

2017 JETRO Survey on Business Conditions of Japanese Companies in Europe

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Japan External Trade Organization (JETRO)

Europe, Russia and CIS Division

Overseas Research Department

Survey Overview

Survey Objective

- This survey analyses the activities of Japanese affiliated companies operating in Europe, in order to comprise an understanding of operating challenges etc. that could be directly impacting their business performance. This research can be used to assist these companies in developing overseas operation strategies and policy planning. It is also intended to be used as a basis of information, so that governmental agencies can provide sufficient support towards Japanese- affiliated companies based in Europe.

Survey Target

- This survey was sent to a total of 1,154 companies between the 25th of September to the 23rd of October 2017.
- Exactly 952 responses were received, giving a response rate of 82.5%.
- The survey was sent to companies based in 15 countries in Western Europe and 9 Eastern and Central European Countries.
- This survey was targeted towards *Japanese Affiliated Companies*, which refers to a company where the ratio of direct or indirect investment from Japanese companies is 10% or more. It also includes European sub-subsidiaries established by European or non-European Japanese-affiliated companies. However *representative offices, liaison offices and companies owned by Japanese persons locally in Europe* are not included in this survey.

Please Note

- Survey results were totalled using the information sources that can be considered reliable by JETRO offices in Europe, however JETRO cannot guarantee complete accurateness of the information provided by the companies.
- Not all respondents answered every question. The component percentages in the tables and charts of the document have been rounded off and therefore may not always add up to 100%. Furthermore, the percentages for questions of which multiple answers are given may not add up to 100%.
- Please note that within the graphs “n=” refers to the number of respondents.
- Some countries or industries may not be listed if the number of respondent companies for each are less than 5.
- If the industry, country or region has not been specified in a table or chart, this means the table or chart refers to Europe as a whole.
- This survey has been running continuously since 1983. At first it focused on only manufacturing industries, but in 2012 the survey expanded to include non-manufacturing industries. However this means that data accumulated from 6 years ago or more only compares and analyses within the manufacturing industries.
- Please note there are some differences between the Japanese and English publication.

Survey Results: Target Countries & Industry Breakdown

Manufacturing

- Food/processed food, agricultural or fishery products
- Textile Fabrics (Spinning/Woven fabrics/Chemical fibers)
- Textile apparel & products
- Lumber& Wood products
- Furniture & Fixtures
- Paper& Pulp
- Printing & Publishing
- Chemical, allied & petroleum products
- Medicines
- Plastic products
- Rubber products
- Ceramic, stone & clay products
- Iron & steel (Including cast and wrought products)
- Non-ferrous metals
- Fabricated metal products (Including plated products)
- General-purpose & production machinery (Including molds and machine tools)
- Business oriented machinery (Including office machines, analytical instruments & medical equipment)
- Electrical machinery & devices (Including parts)
- Information & communication electronics equipment
- Motor vehicles & Motorcycles (Transportation equipment)
- Motor vehicles & Motorcycles parts (Transportation equipment)
- Railroad vehicles/Ship/Aircraft/Industrial trucks (Transportation equipment)
- Railroad vehicles/Ship/Aircraft/Industrial truck parts (Transportation equipment)
- Miscellaneous manufacturing industries

Non-Manufacturing

- Agriculture & forestry
- Fisheries
- Mining
- Construction/Plant
- Electricity/Gas/Heat supply/Water
- Transport activities/Warehouse
- Information & communications (Including software)
- Wholesale and retail trade(Including trading)
- Sales company
- Finance & insurance
- Real estate
- Professional & technical services
- Hotel/Travel/Restaurant
- Amusement/Living-related services
- Education
- Medical/healthcare & welfare
- Miscellaneous service industries

Survey results

1. Operating Profit Forecast
2. Current Domestic Market and Future Prospects
3. Operational Challenges
4. Differentiated & High Value-Added Products & Services
5. Changes in Number of Employees
6. Business Outlook For Next 1 or 2 Years
7. Future Promising Sales Destinations
8. Britain's Exit from the European Union
9. EPA/FTA
10. Local Procurement

(Units:cos, %)

	Number of participants		Industries	
	Valid response	Ratio	Manufacturing	Non-Manufacturing
Overall	952	100.0	424	528
■ Western Europe	876	92.0	378	498
UK	245	25.7	94	151
Germany	211	22.2	97	114
France	97	10.2	55	42
The Netherlands	84	8.8	25	59
Italy	47	4.9	15	32
Belgium	45	4.7	21	24
Spain	36	3.8	20	16
Ireland	24	2.5	9	15
Finland	20	2.1	14	6
Austria	19	2.0	6	13
Sweden	16	1.7	8	8
Portugal	13	1.4	6	7
Switzerland	10	1.1	3	7
Denmark	7	0.7	4	3
Greece	2	0.2	1	1
■ Central & Eastern Europe	76	8.0	46	30
Czech Republic	19	2.0	14	5
Hungary	14	1.5	11	3
Poland	30	3.2	13	17
Romania	5	0.5	2	3
Slovakia	4	0.4	2	2
Bulgaria	1	0.1	1	-
Slovenia	1	0.1	1	-
Montenegro	1	0.1	1	-
Serbia	1	0.1	1	-

Survey Results Summary (1)

1. Operating Profit Forecast and Current Domestic Market and Future Prospects

Operating Profits are steadily increasing Year by year, however the UK's forecast has slightly worsened causing concern.

- Operating profit forecast trends over the last 6 years show that the percentage of Japanese-affiliated companies in Europe predicting that they will be profitable is continuously increasing each year. For the 2017 operating profit forecast, 75% of all respondents answered that they would be profitable. 13.4% estimated that they would break even and 11.5% at a loss. Although 71.6% of UK based companies estimated “profit”, the response rate from all other EU countries was 76.6%, a difference of 5.0% showing a widening gap from last year's results of 3.1 percentage. (page.6,7)
- Although 48.2% of all respondents answered that their 2018 operating profit forecast expected to remain the same as 2017, 42.7% did expect to see a profit increase and only 9.1% predicted a decrease in profits. By Sector, the highest proportion of companies who answered “Increase” were the ‘Food/processed food, agricultural & fishery’ at 66.7% (14 companies), and ‘Hotel/Travel/Restaurant’ sector at 63.2% (12 companies). 15 companies (78.9%) of “Hotel/Travel/Restaurants” sectors estimated an increase in profit in 2017 compared to 2016 operating profit results, claiming that the reason for this increase was due to “Increase in tourism from Japan”. (page.8,9)
- The overall DI business sentiment for the 2017-2018 of UK based companies amounted to 23.9 percentage points, ranking second lowest from the bottom. Furthermore, compared to other countries, UK based companies gave an overwhelmingly high response that the British domestic market's future prospects had slightly worsened (33.5%), revealing companies growing concern over the economic slowdown as a consequence of Brexit. (page.11,13)

2. Operational Challenges

“Securing human resources” emerged as the biggest operational challenge, whereas for certain countries “European political and social conditions” remains the biggest operational challenge.

- This year “Securing human resources” emerged as the biggest operational challenge at 51.7%, increasing by 3.9 pp from 2nd place the previous year. 65% of all respondents were based in Germany, the UK, the Netherlands and Central Eastern & European countries, indicating that the tightening of their labour markets has pushed securing talent to become the top issue. Furthermore when analysing the response rate by country, the highest for this issue was Hungary 85.7%, Denmark 83.3% and the Czech Republic 68.4%. Companies from these countries responded they intend “Strengthening technical training resources and increasing the number of skilled workers” in order to differentiate or add value to their products and services. Also companies in Denmark, Poland (69%) and the Czech Republic revealed that the “Increase” in number of local employees had been high over the past year. (page.15,19,23,24)
- Even though last year's top operational challenge “European political and social conditions” (48.8%) also increased this year by 0.9%pp, it still did not achieve the same growth rate as “Securing human resources” for this year. In 2017 major European countries were dealing with political events such as elections, however some response rates for certain countries rose more sharply than others, slightly increasing the overall response rate for Europe. For example Spain had the highest response rate of 82.9%, due to the increasing tensions over the Catalonia Independence issue, followed by the UK at 64.7% due to the start of EU withdrawal negotiations. (page.15,19)
- Last year's second top operational challenge for all companies in Europe “Exchange rate fluctuations” (30.9%) has greatly reduced by 16.9pp. This was due to less currency fluctuation this year. Also the EU General Data Protection Regulation (GDPR) has become recognized as a new operational challenge ranking 9th place at 26.3%, due to take effect in May 2018. This has especially become a big problem for Belgium based companies. (page.15,20)
- Central & Eastern Europe cited “Rapid labour costs growth” as the biggest challenge at 74.7%, increasing by 34.9 percentage points since the previous year. Since 2016 the nominal wage rate has increased by 3% for Bratislava, Warsaw and Prague. For Budapest and Bucharest it has increased between 7-9%. (page.17)

Survey Results Summary (2)

3. Business Outlook For Next 1 or 2 Years and Future Promising Sales Destinations

The number of UK based companies citing Expansion is slowly decreasing, Germany is the top promising sales destination

- For the next 1-2 year business outlook across all sectors in Europe, 51.2% indicated “Expansion”, 45.1% said that their outlook “Remained the same” and only 0.6% replied “Relocation to a third country or withdrawal from the present country”. Looking at the break down by country, continuing the same trend as last year, more than 70% of respondents from both Italy and Poland indicated “Expansion”. For the UK only 34.7% of respondents forecasted “Expansion”, remaining in the same position as last year, the second lowest from the bottom. (page.25,26)
- For all companies in Europe, the UK’s vote to leave the EU has not yet seemed to have had much impact on their 1-2 year business outlook. The response rate for “Expansion” from UK based non-manufacturing companies has reduced. The number of UK based companies indicating “Reduction” has slightly risen since the previous year to 5.7%. Some companies gave reasons such as “Due to the impact of the UK’s exit from the EU, plans to relocate to other EEA countries are now under consideration”. (page.26)
- Looking at the countries where companies responded that they planned to expand their “Function of regional headquarters”; 8 UK Based companies responded that they planned to expand their “Function of regional headquarters”, ranking the UK in 3rd place. However it can be seen that the number has more than halved compared to 2015 (19). Less than 10 companies have reported intentions to expand since 2016, when the UK voted to leave the European Union. These results suggest that the UK’s decision to leave the EU has affected Japanese-affiliated companies decision making of where to expand their functions to regional headquarters. (page.31)
- Continuing the same trend as the previous year, the number of companies selecting Turkey and Russia as promising sales destinations has continued to decline since 2014. Companies are continuing to choose Germany as the top sales destination, as well as Western Europe and Central & Eastern Europe. Over the years, trends can be seen where companies are re-examining their primary sales destinations due to impacts such the economic recovery in Europe, EU’s economic sanctions against Russia and the political situation in Turkey. (page.32)

4. Britain’s Exit from the European Union

Impacts from changes such as “Exchange rate fluctuations” to “Custom Tariffs”, “Changes in UK Regulations and Legislation” and “Economic slump in the UK”

- When companies were asked how they expected the UK’s exit from the EU to impact their future business, 28.2% of all respondents replied “No Impact”, followed by 26.9% for “Negative Impact”. Comparing the future business impact by sector to the impact seen so far, “No Impact” has greatly reduced by 37.9 pp, but the number of “Negative Impact” responses have increased by 12.8 pp. 46.9% of UK based businesses responded that the UK’s exit from the EU would have a “Negative impact” on their future business, the highest response rate amongst all countries in Europe. The most given reasons for negative impact were: “Customs tariffs”, “Securing Human Resources”, “Changes to regulations and legislation” on top of “Exchange rate fluctuations” and “Increasing import prices due to cheapening of the pound” which were mentioned in previous survey. Whereas the most common responses for companies based in other EU states, were “Customs Duties”, “Complex import/export procedures” and “Changes to EU and UK trading regulations”. 5.7% UK companies said there had been a positive impact seen so far due to “Increasing exports due to cheapening of the pound”. (page.35,36)
- The top two concerns for both Japanese-affiliated companies in the UK and in other EU states are “Economic slump in the UK” and “Changes in UK regulations and legislation”. The response rates for both choices were 20 points higher for UK based companies. Regarding future changes to UK regulation and legislation, both companies based in the UK and other EU states expressed “Customs Tariffs” as their main concern. UK based companies were more concerned regarding complying to the future EU General Personal Data Regulation (GDPR) 17.8pp higher than other EU companies. (page.37,38)

Survey Results Summary (3)

4. Britain's Exit from the European Union (continued)

- For Companies who responded that they were currently reviewing or considering to review the Location of their base, the largest percentage was UK based companies who selected reviewing relocation of their Sales function at 57.4%, followed by regional headquarter function at 48.1% and manufacturing function at 20.4%. Over 80% of companies from both the UK and other EU member states responded that they were already preparing or considering to prepare to “Partly Relocate to another EU Member State”. Less than 20 % of them selected “Completely Relocate to another EU Member State” When companies were asked the name of the country that they were potentially considering to relocate to; amongst UK based companies, the two most mentioned candidate countries were Germany (23 companies) and the Netherlands (6). Other candidates named were Ireland (2), France (2), Italy (2), and Belgium (2). (page.40)
- Concerning necessary actions or preparation for if the UK does not remain in the EU single market or Customs Union, Both UK and EU based companies gave the highest response that no special preparation or response would be necessary respectively at 31.9% and 43.1%. “Deal with new custom clearance procedures even if the tariff rate is 0%” followed second. (page.42)
- Companies were asked if the UK does not stay in the EU single market or customs union, how long would the transition period need to be? For dealing with “new customs clearance procedures, including cases where there are 0% tariffs”, both UK and other EU based companies gave a significant response that these issues could potentially be resolved by the withdrawal date, respectively at 50% and 73.9%. For “reviewing supply chains”, UK based companies responded that a transition period of at least 2 years would be necessary in the scenario where “tariffs are imposed” was higher than compared to the scenario where “customs procedures occur even if tariffs are 0%”. Concerning compliance with new UK standards and certification, a large number UK based non-manufacturing companies replied that at least a year would be necessary after the withdrawal date. This same trend was also confirmed for EU based manufacturing companies. (page.43,44,45)

5. EPA/FTA Advantages and Local Procurement

More than half expect the major advantages of Japan EU EPA, and about 20% of UK based Japanese-affiliated manufacturing companies procure from the EU

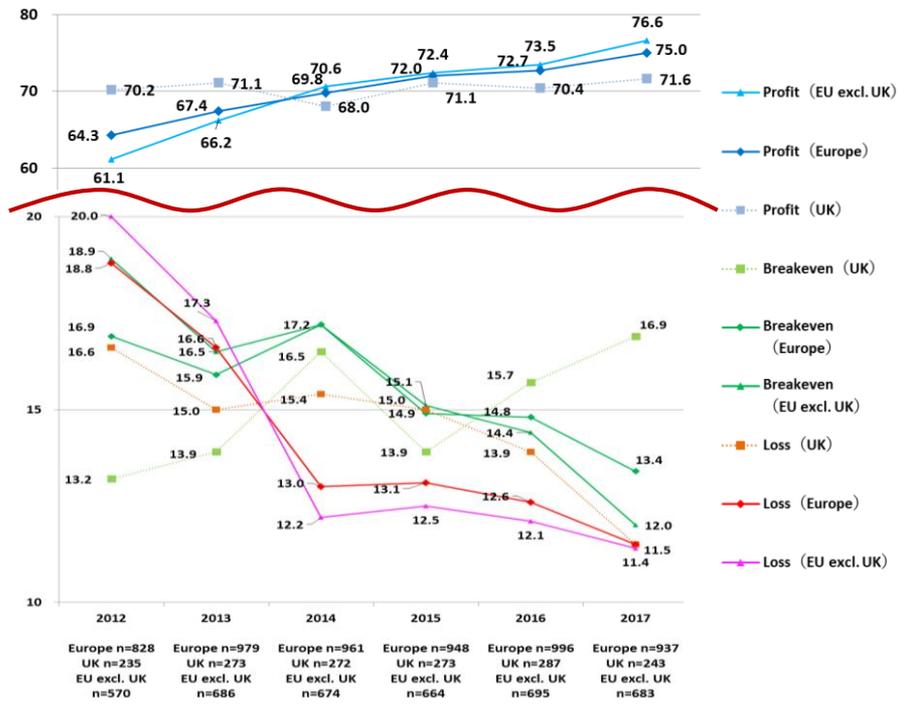
- The largest number of respondents for utilizing future FTA/EPAs said they will use the Japan-EU EPA once it has been concluded. 400 companies responded that they were considering or planning to use the Japan-EU EPA for export and Import, increasing by 107 companies from the previous year. Especially Central and Eastern European based non-manufacturing companies cited it as a major advantage with a response rate of 77.3%. According to 303 companies the most popular reason for the Japan-EU EPA being a major advantage “Tariff Reduction/Abolition for Imports from Japan” with a response rate of 78.5%. (page.48,49,51)
- After the UK has withdrawn from the EU, 14.3% of all companies from Europe as a whole cited that the future possibility of the Japan-UK EPA would be a major advantage. Even when narrowed down to UK based companies 26.7% said it would be a major advantage, which was a much lower proportion compared to their response rate for the Japan-EU EPA at 45.1%. These results indicate that even for UK based companies the benefits of the Japan-EU EPA currently is a higher priority than a future Japan-UK EPA. (page.48)
- For each company's response the average procurement percentage was calculated based on the purchasing value. Looking at the EU as a whole, the average procurement rate for "Local" (in other words domestic market) was an average of 29.6%, For “EU excluding local” the average procurement rate was 21.3%. For “Europe excluding EU and Local” the average procurement rate was 1.4%. Therefore the overall average procurement rate for Europe totaled at 52.3%, breaking over 50% whereas Japan's average procurement rate reached over 30% at 31.2%. (page.52,53)
- For companies based in the UK manufacturing industry, whilst the average procurement rate was 25.2%, for “EU excluding local” it was 18.4%. This creates concern about the impact of customs duties imposed on business between the UK and EU, after the UK withdraws from the EU. (page.52)

1. Operating Profit Forecast(1)

- Operating profit forecast trends over the last 6 years show that the percentage of Japanese-affiliated companies in Europe predicting that they will be profitable is continuously increasing each year. However when looking at Japanese-affiliated companies in the UK who indicated profit it was 5.0 percentage points less than for companies in all other EU countries. This gap has widened more since last year, which had shown only a 3.1 percentage point difference.
- The 2017 operating profit forecast for the manufacturing sector of Japanese-affiliated companies in Europe has revealed that the percentage of companies forecasting profit has been maintained for the last 4 years since 2014, returning to the same high figures seen prior to the 2007 financial crisis. However manufacturing companies in the UK have not yet recovered to this same high figure seen before the 2007.

Operating Profit Forecast Trends for Europe and UK

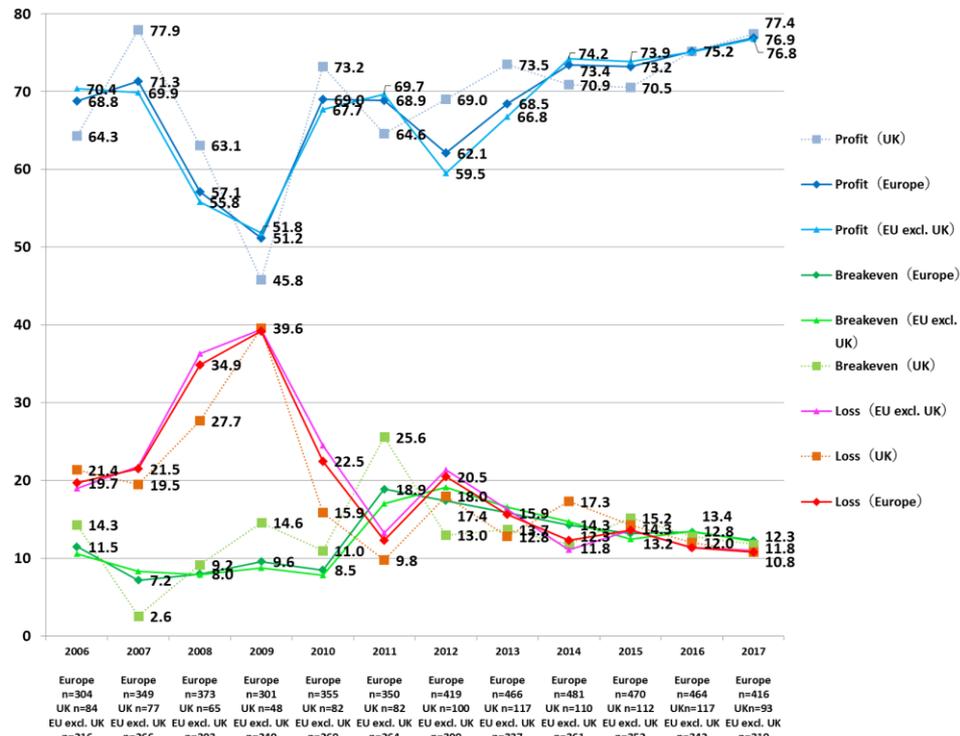
(Unit : %)



Results:2006-2010, forecast:2011-2017

Manufacturing Operating Profit Forecast Trends for Europe and UK

(Unit : %)

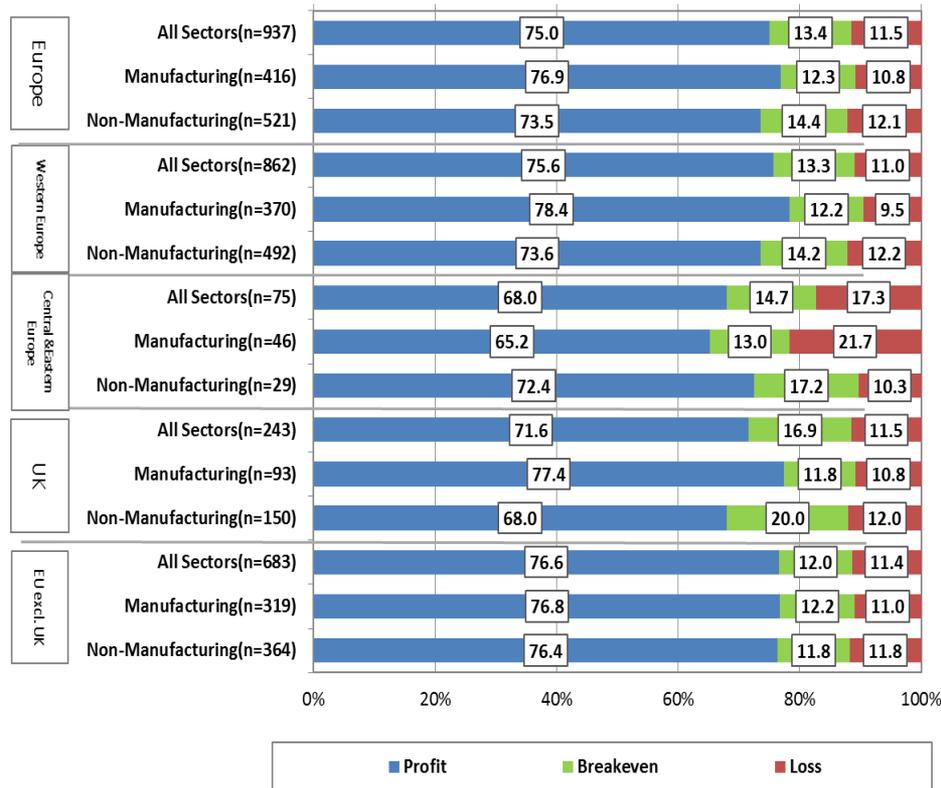


1. Operating Profit Forecast (2)

- For the 2017 operating profit forecast, 75% of all respondents answered that they would be profitable. 13.4% estimated that they would break even and 11.5% at a loss.
- 2017 Operating profit forecast showed that Western Europe manufacturing sector had the largest “profit” estimate at 78.4%, exceeding the non-manufacturing sector, as well as the forecast for Central and Eastern Europe.
- For Central and Eastern Europe, this year 65.2% manufacturing and 72.4% non-manufacturing companies forecasted a profit, revealing a continuously growing gap compared to last year.

