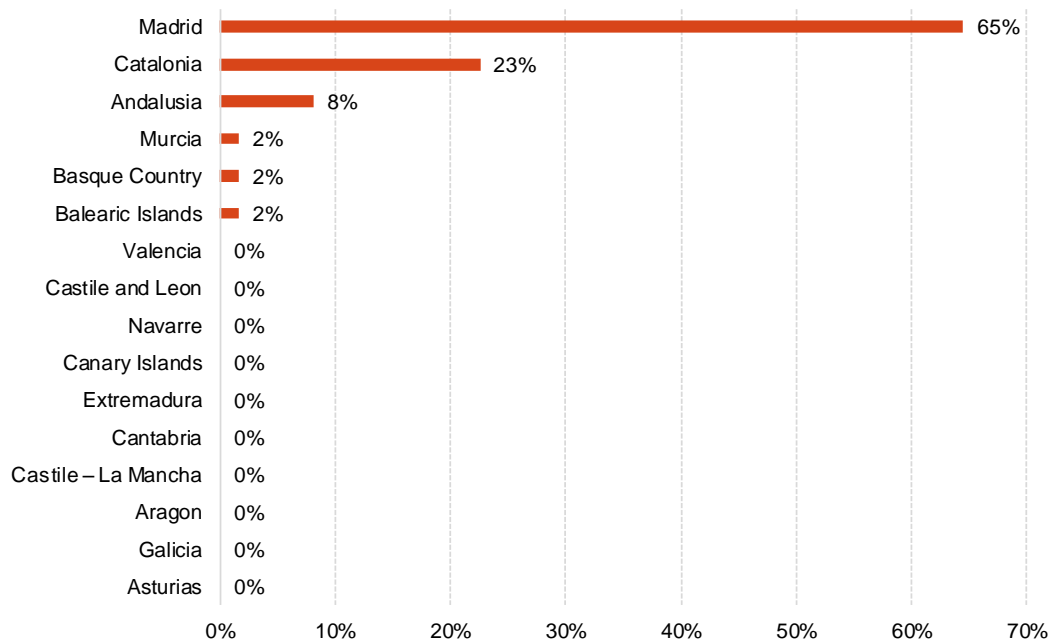
A British company is defined as one whose equity is predominantly British (i.e., at least 51% of its equity is held by a company of British nationality or, equivalently, the British shareholder exerts control over the investee).

The sample was built using the British Chamber of Commerce's database and the SABI database (which compiles information from the financial statements filed by the companies in the Companies Register). According to the latter database, there are approximately 1,000 British companies in Spain. Assuming a confidence interval of 90% and a margin of error of 10%, the sample would need to have a population of 50 companies for the results to be representative of the overall universe of British companies.

Assuming a response rate of 15%, the sample size required to arrive at the number of companies needed to provide the feedback necessary for compiling the Barometer was 374 companies. This sample was selected so that it is representative of the structure of the universe of British companies invested in Spain in term of economic sectors, regional footprint and size.

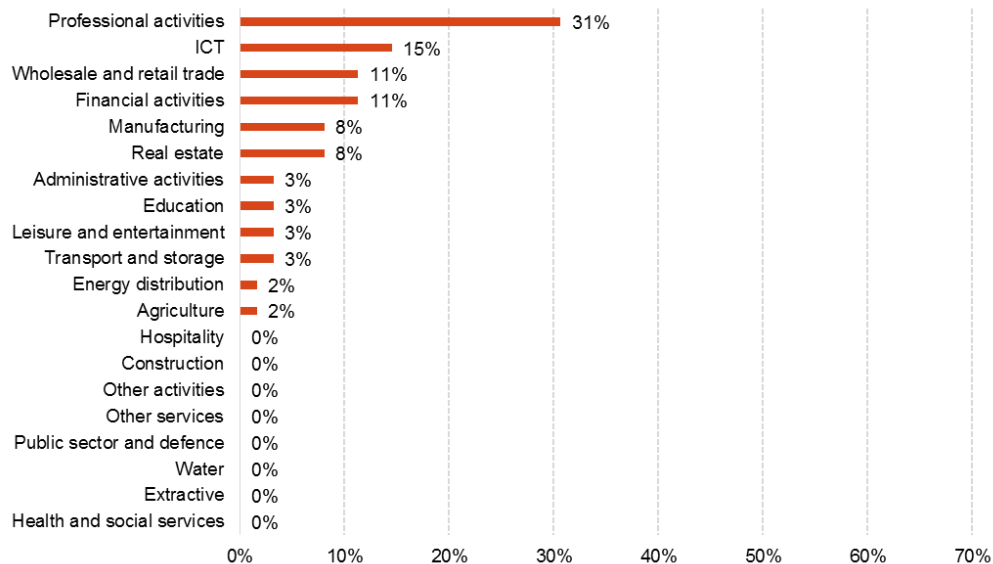
Thanks to the groundwork performed between July and September 2016, the size of the sample of British companies is 62 firms. The breakdown by the regions in which their registered offices are located, business sectors and size is provided in the following tables.

Sample British companies by region (% of the total), 2016



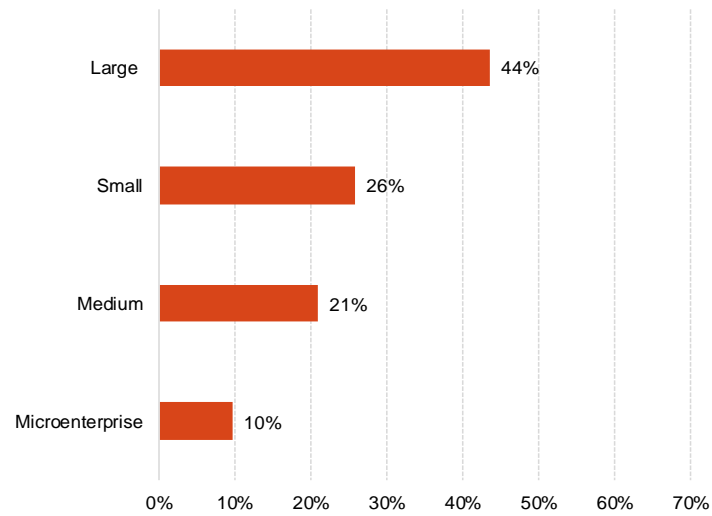
Source: Afi, SABI, British Chamber of Commerce in Spain.

Sample British companies by sector of the economy (% of the total), 2016



Source: Afi, SABI, British Chamber of Commerce in Spain.

Sample British companies by size (% of the total), 2016



Source: Afi, SABI, British Chamber of Commerce in Spain.



British Chamber of Commerce in Spain



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