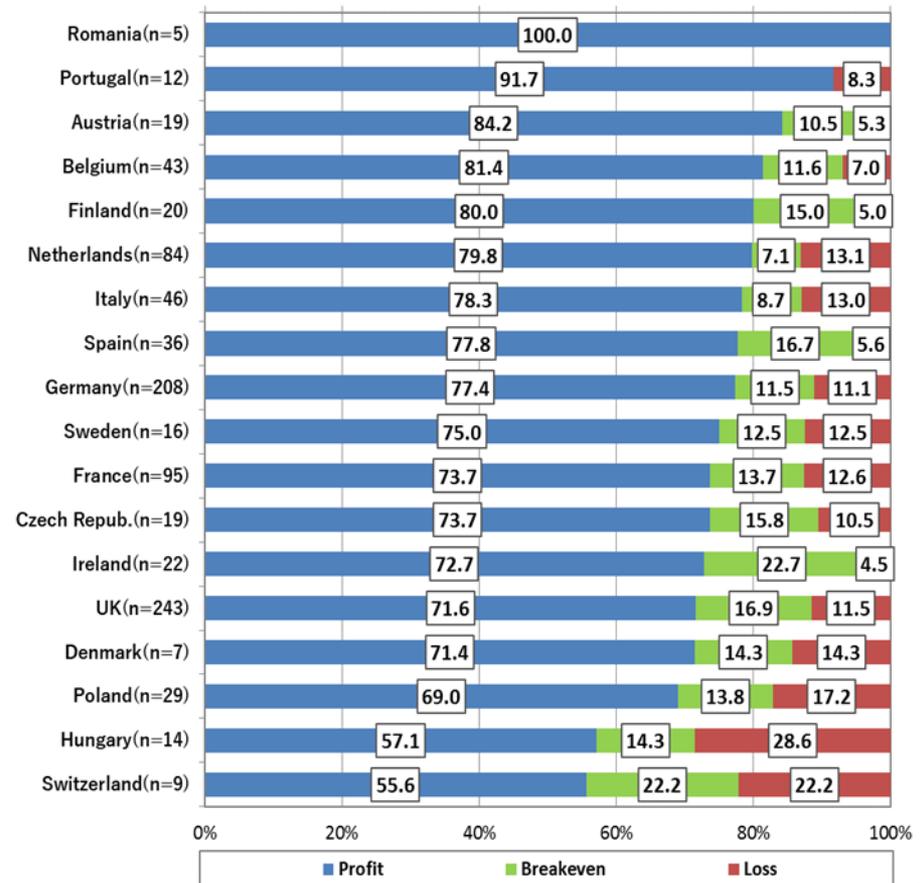
2017 Operating Profit Forecast (By Industry)

(Unit : %)



2017 Operating Profit Forecast (By Country)

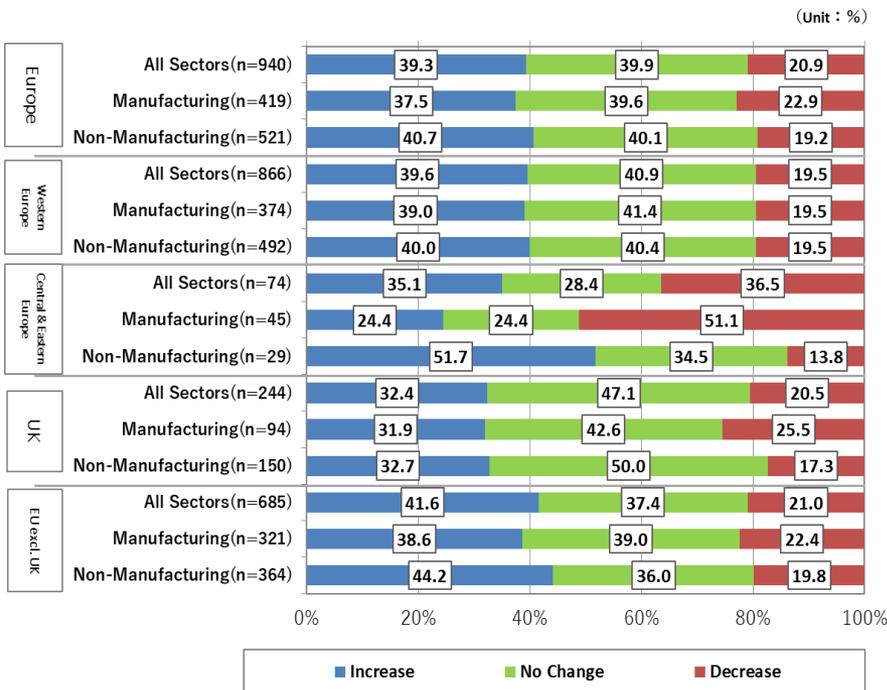
(Unit : %)



1. Operating Profit Forecast (3)

- Comparing 2017 operating profit forecast to the 2016 operating profit results, the highest response rate for “Increase” was from Eastern and Central European non-manufacturing at 51.7%. More than 70% of these respondents said that the reason for increasing their profit forecast was due to “Sales increase in local markets”. However in contrast only 24.4% of manufacturing responded “Increase”, reducing by 37.4 percentage points since 2016. Thus the “Decrease” response rate increased by 31.1 percentage points to 51.1%.
- Companies from many different Industries cited an “Increase” in their operating profit forecast, of which the highest proportion came from the ‘hotel/ travel/ restaurant’ sector at 78.9% (15 companies). Many companies claimed that the reason for this increase was due to “Increase in tourism from Japan”.
- However amongst those who replied “Decrease”, the response rate was particularly high from the Motor vehicles/ Motor cycles industry, of which the main reason given was due to an “Increase in Labour Costs” (56.5%) and “Exchange rate fluctuations”(47.8%).

2017 Operating Profit Forecast compared to 2016 Operating Profit Results (By Industry)



2017 Operating Profit Forecast compared to 2016 Operating Profit Results, “Increase”, “Decrease” ratio by Industry

Increase (n=369)			Decrease (n=196)				
	Responses	%		Responses	%		
1	Information & communication electronics equipment	4	80.0	1	Textiles Fabrics	4	57.1
2	Hotel/Travel/Restaurant	15	78.9	2	Motor vehicles/ Motorcycles parts	23	35.4
3	Food/Processed food, agricultural or fishery products	13	61.9	3	Motor vehicles/ Motorcycles	5	33.3
4	Rubber Products	6	60.0	4	Fabricated metal products	5	31.3
5	Information & communications	14	51.9	5	Transport activities/ Warehouse	19	24.7

2017 Operating Profit Forecasts compared to 2017 Operating Profit Results, Reasons given for “Increase”, “Decrease” (Multiple Answers Given)

Increase (n=366)			Decrease (n=195)				
	Responses	%		Responses	%		
1	Sales increase in local markets	248	67.8	1	Sales decrease in local markets	82	42.1
2	Sales increase due to export expansion	127	34.7	2	Increase of labor costs	57	29.2
3	Improvement of sales efficiency	56	15.3	3	Increase of procurement costs	55	28.2
4	Reduction of labor costs	49	13.4	4	Exchange rate fluctuation	45	23.1
5	Reduction of other expenditures (e.g. administrative/utility costs)	47	12.8	5	Others	40	20.5

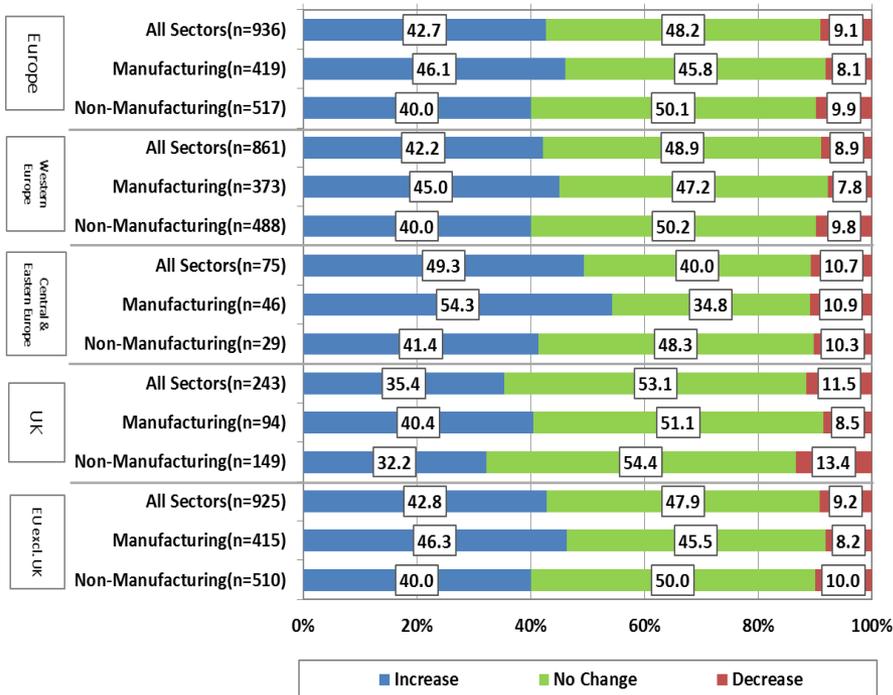
*Less than 5 responses were excluded from this count.

1. Operating Profit Forecast (4)

- When comparing the response rates for '2018 compared to 2017 operating profit forecasts' to '2017 Operating Profit Forecast compared to 2016 Operating Profit Results'. Although 48.2% of all respondents answered that their 2018 operating profit forecast expected to remain the same as 2017, 42.7% did expect to see a profit increase and only 9.1% predicted a decrease in profits. The number of companies who have forecasted a decrease (9.1%) has fallen by 11.8 percentage points since the 2016-2017 comparison.
- Looking at operating profit forecasts by industry, the highest proportion of companies who answered "Increase" were the 'Food/processed food, agricultural & fishery' industry at 66.7% (14 companies), and 'Hotel/Travel/Restaurant' industry at 63.2% (12 companies). Amongst companies who cited a "Decrease" in forecast, a large proportion came from the 'Motor vehicles/Motorcycles' transportation equipment industry.

2018 compared to 2017 Operating Profit Forecast (By Industry)

(Unit : %)



2017 Operating Profit Forecast compared to 2016 Operating Profit Results "Increase", "Decrease" response rates by Industry

Increase (n=400) (Units : cos.,%)			Decrease (n=85) (Units : cos.,%)				
	Responses	%		Responses	%		
1	Textiles/Fabrics	6	85.7	1	Professional & technical services	2	25.0
2	Food/Processed food, agricultural or fishery products	14	66.7	2	Ceramic, Stone & clay products	2	22.2
3	Rubber products	7	63.6	3	Motor vehicles/ Motorcycles	3	20.0
4	Hotel/Travel/Restaurant	12	63.2	4	Motor vehicles/ Motorcycles parts	10	15.6
5	Information & communication electronics equipment	3	60.0	5	Wholesale and retail trade	12	14.5

2017 compared to 2018 Operating Profit Forecast, Reasons Given for "Increase", "Decrease" (Multiple Answers Given)

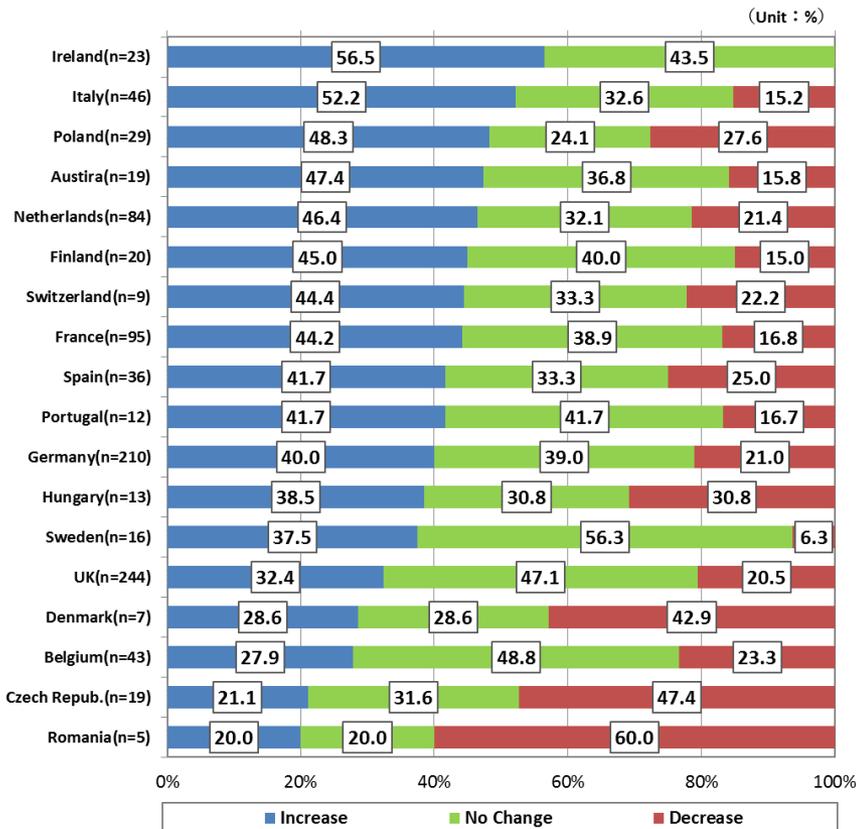
Reasons for forecasting an Increase (n=396)			Reasons for forecasting a Decrease (n=85)				
	Responses	%		Responses	%		
1	Sales increase in local markets	294	74.2	1	Sales decrease in local markets	49	57.6
2	Sales increase due to export expansion	131	33.1	2	Others	24	28.2
3	Improvement of production efficiency	66	16.7	3	Increase of labor costs	20	23.5
4	Improvement of sales efficiency	66	16.7	4	Increase of procurement costs	17	20.0
5	Reduction of other expenditures (e.g. administrative/utility costs)	65	16.4	5	Exchange rate fluctuations	14	16.5

*Less than 5 responses were excluded from this count.

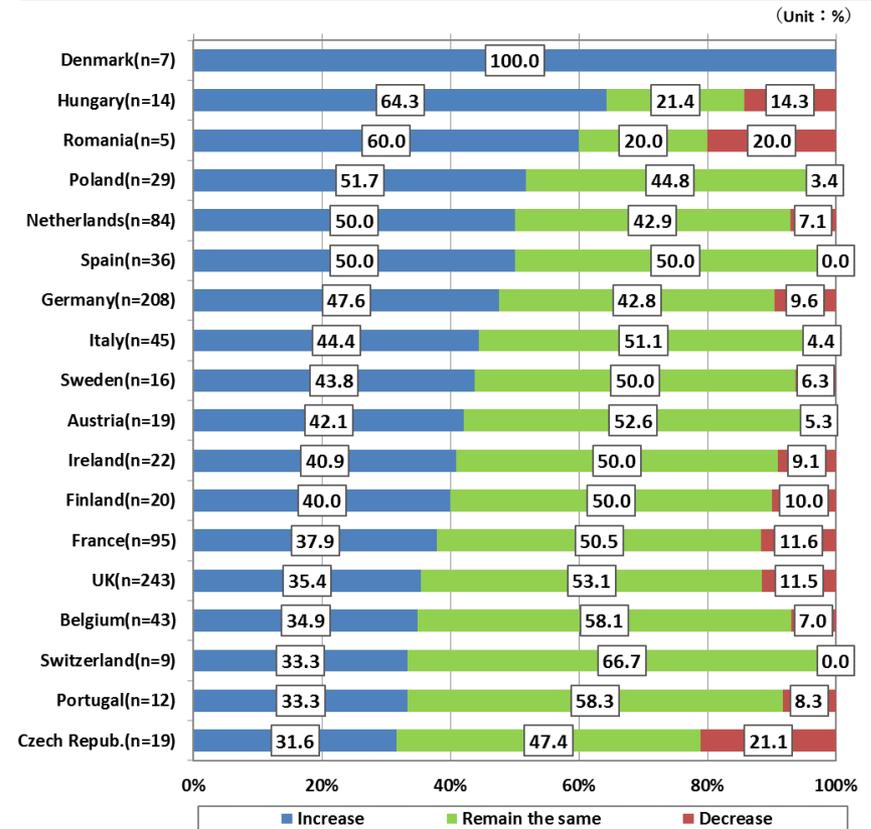
1. Operating Profit Forecast (5)

- Comparing these two graphs '2016 Operating Profit Results compared to 2017 Operating Profit Forecast' and '2017 compared to 2018 Operating Profit Forecast', it can be seen that the "Increase" response rate has risen by more than 10 percentage points for Denmark, Romania, Hungary and The Czech Republic. This shows that there is a particularly high expectation for 2018 operating profits for these countries.
- The most common reason for this "Increase" was due to "Sales Increase in Local Markets", whereas for "Decrease" the reason was usually due to "Sales reduction in Local Markets".

2017 Operating Profit Forecast compared to 2016 Operating Profit Results (By Country)



2018 Operating Profit Forecast compared to 2017 Operating Profit Results (By Country)

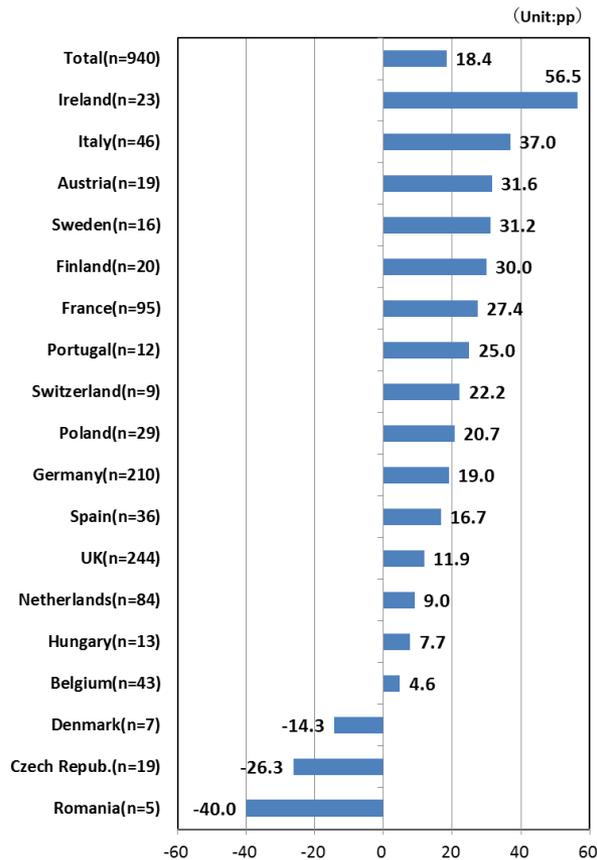


*Less than 5 responses were excluded from this count.

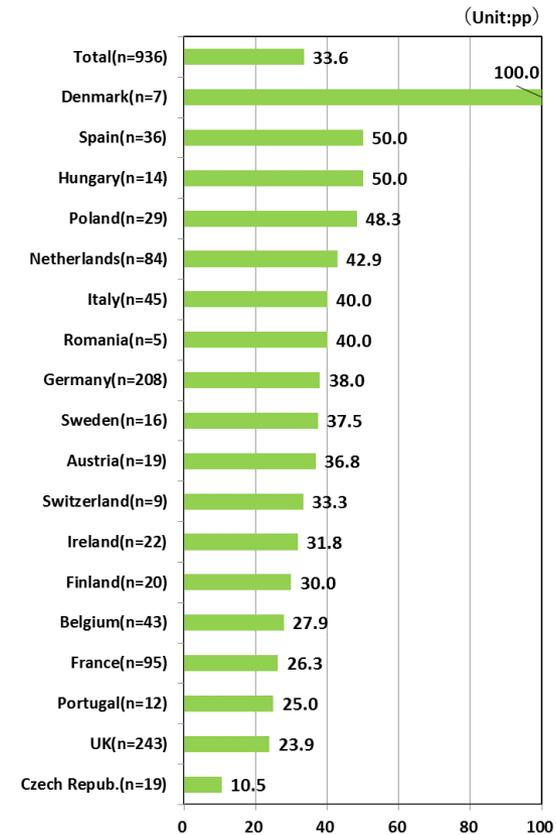
1. Operating Profit Forecast (6)

- The overall DI business sentiment for Europe amounted to 33.6 percentage points (pp) shown in the graph “DI: 2018 Operating Profit Forecast 2017 by country”. Although the UK’s operating forecast DI has increased by 12 pp since the 2016-2017 comparison (11.9 pp), the UK has still fallen to ranking the second lowest from the bottom for the 2017-2018 comparison (23.9pp).

**DI: 2017 Operating Profit Forecast compared to 2016
DI Operating Profit Results (By Country)**



**DI: 2018 Operating Profit Forecasts compared to 2017
(By Country)**

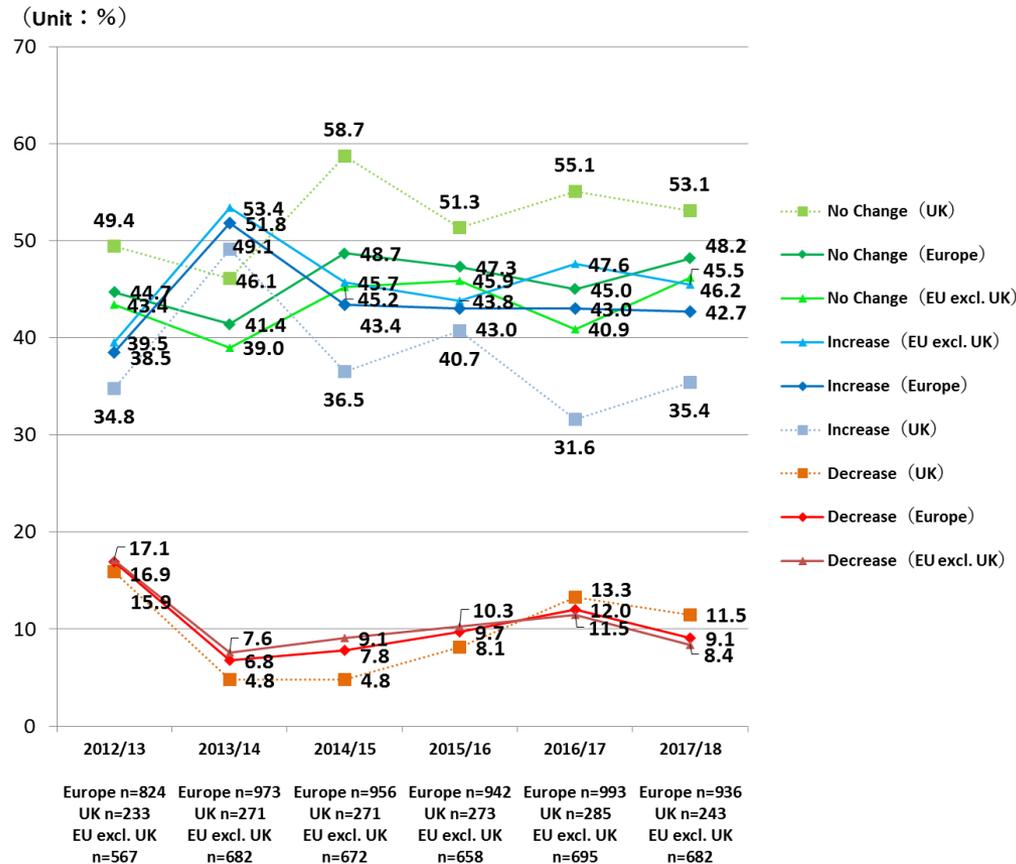


DI= Diffusion Index is a method of summarizing the common tendency of a group of statistical series, which is helpful in assessing the overall state of the economy. This value is obtained by deducting the proportion of companies who replied “Decrease” from those that replied “Increase”.
(NB) Countries where the count is less than 5 are not included.

1. Operating Profit Forecast (7)

- When asked about the current state of the market they are operating in, the proportion of Japanese-affiliated companies who responded that the state of the UK market had improved or slightly improved were relatively low.
- However in the 2018 compared to 2017 operating profit forecast, more companies responded that there was an “Increase” in profit (35.4%) since the previous year. 70.6% of these respondents stated that this was due to “Sales Increase in Local Markets”.
- Respondents from ‘Food/Processed food, agricultural or fishery products’ and ‘Hotel/Travel/Restaurants’ sectors in particular estimated and “increase” in profit respectively at 71.4% and 66.7%.

UK & Europe Operating Profit Forecast Trends



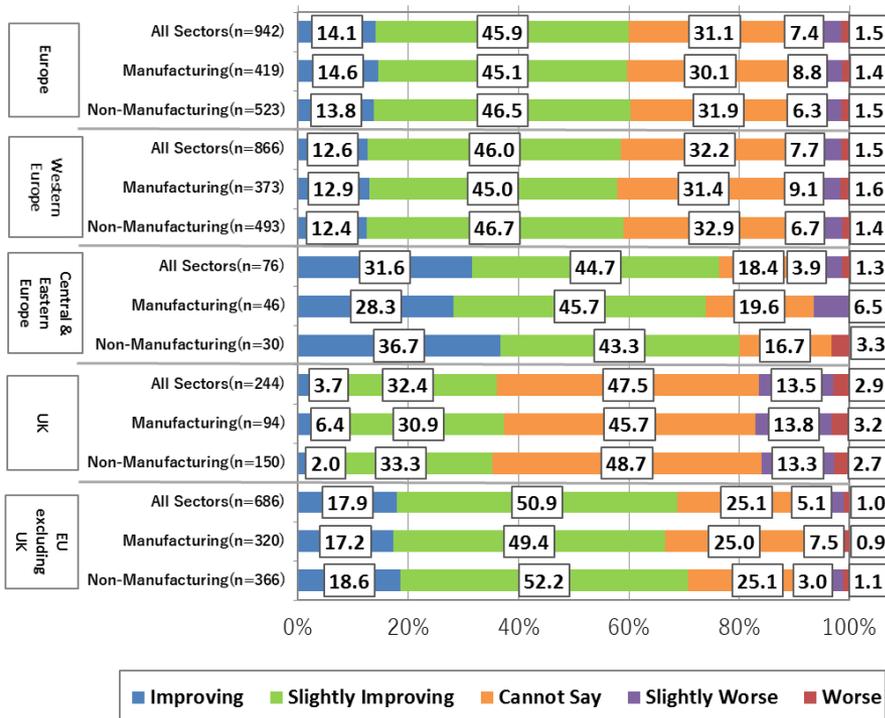
*This graph displays trends from comparing operating profit forecasts between companies based in the Europe and the UK. It is made by compiling the operating profit forecast graphs which draw a comparison between the forecast given for the survey year and the following year.

2. Current Domestic Market and Future Prospects (1)

- Regarding Company's views on current market conditions in the country where they are based, 31.6% Central and Eastern European based companies responded that their domestic markets have improved, of which within that category non-manufacturing was the highest at 36.7%.
- The same trend can also be seen when asked about future prospects for these markets.
- Looking by Industry, the highest response rate that the domestic market had improved was indicated by 'General-purpose and production machinery' (33.3%), 'Motor vehicles/Motorcycle' transportation equipment (25%) and 'Non-ferrous metals' (25%) sectors.
- In terms of future prospects companies who responded "Improved" were particularly high in 'Hotel/Travel/Restaurant' (22.2%) and 'Information and communication electronics' equipment (20%) sectors.

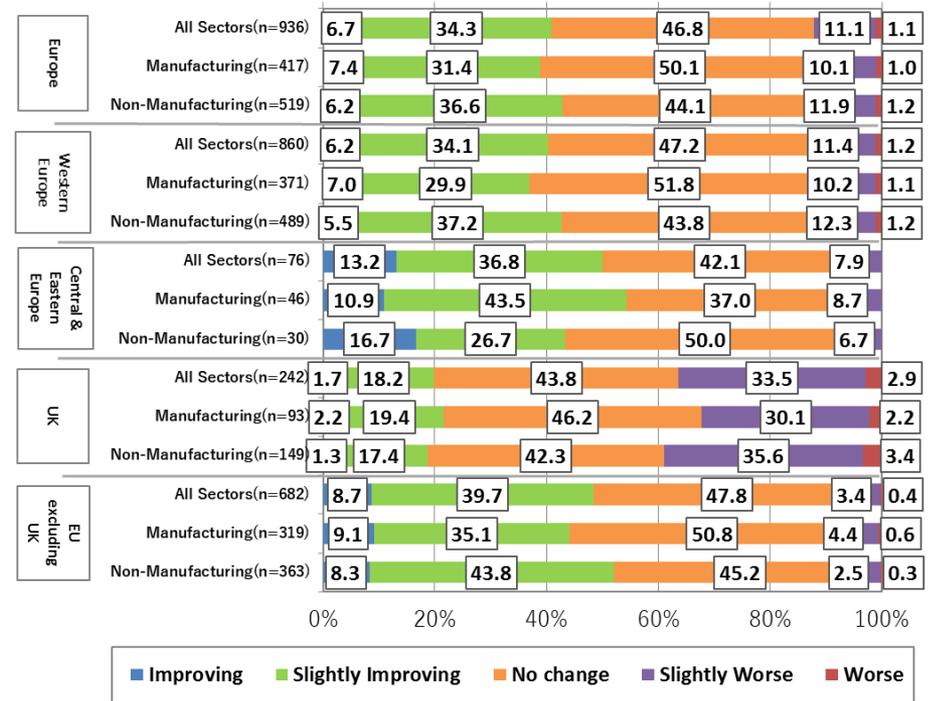
Current Domestic Market (By Industry)

(Unit: %)



Domestic Market Future Prospects (By Industry)

(Unit: %)

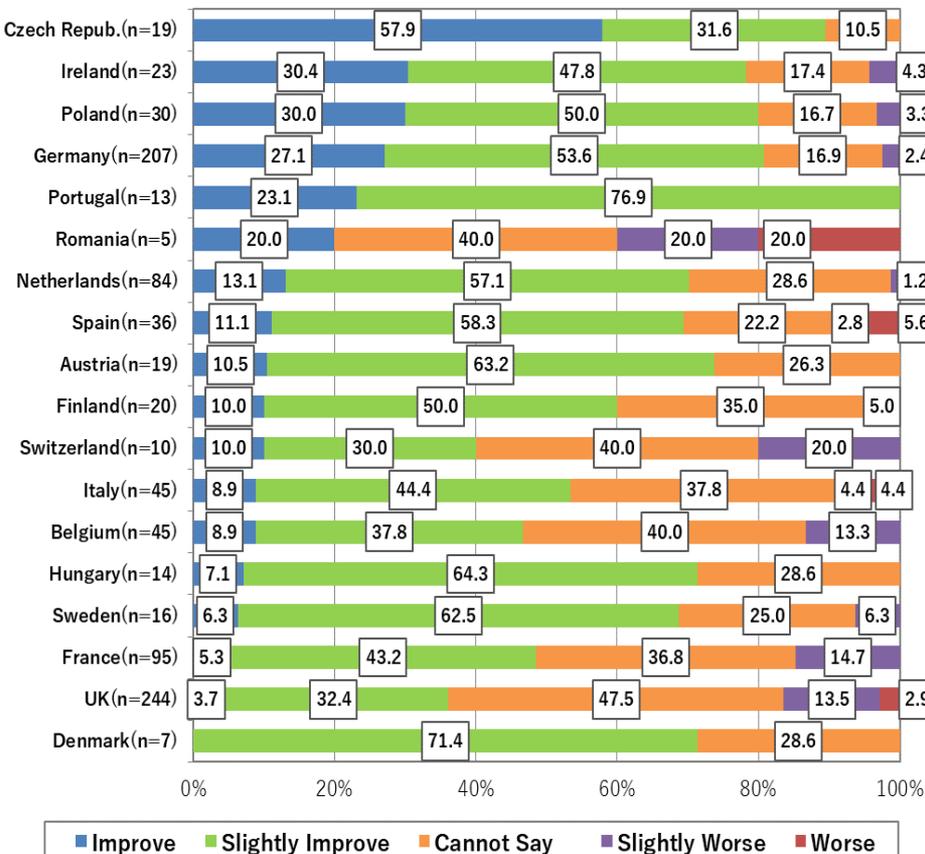


2. Current Domestic Market and Future Prospects (2)

- 57.9% of Companies based in the Czech Republic responded that their domestic market had improved. Companies also strongly indicated that domestic market had slightly improved in both Hungary (64.3%) and Poland (50%). The European Commission autumn economic forecast indicated that GDP growth rates for 2017 would be for Czech Republic 4.3%, Hungary 3.7% and Poland 4.2%. These 3 countries have a significantly higher growth rate than the EU's average of 2.3%.
- Although 3.7% of UK based companies replied that the domestic market had improved, the UK fell to the second lowest in rank before Denmark.
- Furthermore, compared to other countries, companies based in the UK gave an overwhelmingly high response that the British domestic market's future prospects had slightly worsened (33.5%), revealing companies growing concern over the economic slowdown as a consequence of Brexit.

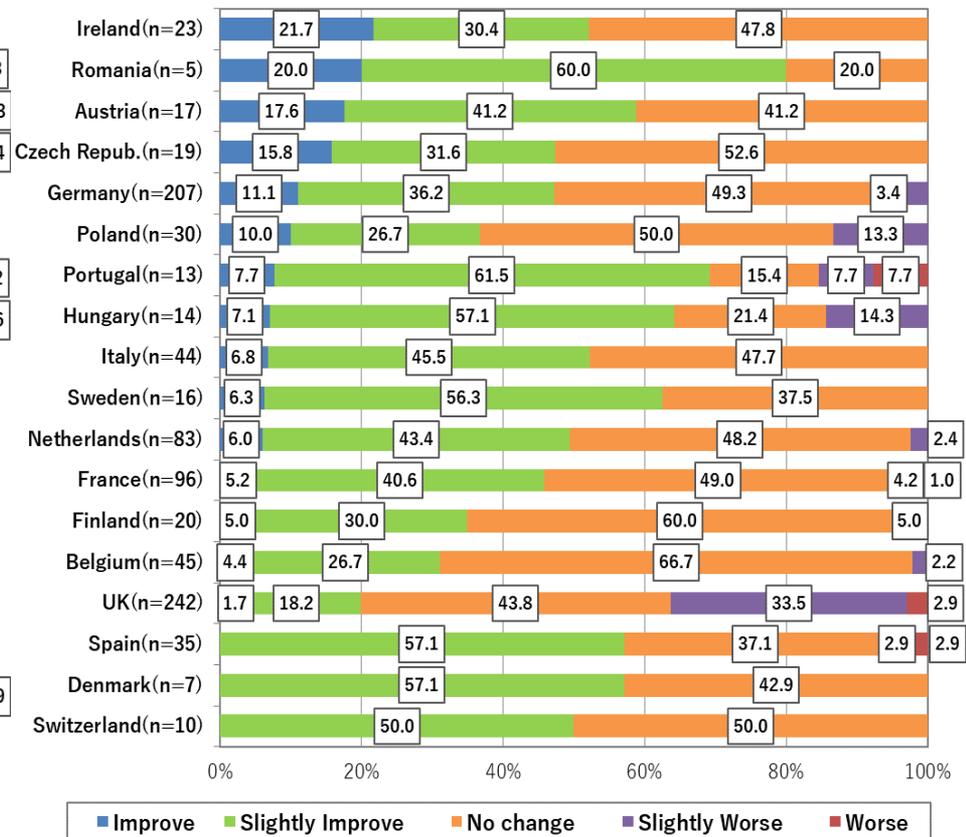
Current Domestic Market (By Country)

(Unit : %)



Domestic Market Future Prospects (By Country)

(Unit : %)



3. Operational Challenges (1)

- This year “Securing human resources” emerged as the biggest operational challenge at 51.7%, increasing by 3.9 pp from 2nd place the previous year. 65% of all respondents were based in Germany, the UK, the Netherlands and Central Eastern & European countries, indicating that the tightening of their labour markets has pushed securing talent to become the top issue. Furthermore when analysing the response rate by country, the highest for this issue was Hungary 85.7%, Denmark 83.3% and the Czech Republic 68.4%. Companies from these countries responded that they intend “Strengthening technical training resources and increasing the number of skilled workers” in order to differentiate or add high-value to their products and services. Also companies in Denmark, Poland (69%) and the Czech Republic revealed that the “Increase” in number of local employees had been high over the past year.
- Even though last year’s top operational challenge “European political and social conditions” (48.8%) also increased this year by 0.9%pp, it still did not achieve the same growth rate as “Securing human resources” for this year. In 2017 major European countries were dealing with political events such as elections. However some response rates for certain countries rose more sharply than others, slightly increasing the overall response rate for Europe. For example Spain had the highest response rate of 82.9%, due to the increasing tensions over the Catalonia Independence issue, followed by the UK at 64.7% due to the start of EU withdrawal negotiations.
- Last year’s second top operational challenge for all companies in Europe “Exchange rate fluctuations” (30.9%) has greatly reduced by 16.9pp. This was due to less currency fluctuation this year. Also the EU General Data Protection Regulation (GDPR) has become recognized as a new operational challenge ranking 9th place at 26.3%, due to take effect in May 2018. This has especially become a big problem for Belgium based companies.
- Companies In Central & Eastern Europe cited “Rapid labour costs growth” as the biggest challenge at 74.7%, increasing by 34.9 percentage points since the previous year. Since 2016 the nominal wage rate has increased by 3% for Bratislava, Warsaw and Prague. For Budapest and Bucharest it has increased between 7-9%.

Operational Challenges (Multiple Answers Given)

(Units : Cos, %)

	All sectors				Manufacturing				Non-Manufacturing			
	2015 (n=894)	2016 (n=957)	2017 (n=909)	Change since 2016	2015 (n=446)	2016 (n=453)	2017 (n=406)	Change since 2016	2015 (n=448)	2016 (n=504)	2017 (n=503)	Change since 2016
1 Securing Human Resources	43.4	47.8	51.7	3.9	44.6	49.9	53.9	4.0	42.2	45.8	49.9	4.1
2 European social and political sit	35.0	47.9	48.8	0.9	33.0	45.3	49.0	3.7	37.1	50.2	48.7	△ 1.5
3 High labour costs	45.2	41.2	38.7	△ 2.5	47.5	43.7	40.9	△ 2.8	42.9	38.9	37.0	△ 1.9
4 Transfer pricing taxation	35.8	37.1	36.5	△ 0.6	38.8	41.1	39.4	△ 1.7	32.8	33.5	34.2	0.7
5 Lower prices offered by competi	32.7	33.3	33.4	0.1	40.8	42.8	36.0	△ 6.8	24.6	24.8	31.4	6.6
6 Public safety (e.g. terrorism)	-	34.2	33.0	△ 1.2	-	30.2	30.0	△ 0.2	-	37.7	35.4	△ 2.3
7 Exchange rate fluctuations	34.3	47.8	30.9	△ 16.9	39.2	51.4	34.0	△ 17.4	29.5	44.4	28.4	△ 16.0
8 Strict dismissal laws	31.1	28.2	28.5	0.3	29.1	27.4	26.8	△ 0.6	33.0	29.0	29.8	0.8
9 Entry of new competitors	30.0	32.4	26.3	△ 6.1	31.4	32.9	26.6	△ 6.3	28.6	31.9	26.0	△ 5.9
9 EU General Data Protection Reg	-	-	26.3	-	-	-	22.4	-	-	-	29.4	-
11 Quality of workforce	25.3	24.7	26.0	1.3	25.8	25.2	28.8	3.6	24.8	24.2	23.7	△ 0.5
12 Visa/work permits	26.6	25.7	24.4	△ 1.3	23.1	22.7	22.2	△ 0.5	30.1	28.4	26.2	△ 2.2
13 Rapid labour costs growth	19.0	19.3	20.5	1.2	20.6	24.1	26.4	2.3	17.4	15.1	15.7	0.6
14 Heavy social security burdens	24.4	19.2	19.9	0.7	25.1	20.8	21.4	0.6	23.7	17.9	18.7	0.8
15 Procurement costs	18.3	17.9	19.8	1.9	28.0	24.5	29.8	5.3	8.7	11.9	11.7	△ 0.2

* Public safety (e.g. terrorism) was added since 2016, EU General Data Protection Regulation (GDPR) was added from 2017

3. Operational Challenges (2)

- Amongst all respondents for Western Europe, although “Securing human resources” was seen as the biggest operational challenge at 50.2% increasing by 4.6 points from the previous year, it was actually an even bigger challenge for companies in Central & Eastern Europe at 68.0%.
- In second place “European political and social conditions” at 49.8%, increasing by 0.9 pp from the previous year. Companies in Spain had the highest response rate of 82.9%, due to the increasing tensions over the Catalonia Independence issue. For the UK the response rate was also high at 64.7% appearing to be impacted by the uncertainty over future trading relations with the EU, since the start of EU withdrawal negotiations.

Operational Challenges in Western Europe

(Multiple Answers Given)

(Units : Cos, %)

		All sectors			Manufacturing			Non-Manufacturing		
		2016 (n=854)	2017 (n=834)	Change	2016 (n=398)	2017 (n=360)	Change	2016 (n=456)	2017 (n=474)	Change
1	Securing Human Resources	45.6	50.2	4.6	46.0	51.4	5.4	45.2	49.4	4.2
2	European social and political situation	48.9	49.8	0.9	45.0	50.0	5.0	52.4	49.6	△ 2.8
3	High labour costs	44.6	40.5	△ 4.1	48.5	43.6	△ 4.9	41.2	38.2	△ 3.0
4	Transfer pricing taxation	37.1	37.5	0.4	40.2	41.4	1.2	34.4	34.6	0.2
5	Public safety (e.g. terrorism)	35.7	34.7	△ 1.0	30.9	31.9	1.0	39.9	36.7	△ 3.2
6	Lower prices offered by competitors	32.3	33.0	0.7	43.0	35.6	△ 7.4	23.0	31.0	8.0
7	Exchange rate fluctuations	48.6	30.9	△ 17.7	53.0	33.3	△ 19.7	44.7	29.1	△ 15.6
8	Strict dismissal laws	29.7	30.3	0.6	28.6	29.7	1.1	30.7	30.8	0.1
9	EU General Data Protection Regulation (GDPR)	-	26.6	-	-	22.8	-	-	29.5	-
10	Entry of new competitors	31.9	25.8	△ 6.1	32.7	26.1	△ 6.6	31.1	25.5	△ 5.6
11	Quality of workforce	23.8	25.2	1.4	22.9	26.9	4.0	24.6	23.8	△ 0.8
12	Visa/work permits	24.5	23.5	△ 1.0	20.1	21.1	1.0	28.3	25.3	△ 3.0
13	Heavy social security burdens	20.3	19.9	△ 0.4	21.9	21.1	△ 0.8	18.9	19.0	0.1
14	Procurement costs	17.9	19.7	1.8	24.9	30.3	5.4	11.8	11.6	△ 0.2
15	REACH	17.3	16.4	△ 0.9	22.4	22.5	0.1	12.9	11.8	△ 1.1

* "General Data Protection Regulation (GDPR)" is a newly added option for this survey year.

* "General Data Protection Regulation (GDPR)" is a newly added option in this survey year 16

3. Operational Challenges (3)

- Companies in Central & Eastern Europe cited "Rapid labour costs growth" as the biggest challenge at 74.7%, increasing by 34.9 percentage points since the previous year. Since 2016 the nominal wage rate has increased by 3% for Bratislava, Warsaw and Prague. For Budapest and Bucharest it has increased by 7-9%.
- Since 2016 "Transfer pricing taxation" fell by 11.6 percentage points to 25.3%. Especially for the manufacturing sector of which greatly reduced by 23.4 pp to 23.9%.
- While "Visa/work permits" challenges had improved for the manufacturing sector, decreasing by 11.4 pp since the previous year to 30.4%, it has increased for the non-manufacturing sector by 12.2 pp.

Operational Challenges in Central and Eastern Europe

(Multiple Answers Given)

(Units : Cos, %)

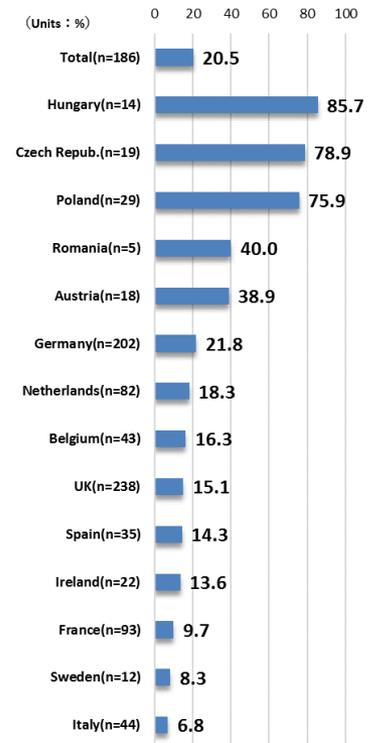
	All sectors			Manufacturing			Non-Manufacturing		
	2016 (n=103)	2017 (n=75)	Change	2016 (n=55)	2017 (n=46)	Change	2016 (n=48)	2017 (n=29)	Change
1 Rapid labour costs growth	39.8	74.7	34.9	50.9	80.4	29.5	27.1	65.5	38.4
2 Securing Human Resources	66.0	68.0	2.0	78.2	73.9	△ 4.3	52.1	58.6	6.5
3 European social & political situation	38.8	38.7	△ 0.1	47.3	41.3	△ 6.0	29.2	34.5	5.3
3 Lower prices offered by competitors	41.7	38.7	△ 3.0	41.8	39.1	△ 2.7	41.7	37.9	△ 3.8
5 Visa/work permits	35.9	34.7	△ 1.2	41.8	30.4	△ 11.4	29.2	41.4	12.2
5 Quality of workforce	32.0	34.7	2.7	41.8	43.5	1.7	20.8	20.7	△ 0.1
7 Entry of new competitors	36.9	32.0	△ 4.9	34.5	30.4	△ 4.1	39.6	34.5	△ 5.1
8 Exchange rate fluctuations	40.8	30.7	△ 10.1	40.0	39.1	△ 0.9	41.7	17.2	△ 24.5
9 Insufficient Infrastructure:Highways	21.4	26.7	5.3	14.5	19.6	5.1	29.2	37.9	8.7
10 Transfer pricing taxation	36.9	25.3	△ 11.6	47.3	23.9	△ 23.4	25.0	27.6	2.6
11 Shortage of domestic procurement sources	22.3	24.0	1.7	27.3	34.8	7.5	16.7	6.9	△ 9.8
12 EU General Data Protection Regulation (GDPR)	-	22.7	-	-	19.6	-	-	27.6	-
13 Complicated administrative procedures and/or lack of transparency	15.5	21.3	5.8	18.2	21.7	3.5	12.5	20.7	8.2
13 Quality (Parts and Materials Procurement)	16.5	21.3	4.8	16.4	30.4	14.0	16.7	6.9	△ 9.8
13 Procurement costs	17.5	21.3	3.8	21.8	26.1	4.3	12.5	13.8	1.3

* "General Data Protection Regulation (GDPR)" & "Movement towards Gasoline & Diesel car bans" is a newly added option for this survey year.

Top 10 Operational Challenges Response rate by Country

(Multiple Answers Given)

Rapid Labour Costs Growth



3. Operational Challenges (4)

- For UK based companies, the biggest operational challenge is “European social & political situation” increasing by 9.7 points since the previous year.
- Last year’s biggest operational challenge “Exchange rate fluctuations” seems to have improved reducing by 13.2 pp. Compared to before the UK’s referendum to leave the EU, the pound had dropped in value by about 18% against the US dollar in January 2017, however by November 2017 it had slowly recovered back to around 10%. However the range of fluctuation is smaller compared to the previous year.
- The Bank of England estimated the UK’s GDP growth rate to be 1.8% for 2016. Although the European Commission’s Autumn Economic forecast reported that this growth rate will decelerate further for 2017 and 2018, even after the UK voted to leave the EU, UK consumer spending remained robust. Thus improving the challenge of “Economic recession, shrinking of markets”, reducing companies response rate by 20.6pp to 18.9%.

UK Operational Challenge Trends

(Multiple Answers Given)

(Units : Cos, %)

	All sectors				Manufacturing				Non-Manufacturing			
	2015 (n=259)	2016 (n=271)	2017 (n=238)	Change since 2016	2015 (n=107)	2016 (n=112)	2017 (n=93)	Change since 2016	2015 (n=152)	2016 (n=159)	2017 (n=145)	Change since 2016
1 European social and political situation	35.1	55.0	64.7	9.7	29.0	58.0	62.4	4.4	39.5	52.8	66.2	13.4
2 Securing Human Resources	43.6	47.2	53.8	6.6	45.8	55.4	55.9	0.5	42.1	41.5	52.4	10.9
3 Exchange rate fluctuations	41.7	59.8	46.6	△ 13.2	58.9	69.6	50.5	△ 19.1	29.6	52.8	44.1	△ 8.7
4 High labour costs	44.8	46.1	38.7	△ 7.4	51.4	51.8	36.6	△ 15.2	40.1	27.0	40.0	13.0
5 Public safety (e.g. terrorism)	-	32.8	33.6	0.8	-	25.9	29.0	3.1	-	37.7	36.6	△ 1.1
6 Transfer pricing taxation	30.9	32.1	32.8	0.7	33.6	33.9	38.7	4.8	28.9	30.8	29.0	△ 1.8
7 Visa/work permits	38.2	31.0	31.9	0.9	28.0	25.0	26.9	1.9	45.4	35.2	35.2	0.0
8 EU General Data Protection Regulation (GDPR)	-	-	30.7	-	-	-	25.8	-	-	-	33.8	-
9 Lower prices offered by competitors	26.6	27.3	28.2	0.9	38.3	38.4	35.5	△ 2.9	18.4	19.5	23.4	3.9
10 Quality of workforce	23.2	27.7	26.1	△ 1.6	21.5	28.6	33.3	4.7	24.3	27.0	21.4	△ 5.6
11 Entry of new competitors	22.8	27.7	23.1	△ 4.6	29.0	33.9	26.9	△ 7.0	18.4	23.3	20.7	△ 2.6
12 Procurement costs	20.5	18.1	21.4	3.3	34.6	32.1	33.3	1.2	10.5	8.2	13.8	5.6
13 Economic recession, shrinking of markets	23.2	39.5	18.9	△ 20.6	25.2	36.6	18.3	△ 18.3	21.7	41.5	19.3	△ 22.2
14 Customs clearance issues	10.8	13.7	17.6	3.9	12.1	18.8	25.8	7.0	9.9	10.1	12.4	2.3
15 Frequent legislation revisions	15.1	16.6	15.5	△ 1.1	8.4	14.3	11.8	△ 2.5	19.7	18.2	17.9	△ 0.3
15 Heavy social security burdens	16.6	10.7	15.5	4.8	15.0	12.5	19.4	6.9	17.8	9.4	13.1	3.7
15 Strict dismissal laws	25.1	18.8	15.5	△ 3.3	28.0	17.9	18.3	0.4	23.0	19.5	13.8	△ 5.7

* Public safety (e.g. terrorism) was added since 2016, EU General Data Protection Regulation (GDPR) was added from 2017

3. Operational Challenges (5)

- The response rate for “Securing Human Resources” was especially high for companies in Central & Eastern Europe. Hungary was 85.7%, Poland 69.0% and the Czech Republic 68.4%. In August 2017 the unemployment rate for Hungary was 4.2%, Poland 4.7% and the Czech Republic 2.8%.
- In 2016 Eurostat wrote that Denmark had the highest labour costs average across all industry in the EU, and respondents for this years survey confirmed this analysis ranking Denmark as the highest in “High Labour Costs” at 66.7%.

Top 10 Operational Challenges — Response rate by Country —

(Multiple Answers Given)

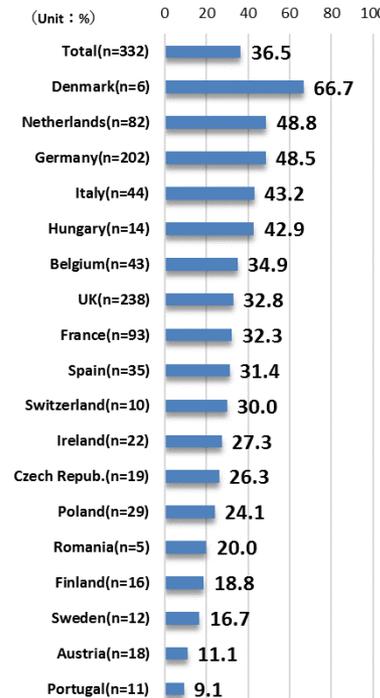
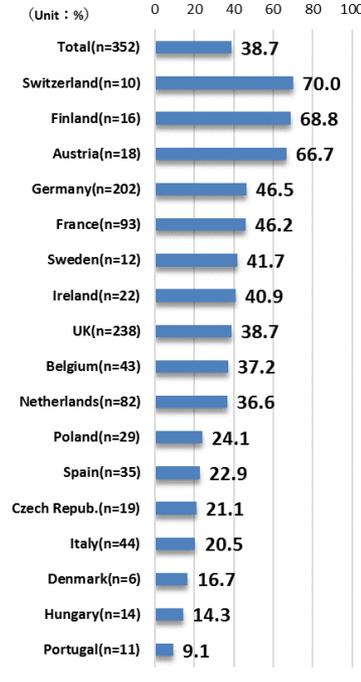
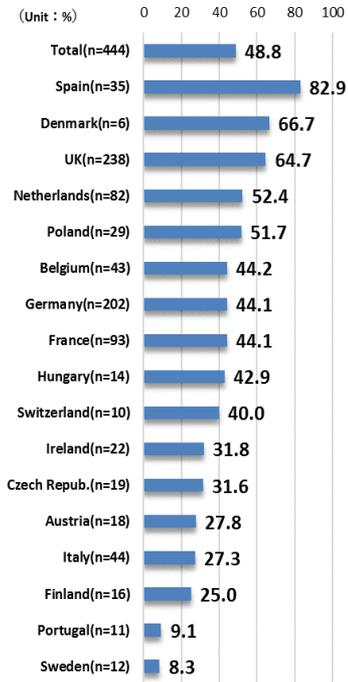
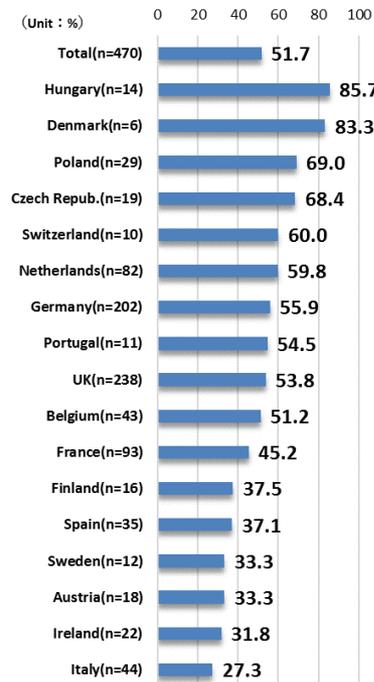
Securing Human Resources

European Political and Social Conditions

High Labour Costs

Transfer Pricing Taxation

Lower Prices Offered by competitors



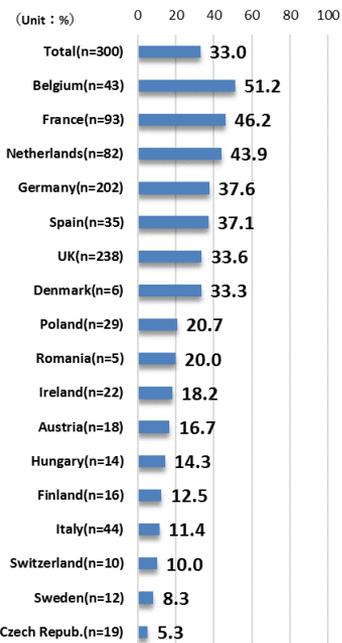
3. Operational Challenges (6)

- Companies in Belgium (51.2%) and France (46.2%) where large-scale terrorist attacks have occurred since 2015, had the highest response rate to “Public safety (e.g. Terrorism)” as an operational challenge.
- In response to “Exchange Rate Fluctuation”, the Czech Republic had the highest response rate of 47.4%, as the dollar has been 18% higher against the koruna since the beginning of 2017. Followed by the UK at 46.6%, the pound has cheapened after the UK’s vote to leave the EU, since November 2017 the pound has recovered back to 10% against the dollar.
- France had the highest response rate for “strict dismissal laws” at 57.0%. In September 2017, as a top priority president Macron’s revised labour law came into effect in order to soften the labour market, by simplifying dismissal policy and maximising the amount of compensation for unfair dismissal.

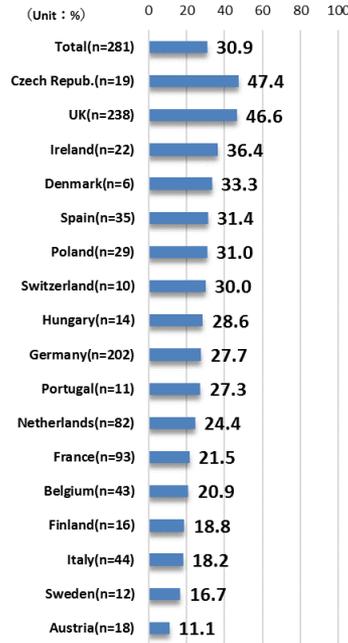
Top 10 Operational Challenges — Response rate by Country —

(Multiple Answers Given)

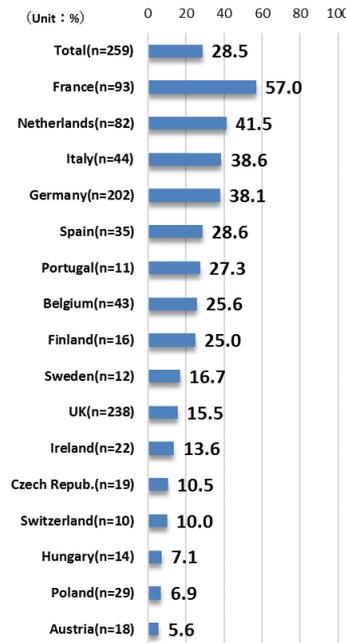
Public safety



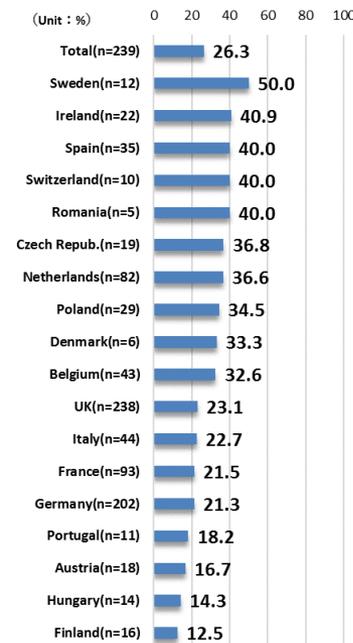
Exchange Rate Fluctuation



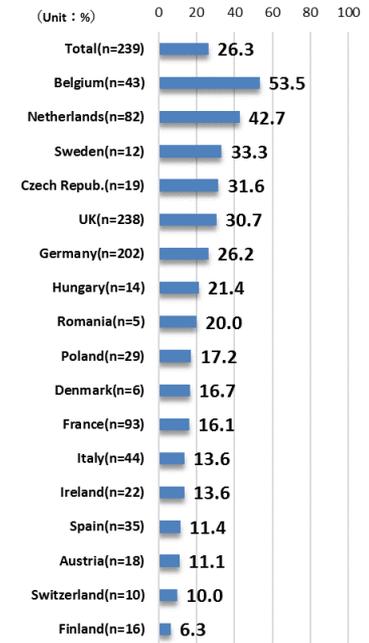
Strict dismissal laws



Entry of New Competitors



EU General Data Protection Regulation (GDPR)

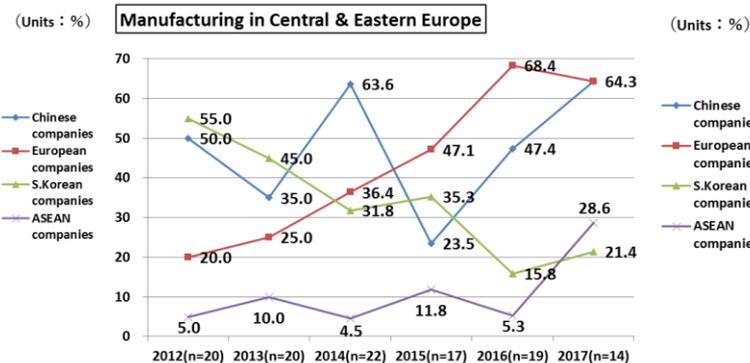
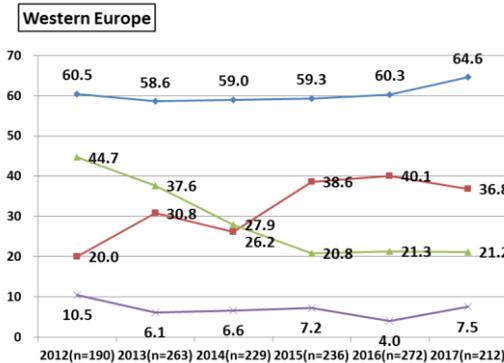
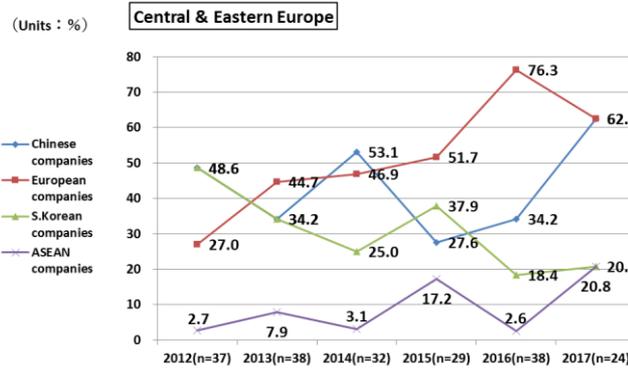
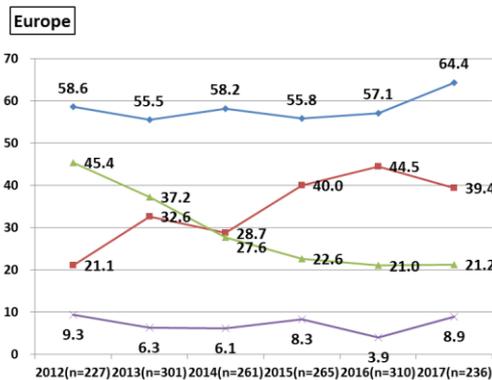


3. Operational Challenges (7)

- 26.3% of all respondents cited "Entry of new competitors" as an operational challenge, decreasing compared to last year. However when asked the specific nationalities of these new competitors, top answer was Chinese companies at 64.4%, increasing 7.3pp since 2016. Even within Central & Eastern Europe, the answer was 62.5%, increasing by 28.3pp since last year. Overall indicating a huge increase of new Chinese competitors entering the European market.
- For Central & Eastern Europe, the percentage of new European competitors continued to be high at 62.5%. Furthermore for the manufacturing sector, the percentage of new ASEAN competitors had also greatly increased by 23.3pp to 28.6%.
- Looking by industry, there was a high response rate from Sales companies and Electric machinery and device companies in regards to new Chinese and Korean competitors. It was particularly noticeable that there have been many new Korean competitors for the "Motor Vehicles/ Motor Cycles" transportation equipment sector.

Nationalities of New Competitors

(Multiple Answers Given)



4. Differentiated & High Value-Added Products & Services (1)

- When all companies in Europe were asked what activities were being undertaken to differentiate or add value to their products and services being sold, the most common response was “Strengthening technical training resources and increasing the number of skilled workers”. Respondents gave reasons such as “In order to strengthen sales for high value-added markets in Europe, skills training and intellectual property strategies are indispensable to meet the needs of the market”, “It’s necessary in order to replace the older generations that are due to retire” and “We will continue to strengthen our collaborations with universities, in order to secure excellent talent”.

Initiatives to Produce Differentiated, High Value-Added Products & Services in Europe

(Multiple Answer Given)

(Unit : Cos,%)

	2016 Survey (n=880)	2017 Survey (n=821)	Change	Industries					
				2016 Manufacturing (n=433)	2017 Manufacturing (n=385)	Change	2016 Non-Manufacturing (n=447)	2017 Non-Manufacturing (n=436)	Change
1 Strengthening technical training resources and increasing no. of skilled workers	34.8	35.4	0.6	41.6	41.3	△ 0.3	28.2	30.3	2.1
2 Thorough analysis of competitors	35.8	34.2	△ 1.6	31.2	29.4	△ 1.8	40.3	38.5	△ 1.8
3 Strengthening R&D functions	29.4	30.1	0.7	40.2	41.6	1.4	19.0	20.0	1.0
4 Acquiring or allying with competitors that own high technology or necessary brand/technology	20.7	19.0	△ 1.7	16.6	15.1	△ 1.5	24.6	22.5	△ 2.1
5 Renewing production sites	18.0	17.7	△ 0.3	30.5	32.2	1.7	5.8	4.8	△ 1.0
6 Strengthening/ revising intellectual property strategy	13.0	17.5	4.5	9.0	13.5	4.5	16.8	21.1	4.3
7 Strengthening alliances with universities & research institutes	14.8	13.6	△ 1.2	19.2	15.8	△ 3.4	10.5	11.7	1.2
8 Taking advantage of taxation systems during early stages of R&D e.g. tax deduction	2.8	2.7	△ 0.1	5.3	4.4	△ 0.9	0.4	1.1	0.7
9 Taking advantage of taxation systems targeted for commercial activities post R&D e.g. patent box systems	1.6	1.2	△ 0.4	2.5	1.8	△ 0.7	0.7	0.7	0.0
Others	11.1	11.4	0.3	6.2	7.5	1.3	15.9	14.9	△ 1.0

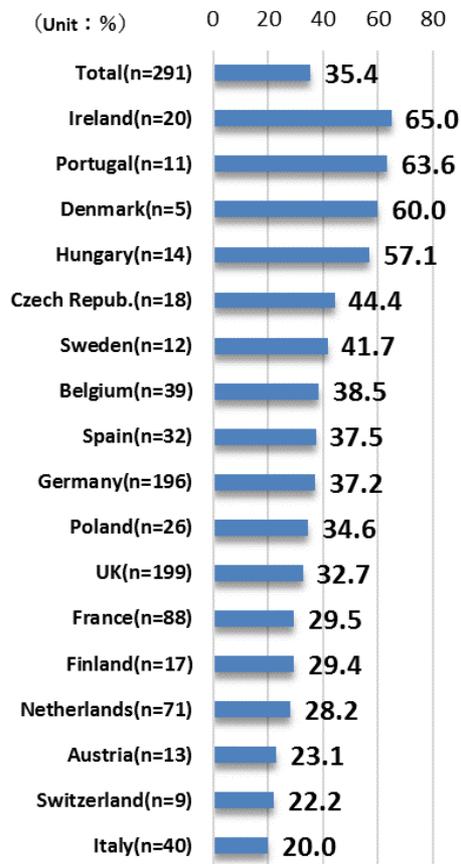
4. Differentiated & High Value-Added Products & Services (2)

Except in the case of Ireland, countries that cited “Securing human Resources” as one of their main operational challenges, tended to also cite that “Strengthening technical training resources and increasing the number of skilled workers” as being their primary solution to improve this issue.

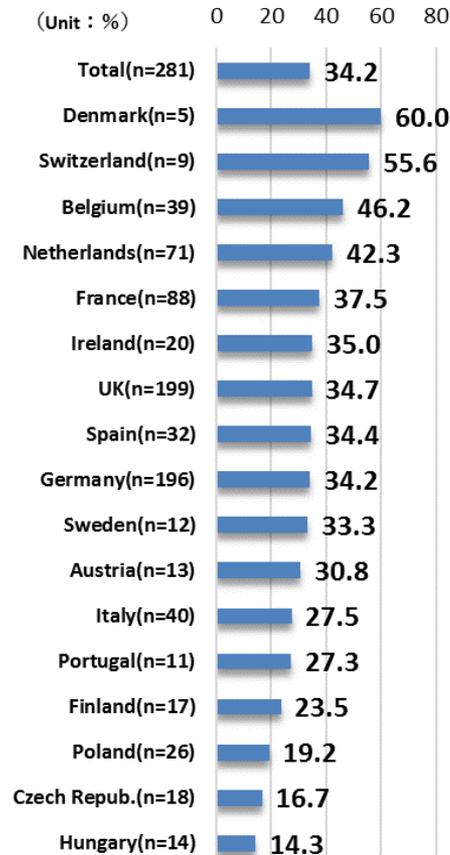
Initiatives to Produce Differentiated, High Value-Added Products & Services in Europe

(Multiple Answers Given)

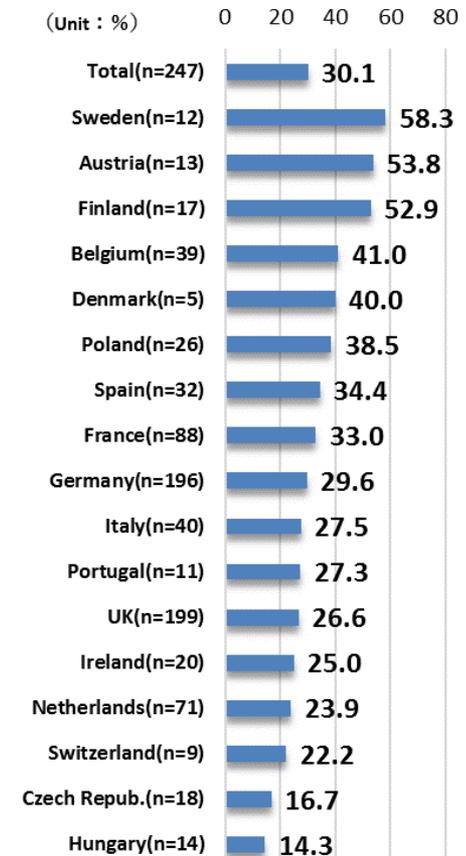
Strengthening technical training resources & increasing no. of skilled workers



Thorough analysis of competitors



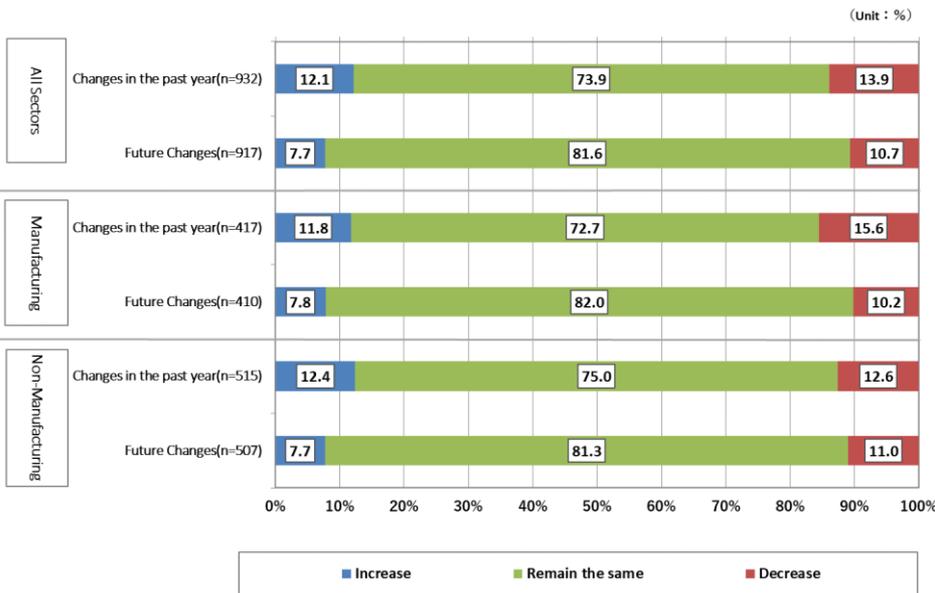
Strengthening R&D functions



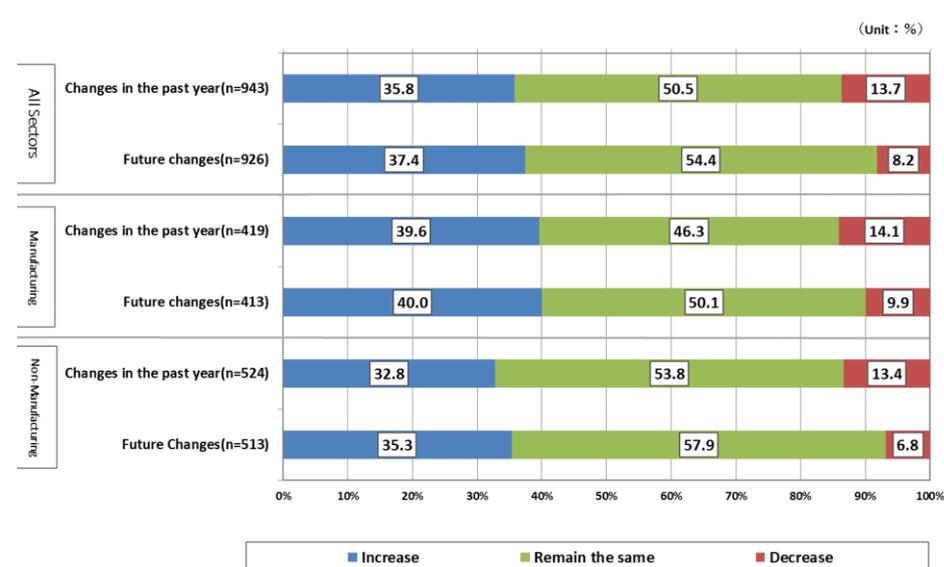
5. Changes in Number of Employees

- Across all sectors respondents have maintained the same trend since last year, the changes to the number of Japanese expat staff and local employees over the last year and also intentions for the future changes seem to be unchanged.
- The number of respondents selecting “Increase” for local staff is relatively high in Denmark 71.4%, the Czech Republic 57.9% and Poland 56.7%. These countries are also ranked in the top 5 countries where “Securing human resources” is cited as the biggest operational challenge.

Changes to no. of Japanese Expat Staff in Past Year and Future



Changes to no. of Local Employees in Past Year and Future

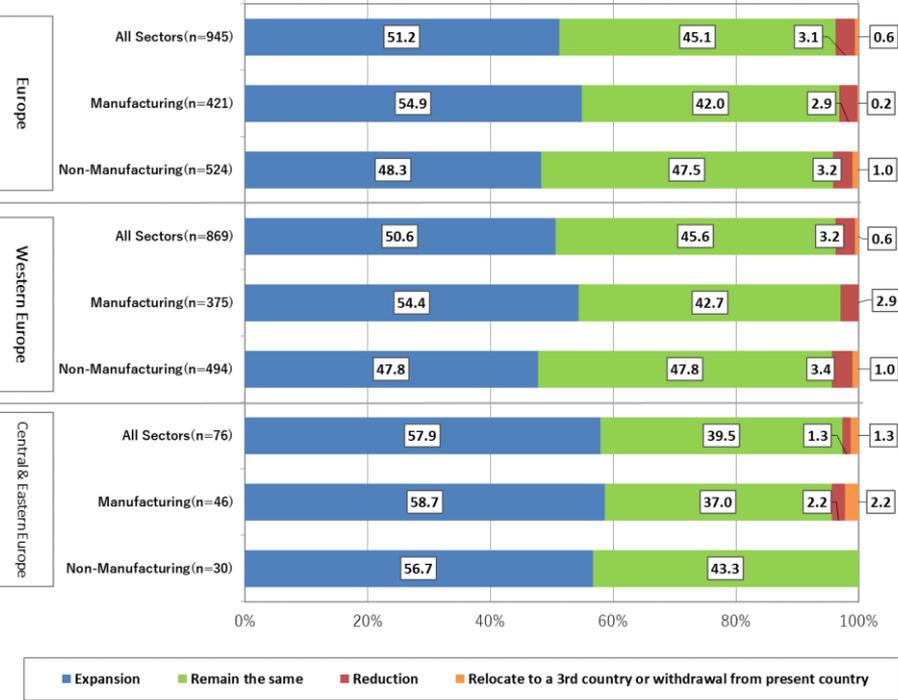


6. Business Outlook For Next 1 or 2 Years (1)

- For the next 1-2 year business outlook across all sectors in Europe, 51.2% indicated “Expansion”, 45.1% said that their outlook “Remained the same” and only 0.6% replied “Relocation to a third country or withdrawal from the present country”. Within non-manufacturing companies in Central & Eastern Europe, 56.7% indicated “expansion”, which is a great reduction of 14.7pp compared to the previous year.
- By country, continuing the same trend as last year, more than 70% of respondents from both Italy and Poland indicated “Expansion”. For the UK only 34.7% of respondents forecasted “Expansion”. Remaining in the same position as last year, the second lowest from the bottom.

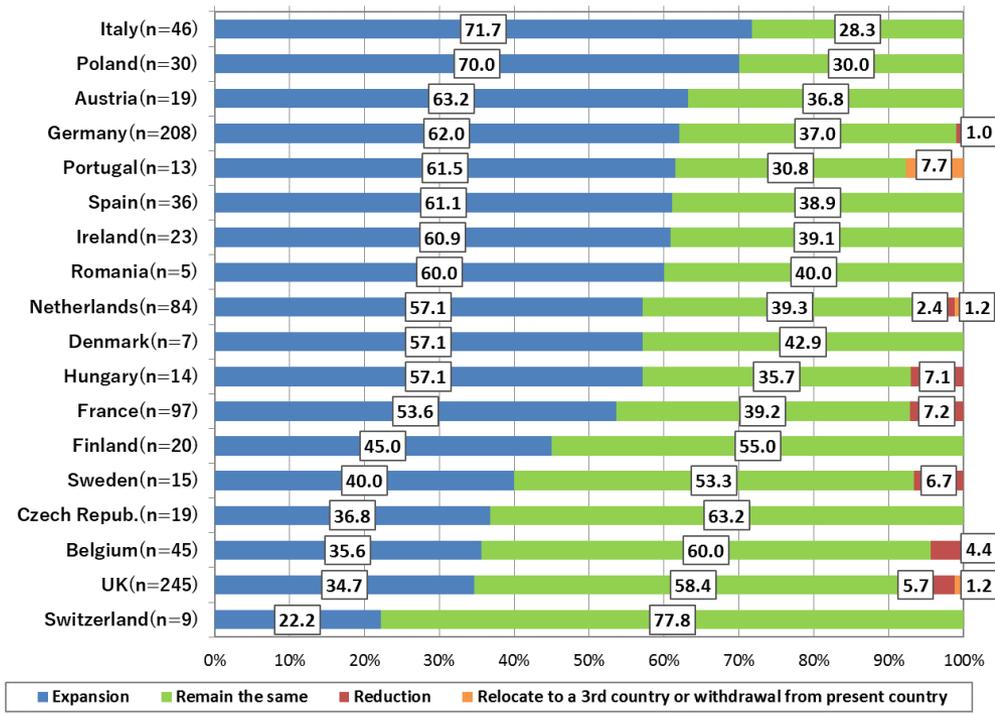
Business Outlook For Next 1 or 2 Years (By Industry)

(Units : %)



Business Outlook For Next 1 or 2 Years (By Country)

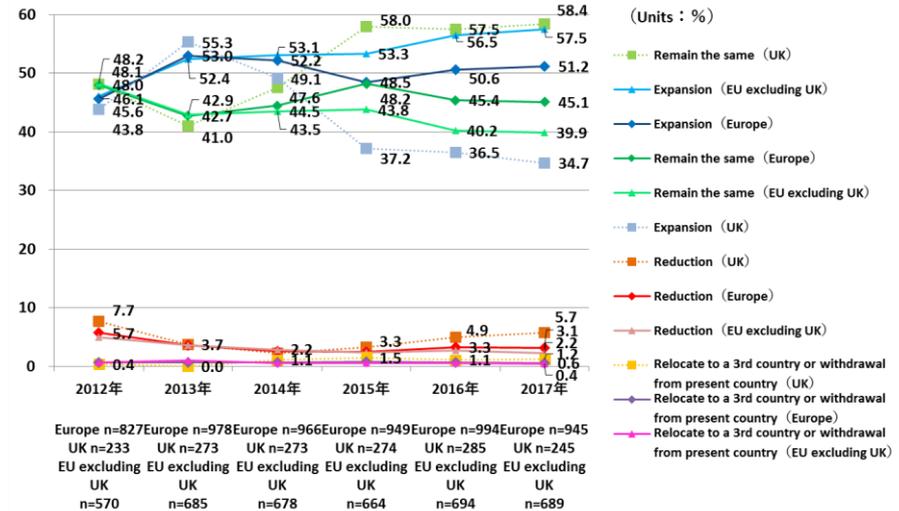
(Units : %)



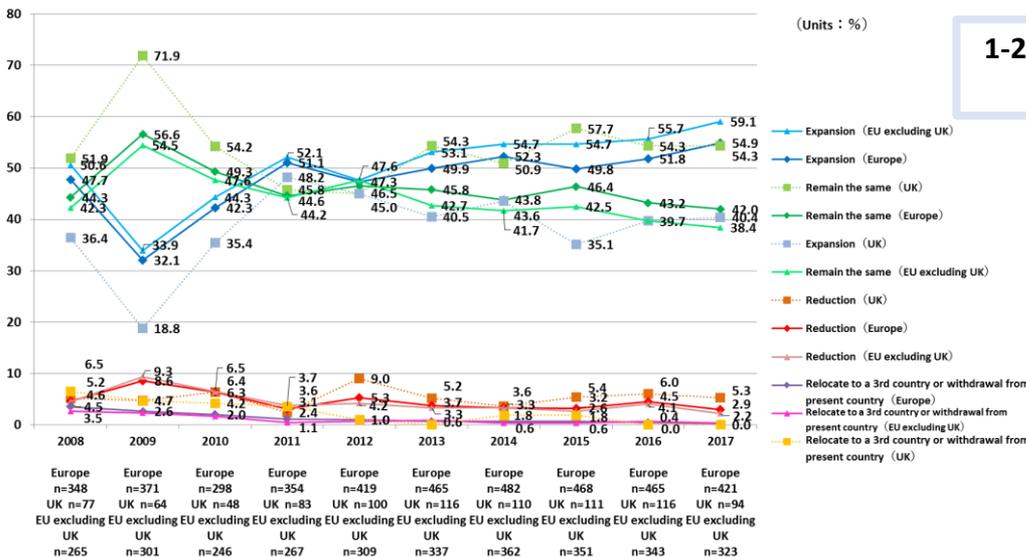
6. Business Outlook For Next 1 or 2 Years (2)

- For all Japanese-affiliated companies in Europe, the UK's vote to leave the EU has not yet seemed to have had much impact on their business outlook for the next 1-2 years.
- For all manufacturing companies in Europe even when compared to the 2009 survey results after the 2008 financial crisis, all responses indicate that they do not seem yet to have been significantly affected by the UK's vote to leave.
- Looking at all respondents for Europe, UK based non-manufacturing companies response rate indicating "Expansion" in the next 1-2 years has reduced.
- The number of UK based companies indicating "Reduction" for the next 1-2 years has slightly risen since last year to 5.7%. Some companies gave reasons such as "Due to the impact of the UK's exit from the EU, plans to relocate to other EEA countries are now under consideration".

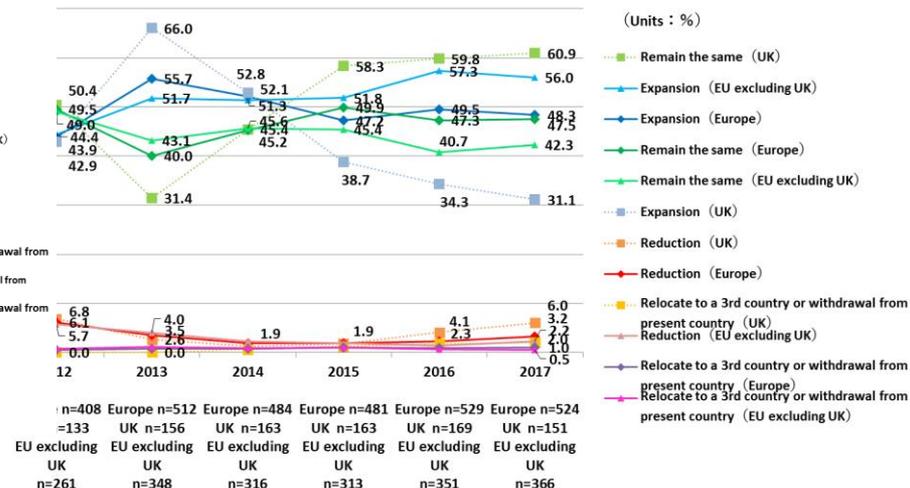
1-2 yr Business Outlook Trends for All Sector Companies in Europe and UK



1-2 yr Business Outlook Trends for Manufacturing Companies in Europe and UK



1-2 yr Business Outlook Trends for Non-manufacturing Companies in Europe and UK



6. Business Outlook For Next 1 or 2 Years (3)

- For all companies in Europe, within the top 5 sectors who indicated “Expansion” over the next 1-2 years, these 4 sectors Textile apparel & products, Rubber product, Fabricated metal products and Food/processed food, agricultural or fishery products continued the same high response rate for expansion compared to the previous year.
- Companies who answered “Expansion” for Textile apparel & products sector gave reasons such as “We have now launched our full scale Ecommerce business and still aim to expand in the future.”

1-2 yr Business Outlook Trends – Highest Response Rate for “Expansion” or “Remaining the Same” by Industry

Expansion

[Europe] (n=484)				[Western Europe] (n=440)				[Central & Eastern Europe] (n=44)				[UK] (n=85)			
	Industry	Responses	%		Industry	Responses	%		Industry	Responses	%		Industry	Responses	%
1	Textile apparel & products	6	85.7	1	Textile apparel & products	5	83.3	1	Rubber products	4	80.0	1	Processed food, agricultural or fishery products	6	85.7
2	Rubber products	9	81.8	1	Rubber products	5	83.3	2	Fabricated metal products	3	75.0	2	Hotel/Travel/Restaurant	4	66.7
3	Fabricated metal products	12	75.0	3	Fabricated metal products	9	75.0	3	Sales company	7	63.6	3	Information and communications	6	60.0
4	General-purpose & Production machinery	17	68.0	4	General-purpose & Production machinery	17	68.0	4	Electrical machinery & devices	5	55.6	4	Miscellaneous manufacturing industries	4	57.1
5	Processed food, agricultural or fishery products	14	66.7	5	Chemical, allied & Petroleum products	33	66.0	5	Wholesale and retail trade(Including trading)	3	42.9	5	Business oriented machinery	3	50.0

Remain the same

[Europe] (n=426)				[Western Europe] (n=396)				[Central & Eastern Europe] (n=30)				[UK] (n=143)			
	Industry	Responses	%		Industry	Responses	%		Industry	Responses	%		Industry	Responses	%
1	Professional and technical services	6	75.0	1	Professional and technical services	5	71.4	1	Transport activities/Warehouse	3	60.0	1	Electrical machinery & devices	17	77.3
2	Plastic products	6	60.0	2	Plastic products	6	66.7	2	Wholesale and retail trade(Including trading)	4	57.1	2	Wholesale and retail trade(Including trading)	16	76.2
2	Motor vehicles/Motorcycles	9	60.0	3	Motor vehicles/Motorcycles parts	29	63.0	3	Motor vehicles/Motorcycles parts	10	52.6	3	Transport activities/Warehouse	12	75.0
2	Motor vehicles/Motorcycles parts	39	60.0	4	Motor vehicles/Motorcycles	8	57.1	4	Sales company	4	36.4	4	Finance and insurance	16	64.0
5	Finance and insurance	34	56.7	4	Construction/Plant	4	57.1	5	Electrical machinery & devices	3	33.3	5	Motor vehicles/Motorcycles parts	10	62.5

*Less than 5 responses were excluded from the count.

6. Business Outlook For Next 1 or 2 Years (4)

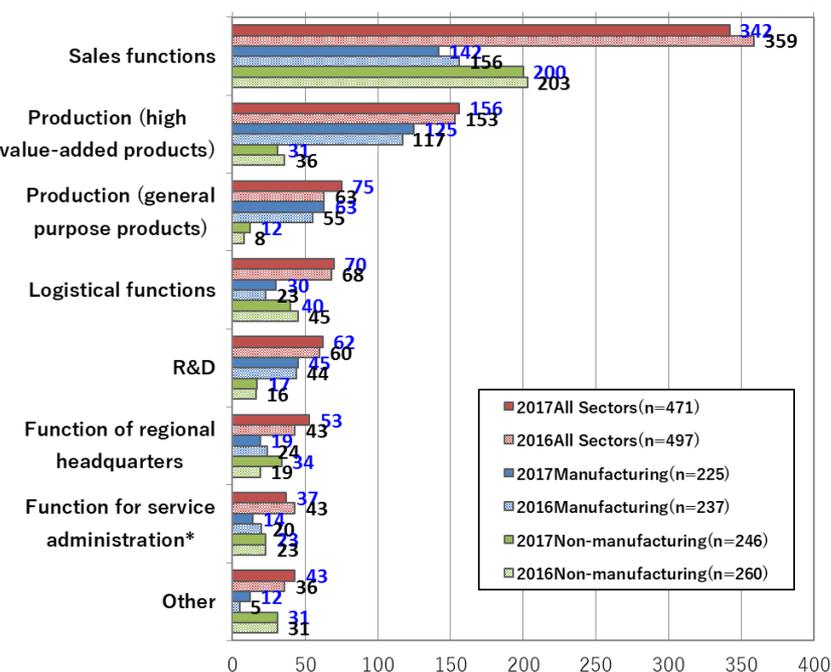
When companies in Europe were asked which functions they intend to expand, the most common answer was to expand "Sales functions" (342 companies), continuing the same trend as the previous year.

By country, German based companies were seen to be most active in expanding their functions, in fact the number of responses indication that "Expansion" could be seen across all functions.

Specific Functions being Expanded in Europe based Companies

(Multiple Answers Given)

(Units:cos)



*Shared services, call centers, etc.

Top 3 Countries in Europe For Expanding Selected Function

(Units : cos)

Sales functions

Germany	99
UK	65
France	41

Production

(high value-added products)

Germany	41
UK	22
France	17

Production

(general purpose products)

Germany	15
UK	11
France	9

Logistical functions

Germany	18
UK	9
Netherlands	9

R&D

Germany	18
UK	9
France	7

Function of regional headquarters

Germany	19
Netherlands	10
UK	8

Function for service administration

Germany	11
UK	6
Ireland	6

6. Business Outlook For Next 1 or 2 Years (5)

- The top 3 reasons for why “Expansion” had been selected, continue to be “Sales Increase”, “High growth potential” and “High receptivity for high value-added products”. For these three options the number of responses have plateaued over the last few years, whilst the number of respondents for “Reviewing production and distribution networks” and “Relationships with clients” are slowly increasing.
- When asked for the reason for expected reduction or relocation to a 3rd country or withdrawal, the most common response was “Sales decrease”. Compared to the previous year the response rate for this option has decreased.

Reason For Expecting Business Expansion in the next 1-2 years for Europe based Companies

(Multiple Answers Given)

No. of responses (Units : cos)
Ratio (Units : %)

		All Sectors				Manufacturing				Non-manufacturing			
		2015 (n=454)	2016 (n=503)	2017 (n=481)	Change since 2016	2015 (n=231)	2016 (n=241)	2017 (n=230)	Change since 2016	2015 (n=223)	2016 (n=262)	2017 (n=251)	Change since 2016
1	Sales increase	384	448	416	△ 32	202	225	206	△ 19	182	223	210	△ 13
		84.6	89.1	86.5	△ 2.6	87.4	93.4	89.6	△ 3.8	81.6	85.1	83.7	△ 1.4
2	High growth potential	186	221	216	△ 5	81	95	93	△ 2	105	126	123	△ 3
		41.0	43.9	44.9	1.0	35.1	39.4	40.4	1.0	47.1	48.1	49.0	0.9
3	High receptivity for high value-added products	140	140	133	△ 7	94	82	76	△ 6	46	58	57	△ 1
		30.8	27.8	27.7	△ 0.1	40.7	34.0	33.0	△ 1.0	20.6	22.1	22.7	0.6
4	Reviewing production and distribution networks	82	91	96	5	44	57	50	△ 7	38	34	46	12
		18.1	18.1	20.0	1.9	19.0	23.7	21.7	△ 2.0	17.0	13.0	18.3	5.3
5	Relationship with clients	73	91	94	3	36	34	45	11	37	57	49	△ 8
		16.1	18.1	19.5	1.4	15.6	14.1	19.6	5.5	16.6	21.8	19.5	△ 2.3

Reason for Expecting Business Reduction, Relocation to a 3rd country or withdrawal in the next 1-2 years for Europe based Companies

(Multiple Answers Given)

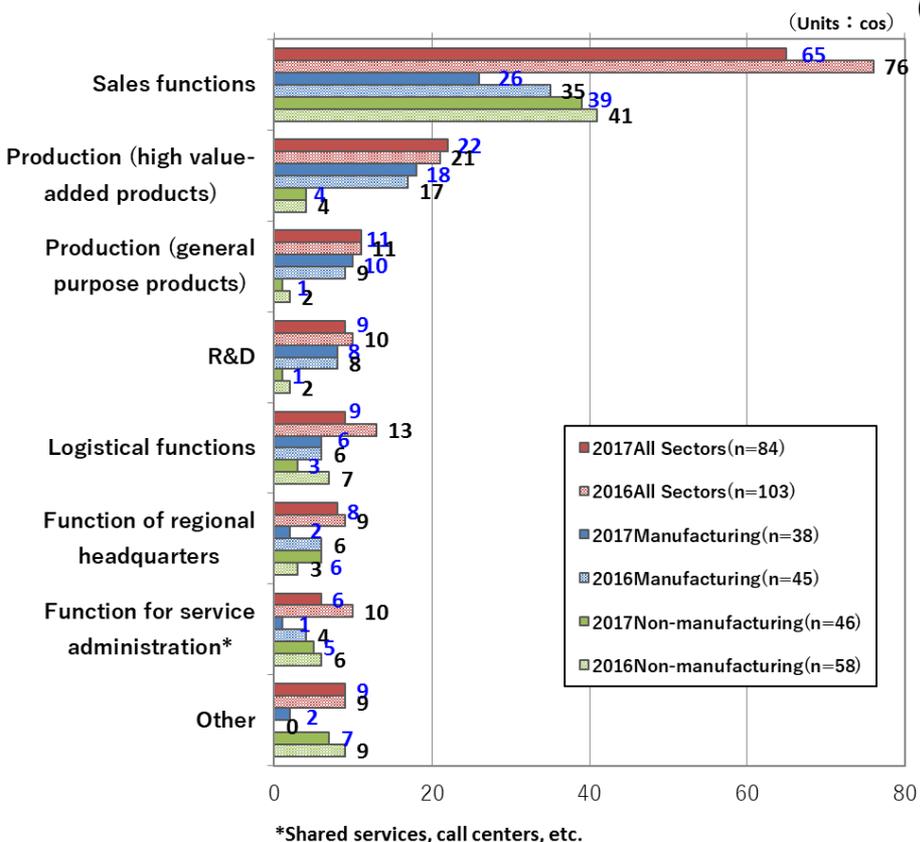
		All Sectors				Manufacturing				Non-manufacturing			
		2015 (n=31)	2016 (n=37)	2017 (n=35)	Change since 2016	2015 (n=18)	2016 (n=22)	2017 (n=13)	Change since 2016	2015 (n=13)	2016 (n=15)	2017 (n=22)	Change since 2016
1	Sales decrease	20	20	12	△ 8	12	11	5	△ 6	8	9	7	△ 2
		64.5	54.1	34.3	△ 19.8	66.7	50.0	38.5	△ 11.5	61.5	60.0	31.8	△ 28.2
2	Low growth potential	10	9	11	2	7	4	1	△ 3	3	5	10	5
		32.3	24.3	31.4	7.1	38.9	18.2	7.7	△ 10.5	23.1	33.3	45.5	12.2
3	Cost increase (procurement costs, labor costs etc.)	5	14	8	△ 6	3	8	4	△ 4	2	6	4	△ 2
		16.1	37.8	22.9	△ 14.9	16.7	36.4	30.8	△ 5.6	15.4	40.0	18.2	△ 21.8
4	Reviewing production and distribution	5	11	6	△ 5	4	8	3	△ 5	1	3	3	0
		16.1	29.7	17.1	△ 12.6	22.2	36.4	23.1	△ 13.3	7.7	20.0	13.6	△ 6.4
5	Difficulty in securing labor force	3	3	5	2	3	3	2	△ 1	-	-	3	-
		9.7	8.1	14.3	6.2	16.7	13.6	15.4	1.8	-	-	13.6	-

6. Business Outlook For Next 1 or 2 Years (6)

- When UK based companies were asked which functions they intend to expand, the most common answer was again to expand "Sales functions". However this year the number of respondents has reduced to just 65 companies, decreasing from 76 the previous year. 39 out of the 65 companies were from the non-manufacturing sector (2 companies less than last year).
- Compared to the previous year, the number of respondents indicating "Sales Increase" as a reason for expansion has decreased and the number of respondents choosing "High growth potential" has slightly increased.

Specific Functions being Expanded

(Multiple Answers Given)



Reason For Expecting Business Expansion in the next 1-2 years for UK based Companies

(Multiple Answers Given)

	2015 (n=102)	2016 (n=104)	2017 (n=84)	Change since 2016
1 Sales increase	86	92	70	△ 22
2 High growth potential	47	39	43	4
3 High receptivity for high value-added products	26	20	21	1
4 Reviewing production and distribution	17	20	18	△ 2
5 Reviewing production and distribution	14	19	15	△ 4
	84.3	88.5	83.3	△ 5.2
	46.1	37.5	51.2	13.7
	25.5	19.2	25.0	5.8
	16.7	19.2	21.4	2.2
	13.7	18.3	17.9	△ 0.4

No. of responses (Units : cos)
Ratio (Units : %)

Reason for Expecting Business Reduction, Relocation to a 3rd country or withdrawal In the next 1-2 years for UK based Companies

(Multiple Answers Given)

	2015 (n=12)	2016 (n=17)	2017 (n=17)	Change since 2016
1 Low growth potential	3	7	7	0
2 Reviewing production and distribution	4	4	4	0
3 Sales decrease	7	10	3	△ 7
3 Cost increase (procurement costs, labor costs etc.)	3	7	3	△ 4
4 Tightening of regulations	1	-	2	-
4 Difficulty in securing labor force	1	1	2	1
	25.0	41.2	41.2	0.0
	33.3	23.5	23.5	0.0
	58.3	58.8	17.6	△ 41.2
	25.0	41.2	17.6	△ 23.6
	8.3	5.9	11.8	5.9

6. Business Outlook For Next 1 or 2 Years (7)

- Looking at the countries where companies responded that they planned to expand their "Function of regional headquarters"; 8 companies selected the UK, ranking the UK in 3rd place. However it can be seen that the number of companies selecting the UK has more than halved in number compared to 2015. Less than 10 companies have selected the UK since 2016, when the UK voted to leave the European Union. These results could suggest that the UK's decision to leave the EU has affected Japanese-affiliated companies decision making of where to expand their functions to regional headquarters.
- looking at each country, companies who responded that they planned to expand their production of high value-added products, the highest response rate came from companies based in Germany, out of 129 Germany based companies who selected "Expansion", 41 selected "production (high value-added products)".
- For Central & Eastern Europe, the country with the highest response rate for expanding "Production (high value-added products)" was Hungary, for Northern Europe it was Finland and for Western Europe it was Belgium.

Top 11 countries in Europe chosen by companies to expand their "Function as regional headquarters" and "Production of high value-added products"

No. of responses
(Units : cos)
Ratio (Units : %)

Regional headquarters

	2015	2016	2017	Change since 2016
Total	52	43	53	10
	11.6	8.7	11.3	2.6
Germany	13	10	19	9
	11.3	8.3	15.3	7.0
Netherlands	7	11	10	△ 1
	24.1	26.8	20.8	△ 6.0
UK	19	9	8	△ 1
	18.6	8.7	9.5	0.8
Belgium	2	3	3	0
	8.7	14.3	20.0	5.7
France	2	3	3	0
	6.1	7.9	5.8	△ 2.1
Sweden	1	1	1	0
	8.3	10.0	16.7	6.7
Spain	-	1	3	2
	-	3.8	14.3	10.5
Austria	-	1	1	0
	-	14.3	8.3	△ 6.0
Ireland	1	1	1	0
	8.3	7.7	7.7	0.0
Poland	-	2	1	△ 1
	-	8.0	5.3	△ 2.7
Italy	3	-	1	-
	12.5	-	3.1	-

Note 1-No companies responded.

Note 2: This table shows which specific function to be expanded to the companies, which replied "Expanding in 1-2 years". Out of all the UK-based companies that selected "Expansion", 9.5% selected that they were planning to expand "Function of regional headquarters".

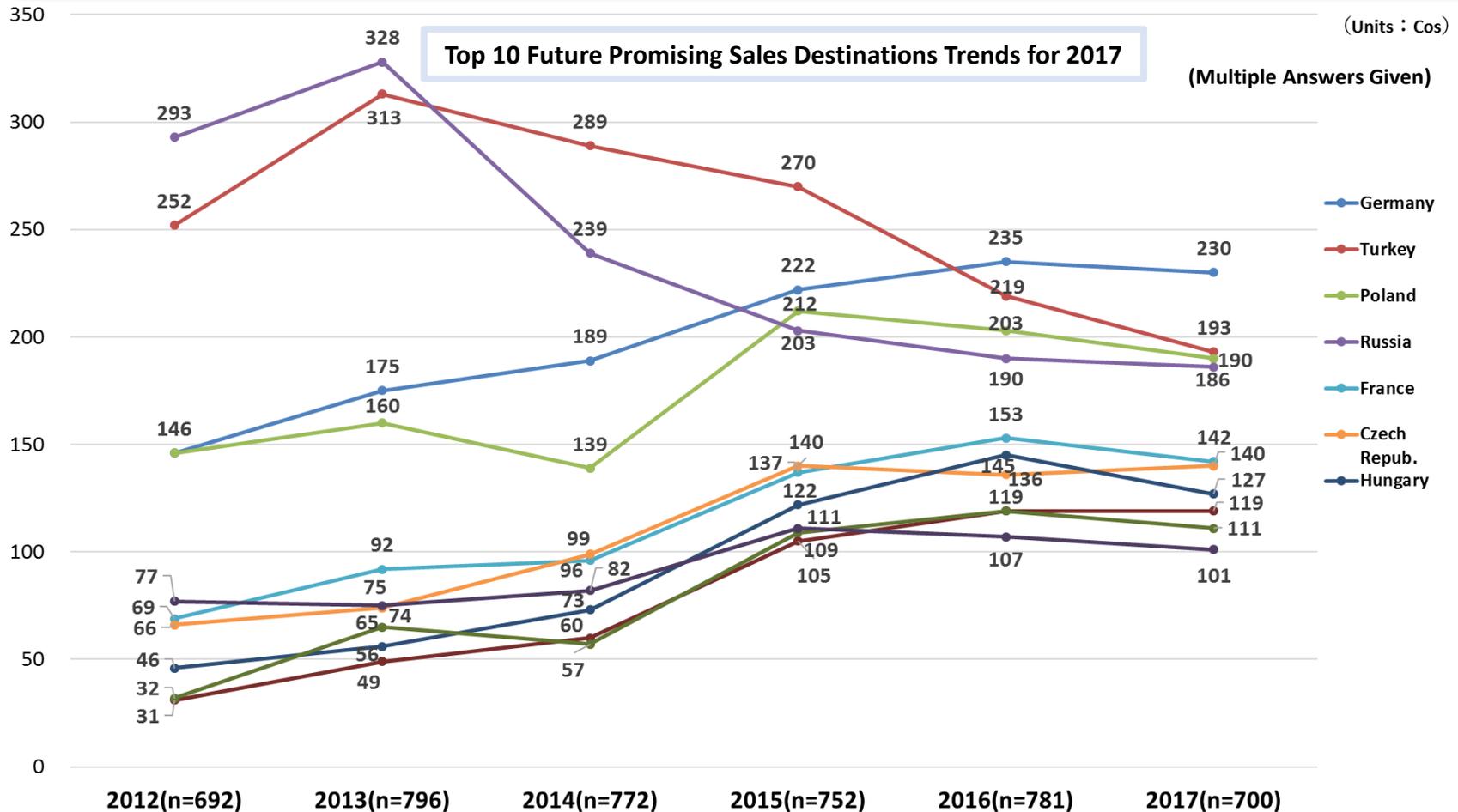
Production (high-value added products)

	2015	2016	2017	Change since 2016
Total	140	153	156	3
	31.2	30.8	33.1	2.3
Germany	37	39	41	2
	32.2	32.2	33.1	0.9
UK	25	21	22	1
	24.5	20.4	26.2	5.8
France	13	15	17	2
	39.4	39.5	32.7	△ 6.8
Italy	9	7	12	5
	37.5	31.8	37.5	5.7
Spain	7	10	10	0
	36.8	38.5	47.6	9.1
Netherlands	2	7	10	3
	6.9	17.1	20.8	3.7
Belgium	5	8	8	0
	21.7	38.1	53.3	15.2
Hungary	5	6	7	1
	45.5	54.5	87.5	33.0
Finland	4	4	6	2
	50.0	57.1	66.7	9.6
Ireland	3	4	4	0
	25.0	30.8	30.8	0.0
Poland	3	6	4	△ 2
	25.0	24.0	21.1	△ 2.9

This table shows which specific function to be expanded to the companies, which replied "Expanding in 1-2 years". Out of all the German-based companies that selected "Expansion", 33.1% selected they were planning to expand "Production (high-value added products)".

7. Future Promising Sales Destinations (1)

- Continuing the same trend as the previous year, the number of companies selecting Turkey and Russia as promising sales destinations has continued to decline since 2014.
- Companies are continuing to choose Germany as the top sales destination, as well as Western Europe and Central & Eastern Europe.
- This graph reveals trends where companies can be seen to be re-examining their primary sales destinations, such as during the economic recovery in Europe, EU's economic sanctions against Russia and the political situation in Turkey.
- For 2017 survey, the number of companies who responded to the question regarding "Promising Sales Destinations", has sharply decreased, in fact this years results had the smallest number of respondents, when compared to the last 5 years.



7. Future Promising Sales Destinations (2)

- “Sales growth is expected” was selected as the primary reason for choosing promising sales destinations.
- However for this answer other trends can be seen when analysing the sales destination by region. Comparing this years results to 2012, the absolute number of companies who selected Western Europe as a promising sales destination due to expected sales growth have almost doubled (218 companies). For countries in Central and Eastern Europe the number of respondents has increased by nearly 30% (223 companies).
- This year 202 Companies expressed the Middle East as a future promising sales destination due to “Sales Growth is expected”, compared to 2013 this is a response rate has decreased by around 40%.
- This year 136 companies expressed Russia and CIS as future promising sales destinations due to “Sales Growth is expected”, halving compared to 6 years ago.

Responses (Units : Cos)

Reasons given for Future Promising Sales Destination

(Multiple Answers Given)

Percentage (Units : %)

Reason for selecting country(ies) in Western Europe		2012 (n=302)	2013 (n=369)	2014 (n=386)	2015 (n=425)	2016 (n=451)	2017 (n=435)	Change
1	Sales growth is expected	113	172	178	193	200	218	18
		37.4	46.6	46.1	45.4	44.3	50.1	5.8
2	Existing clients have bases in the country/region	111	131	133	131	166	174	8
		36.8	35.5	34.5	30.8	36.8	40.0	3.2
3	Good receptivity of high value-added products / service	104	121	140	141	143	127	△ 16
		34.4	32.8	36.3	33.2	31.7	29.2	△ 2.5
4	New clients have been found in the country/region	89	106	86	97	145	124	△ 21
		29.5	28.7	22.3	22.8	32.2	28.5	△ 3.7
5	Sales are poor in existing markets	31	37	25	33	166	23	△ 143
		10.3	10.0	6.5	7.8	36.8	5.3	△ 31.5

Reason for selecting country(ies) in the Middle East		2012 (n=298)	2013 (n=374)	2014 (n=343)	2015 (n=336)	2016 (n=329)	2017 (n=278)	Change
1	Sales growth is expected	254	316	272	266	226	202	△ 24
		85.2	84.5	79.3	79.2	68.7	72.7	4.0
2	Existing clients have bases in the country/region	75	93	101	92	96	98	2
		25.2	24.9	29.4	27.4	29.2	35.3	6.1
3	New clients have been found in the country/region	58	59	56	52	67	57	△ 10
		19.5	15.8	16.3	15.5	20.4	20.5	0.1
4	Good receptivity of high value-added products / service	37	60	52	50	61	45	△ 16
		12.4	16.0	15.2	14.9	18.5	16.2	△ 2.3
5	Sales are poor in existing markets	12	16	12	10	9	8	△ 1
		4.0	4.3	3.5	3.0	2.7	2.9	0.2

Reason for selecting country(ies) in Central and Eastern Europe		2012 (n=256)	2013 (n=292)	2014 (n=285)	2015 (n=322)	2016 (n=331)	2017 (n=332)	Change
1	Sales growth is expected	172	213	207	211	206	223	17
		67.2	72.9	72.6	65.5	62.2	67.2	5.0
2	Existing clients have bases in the country/region	79	79	92	99	114	121	7
		30.9	27.1	32.3	30.7	34.4	36.4	2.0
3	New clients have been found in the country/region	69	67	61	55	87	86	△ 1
		27.0	22.9	21.4	17.1	26.3	25.9	△ 0.4
4	Good receptivity of high value-added products / service	30	35	33	39	46	36	△ 10
		11.7	12.0	11.6	12.1	13.9	10.8	△ 3.1
5	Existing customers are relocating to the	17	16	9	16	21	23	2
		6.6	5.5	3.2	5.0	6.3	6.9	0.6

Reason for selecting country(ies) in Russia and/or CIS		2012 (n=314)	2013 (n=353)	2014 (n=247)	2015 (n=200)	2016 (n=189)	2017 (n=203)	Change
1	Sales growth is expected	277	299	195	129	110	136	26
		88.2	84.7	78.9	64.5	58.2	67.0	8.8
2	Existing clients have bases in the country/region	79	78	63	51	61	68	7
		25.2	22.1	25.5	25.5	32.3	33.5	1.2
3	New clients have been found in the country/region	52	63	33	26	38	44	6
		16.6	17.8	13.4	13.0	20.1	21.7	1.6
4	Good receptivity of high value-added products / service	54	47	37	34	27	30	3
		17.2	13.3	15.0	17.0	14.3	14.8	0.5
5	Sales are poor in existing markets	18	17	12	9	9	5	△ 4
		5.7	4.8	4.9	4.5	4.8	2.5	△ 2.3

7. Future Promising Sales Destinations (3)

- UK based Japanese-affiliated companies currently consider these EU states Germany, Poland and France to be in their top 5 future promising sales destinations. However as withdrawal negotiations between the UK and the EU progress, it is possible the UK's future relationship with the EU will have a significant influence on their future sales strategy.
- Companies based in France indicated that Morocco and Germany were equally their most promising future sales destinations.

Top 5 Future Promising Sales Destinations Trends for 2017

(Multiple Answers Given)

Companies in UK

Companies in Germany

Companies in France

(Units : Cos)

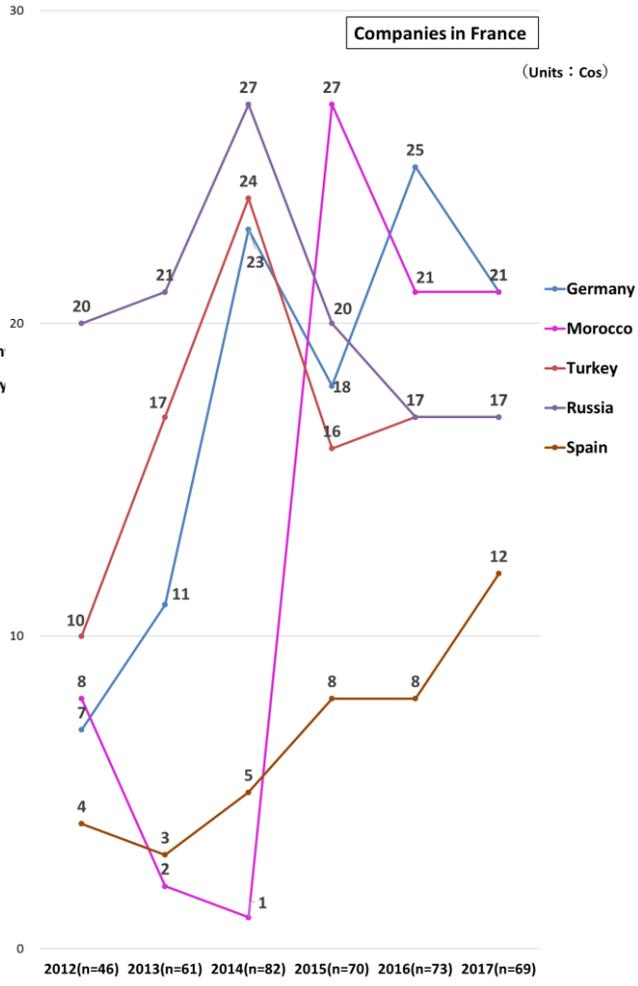
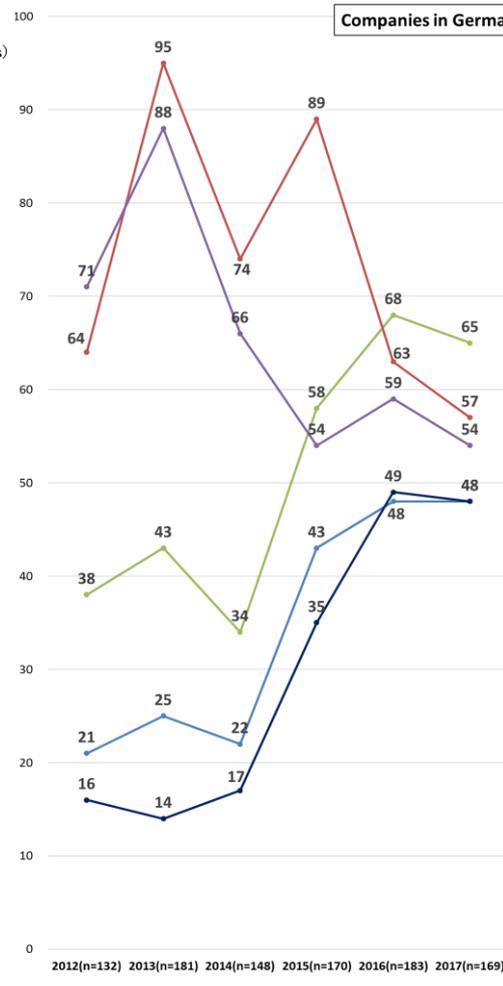
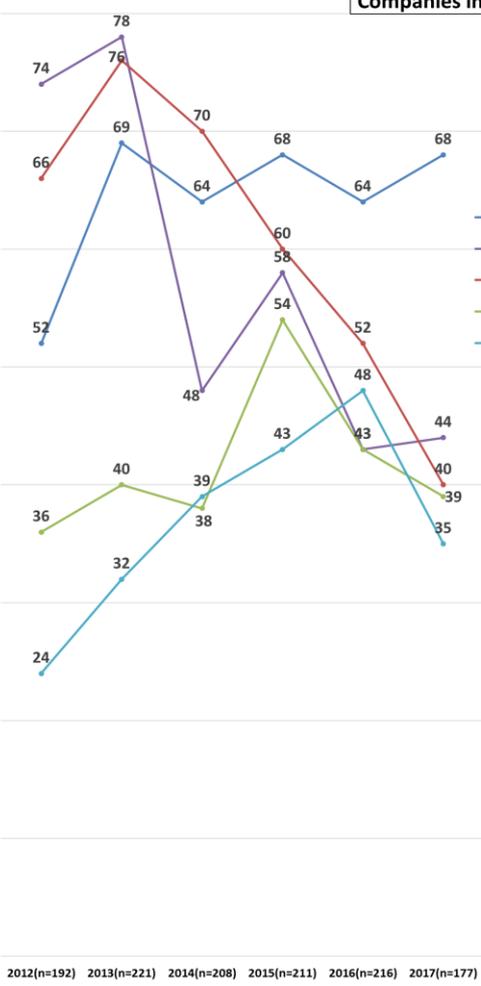
(Units : Cos)

(Units : Cos)

- Germany
- Russia
- Turkey
- Poland
- France

- Poland
- Turkey
- Russia
- German
- Hungary

- Germany
- Morocco
- Turkey
- Russia
- Spain

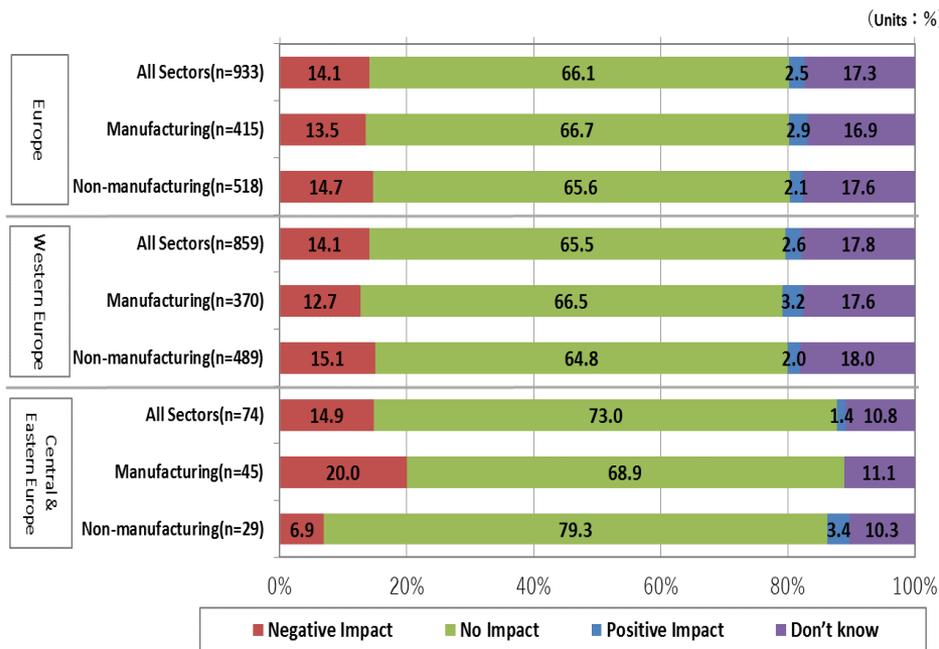


8. Britain's Exit from the European Union (1)

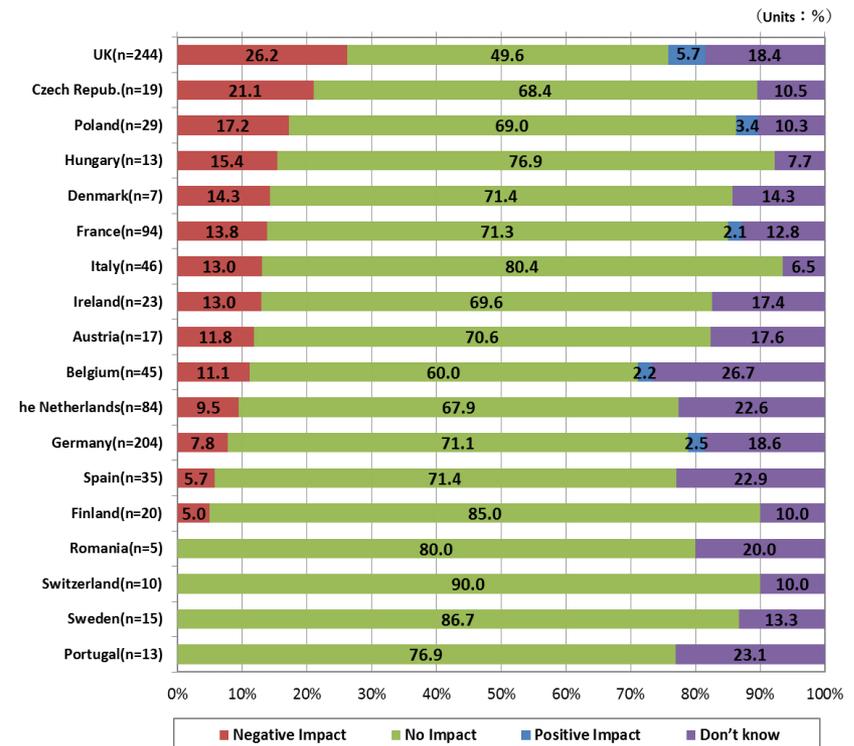
As the UK prepares to exit the EU, companies were asked what impact has there been to their business so far.

- 66.1% of all respondents answered "No Impact", whilst 14.1% responded "Negative Impact". The highest response rate for "No Impact" was seen for the non-manufacturing sector in Central & Eastern Europe at 79.3%.
- Out of all the countries in Europe, UK based companies gave the highest response rates for "Negative Impact" at 26.2% and "Positive Impact" at 5.7%.
- The most common reasons given for negative impact by UK based companies were "Exchange rate fluctuations", "Increasing import prices due to cheapening of the pound", "Uncertainty about the future", "Declining appetite for investment" "Sales reduction due to cheapening of the pound", "Time and money spent on research and collecting information", "Costs of establishing new bases", "Securing human resources from the EU in the UK", "Impact on EU single financial passport system" "Declining appetite in consumer spending". Whereas responses for companies based in other EU states, the most common answers were "Exchange rate fluctuations" and "Cheapening of the pound", as well as "Reduction of consumer spending".
- Reasons given for positive impact by UK based companies were "Increasing exports due to cheapening of the pound" "Increase in price for euro-denominated sales due to exchange rates"

Impact on Business So far (By Industry)



Impact on Business So far (By Country)

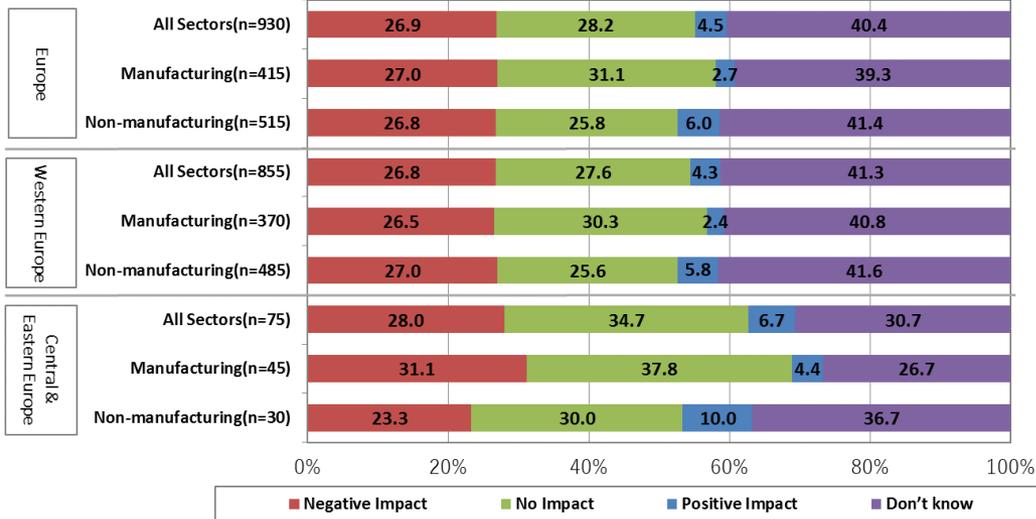


8. Britain's Exit from the European Union (2)

- When companies were asked how they expected the UK's exit from the EU to impact their future business, all respondents replied "No Impact" at 28.2%, followed by "Negative Impact" at 26.9%.
- When comparing the future business impact by Industry to the graph on the previous page regarding the impact seen so far, "No Impact" has greatly reduced by 37.9 pp, but the number of "Negative Impact" responses have increased by 12.8 pp.
- 46.9% of UK based businesses selected that the UK's exit from the EU would have a "Negative impact" on their future business, the highest response rate amongst all countries in Europe.
- The most common reasons given for negative impact by UK based companies were: "Customs tariffs", "Securing Human Resources", "Exchange rate fluctuations", "Currency instability", "Changes to regulations and legislation", "Potential complex EU export procedures", "Reduction in demand due to economic slowdown" and "Investment setback". Whereas the most common responses for companies based in other EU states, were "Customs Duties", "Complex import/export procedures" and "Changes to EU and UK trading regulations".
- Within the "Positive impact" responses, some were transportation and warehouse Companies based in both UK and other EU states who foresee a "Positive Impact due to increasingly active distribution of goods". Also there were a number of EU based companies who see an advantage to the "Shift of UK business to the European Continent" and "easier to secure talent and increasing mobility of human resources".

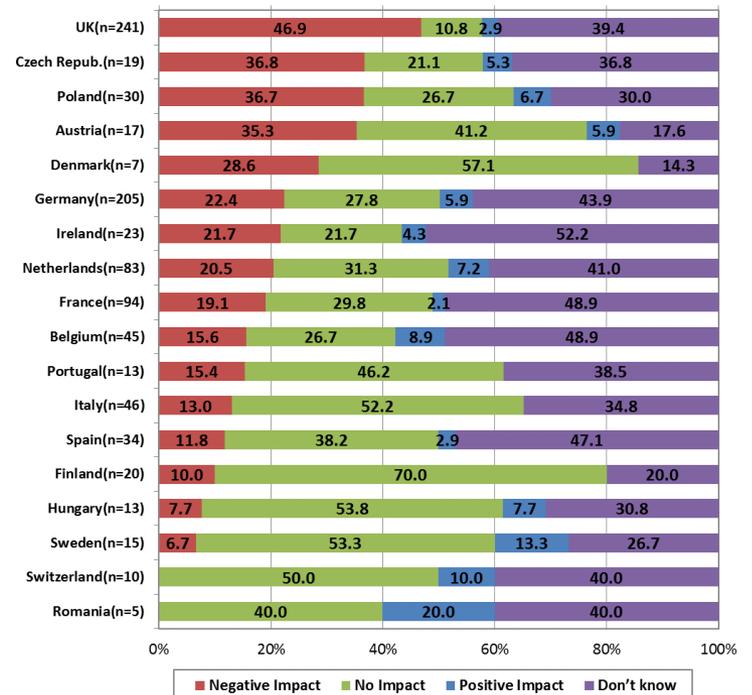
Future Business Impact (By Industry)

(Units : %)



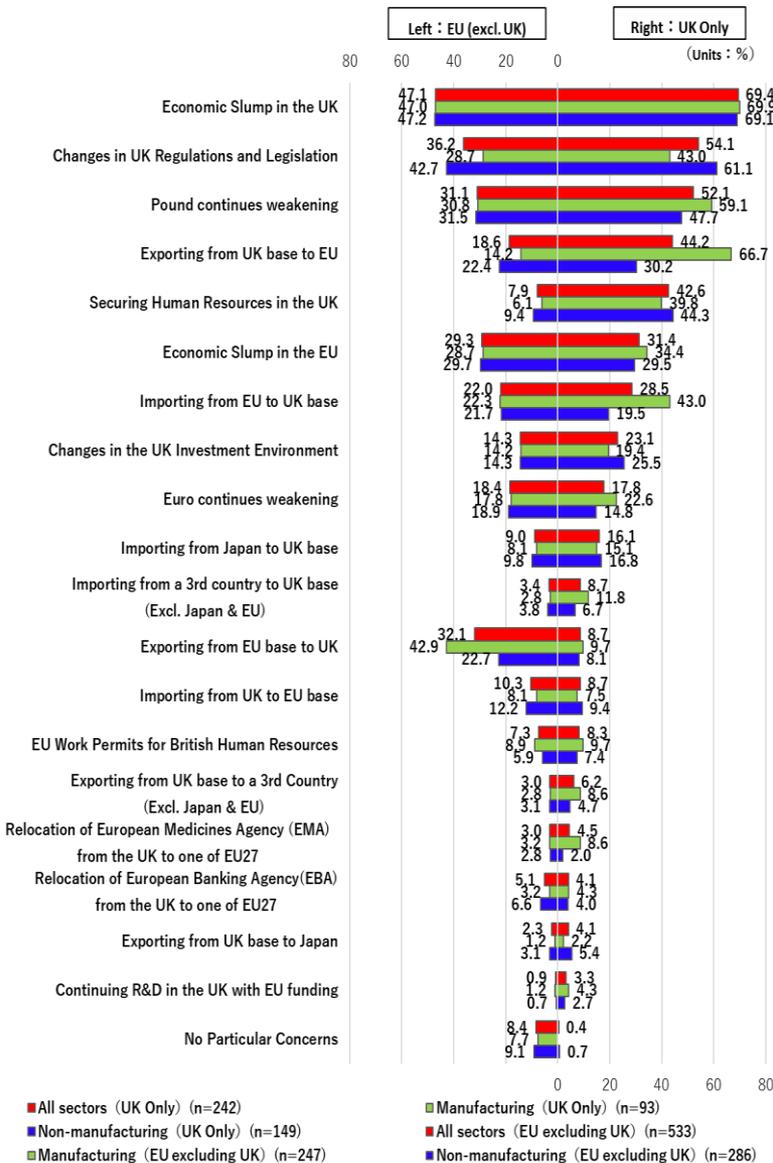
Future Business Impact (By Country)

(Units : %)

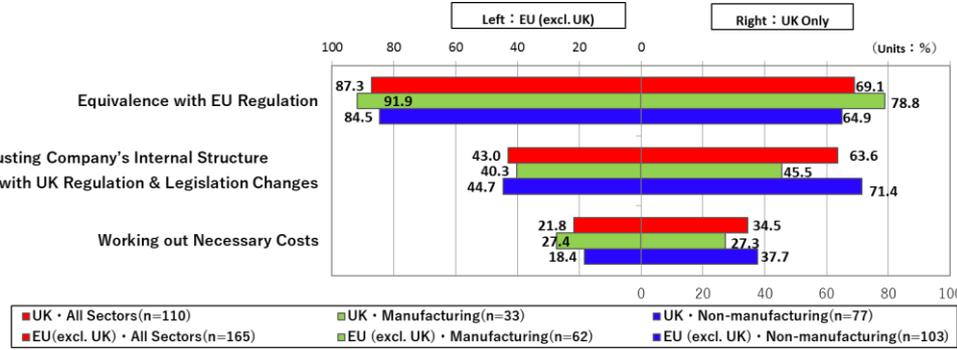


8. Britain's Exit from the European Union (3)

Concerns of Japanese-Affiliated Companies



Adjusting Company's Internal Structure to comply with UK Regulation & Legislation Changes
Working out Necessary Costs



- The top two concerns for both Japanese-affiliated companies in the UK and in other EU states are “Economic slump in the UK” and “Changes in UK regulations and legislation”. The response rates for both choices were 20 points higher for UK based companies compared to other EU state based companies.
- There are many companies who are concerned about conducting business between the UK and the EU, especially in the manufacturing sector. For Manufacturing UK based companies, the response rate regarding concerns “Exporting from UK base to EU”, “Importing from EU to UK base” were high. From companies in other EU states the response rate was high regarding “Exporting from EU base to UK”.
- Regarding the concern over the “Changes in UK Regulations and Legislation”, companies based in other EU countries showed particular concern about “Equivalence with EU regulation”, which was 18 points higher than compared to UK based companies.
- For companies based in the UK, “Securing Human Resources in the UK” was a huge concern, reaching over 40% at 42.6%. Suggesting a rise in concern including the way in which the withdrawal negotiations on EU citizens rights have been handled.

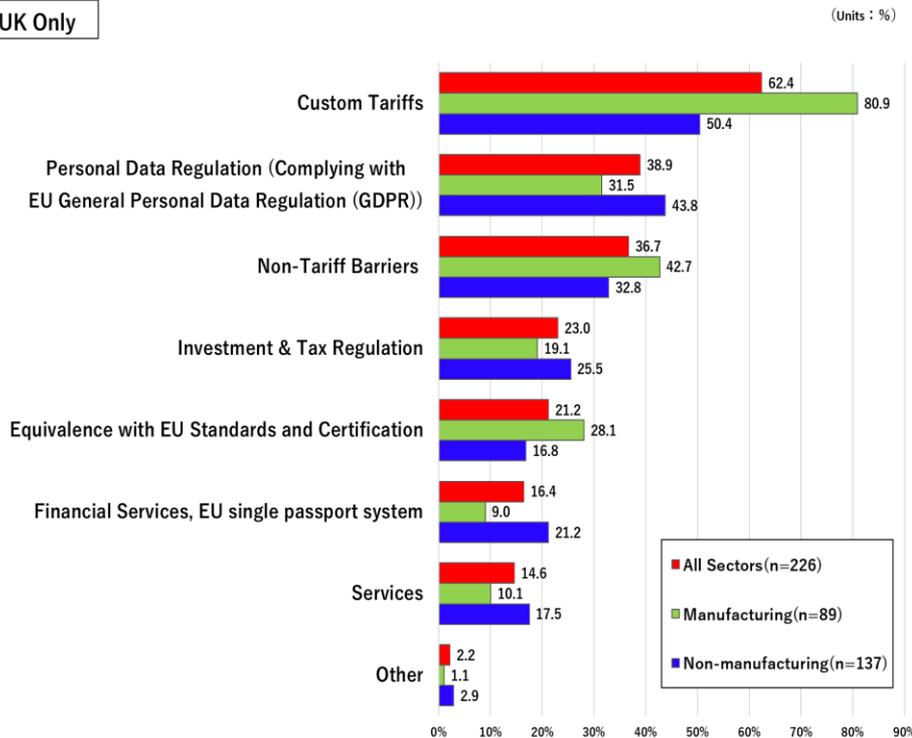
8. Britain's Exit from the European Union (4)

- Regarding future changes to UK regulation and legislation, both companies based in the UK and other EU states expressed "Customs Tariffs" as their main concern.
- UK based companies were more concerned regarding complying to future "Personal Data Regulation" (Complying with EU General Personal Data Regulation (GDPR)) by 17.8pp higher than for companies based in other EU states.

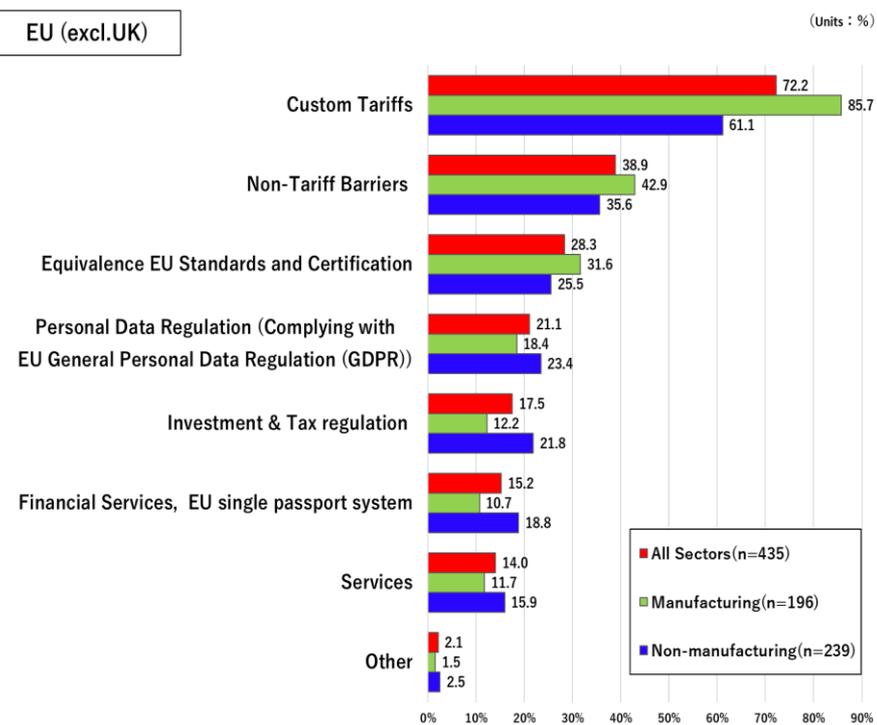
Main Concerns Regarding Future Changes to UK Regulation and Legislation

(Multiple Answers Given)

UK Only



EU (excl.UK)

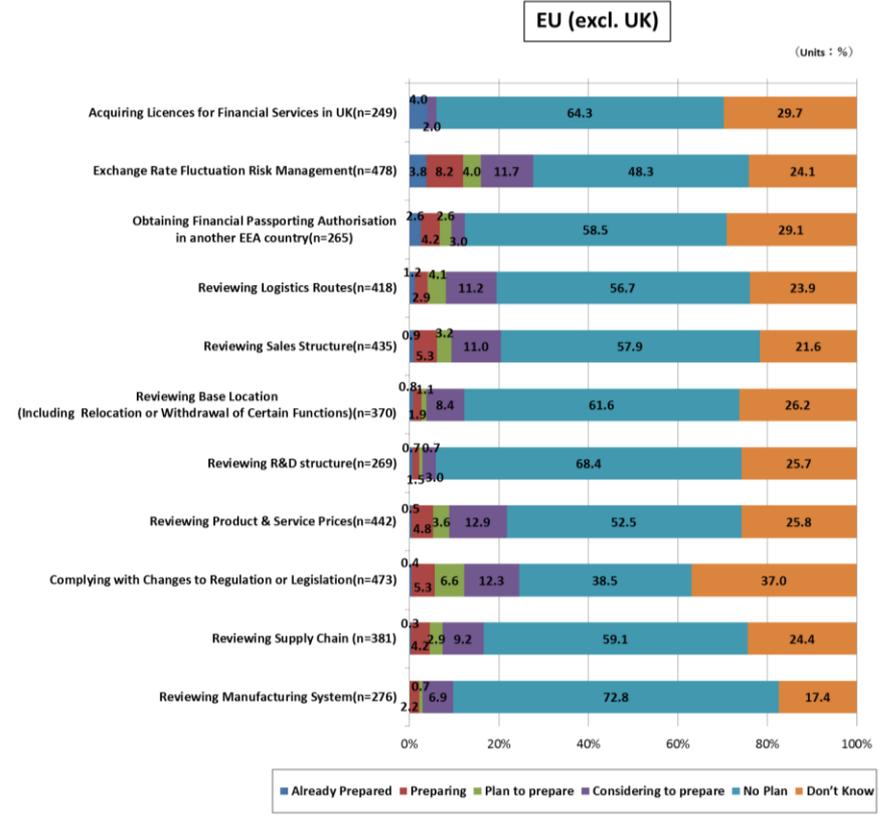
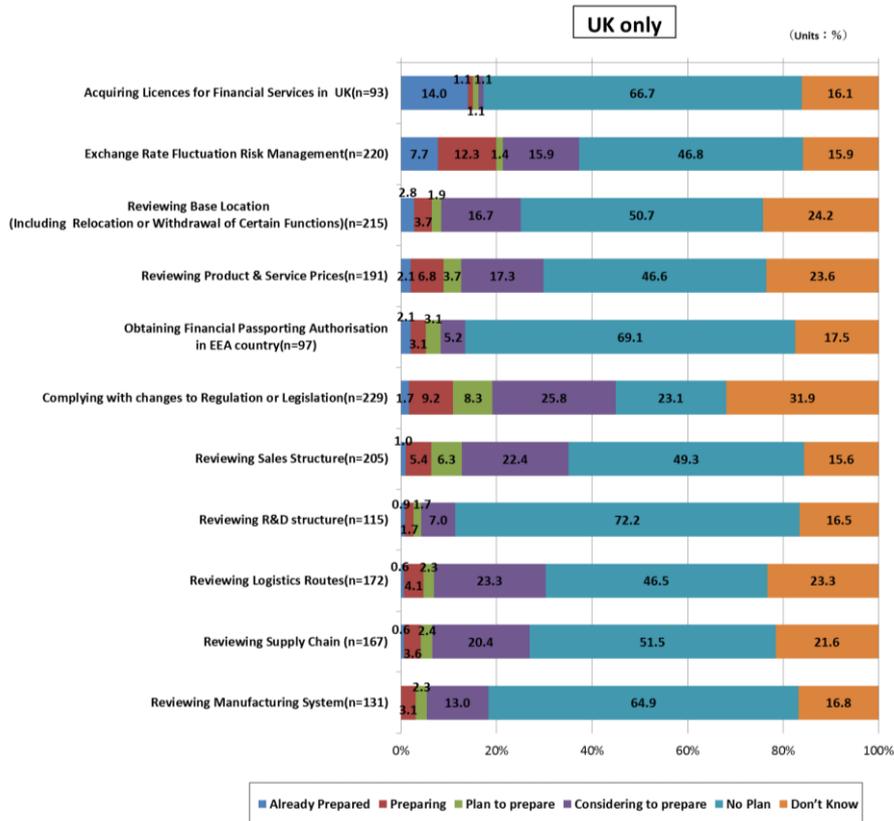


8. Britain's Exit from the European Union (5)

When companies were asked about what stage of preparation they were for the UK's withdrawal from the EU,

- In terms of preparations already made, companies based in both the UK and other EU states gave the highest response rate that they had already prepared "Acquiring Licences for Financial Services in the UK" and "Exchange Rate Fluctuation Risk Management".
- A large number of companies based in the UK also indicated that they were planning or considering to prepare for "Complying with changes to Regulation or Legislation", of which many said they were planning to prepare for "EU General Data Protection Regulation (GDPR)" or considering to transfer "Marketing Authorisation Holder (MAH)" license holders after the relocation of the European Medicines Agency (EMA) to the continent.

Current Stage of Preparation for the UK's withdrawal from the EU

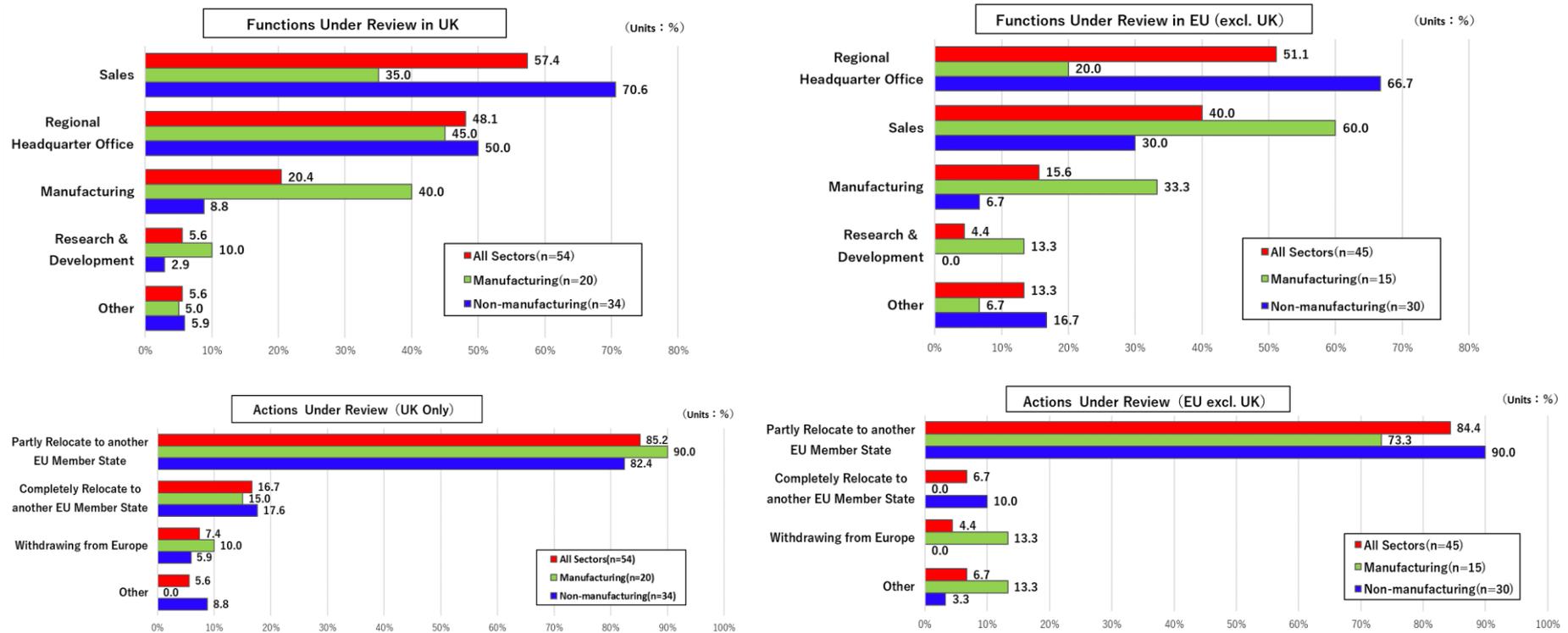


8. Britain's Exit from the European Union (6)

For Companies who responded that they were currently reviewing or considering to review the Location of their base

- The largest percentage of UK based companies selected reviewing relocation of their Sales function at 57.4%.
- For companies based in other EU states the largest percentage was relocation of regional headquarter function at 51.1%.
- Over 80% of companies from both the UK and other EU member states responded that they were already preparing or considering to prepare to "Partly Relocate to another EU Member State".
- When companies were asked the name of the country that they were potentially considering to relocate to; amongst UK based companies, the two most mentioned candidate countries were Germany (23 companies) and the Netherlands (6). Other candidates named were Ireland (2), France (2), Italy (2), Belgium (2), the Czech Republic (1) and Romania (1).

Current Stage of Preparation for the UK's withdrawal from the EU

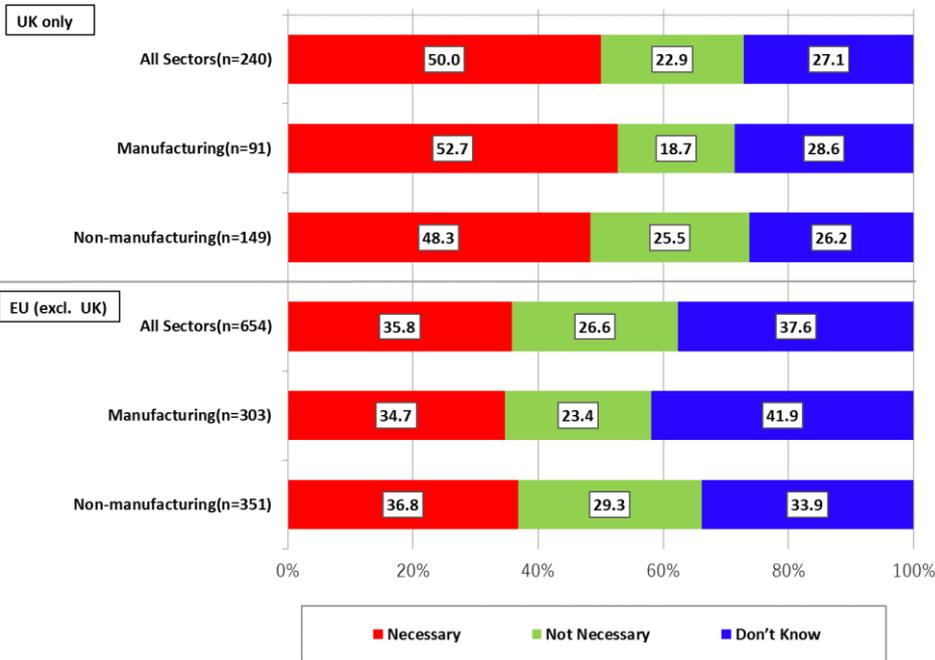


8. Britain's Exit from the European Union (7)

- Companies were asked after the UK has left the EU, would it still be necessary for their business to remain in the EU single market or Customs Union.
- 50% of all companies based in the UK answered that it was "Necessary" to remain in the single market.
- For companies based in other EU states less than 40% answered that it would be "Necessary" to remain at about 36%.
- The proportion of companies who responded that it was "Necessary" to remain in the EU single market was highest in the manufacturing sector for UK based companies, this was also true for remaining in the customs union, which exceeded 60%.

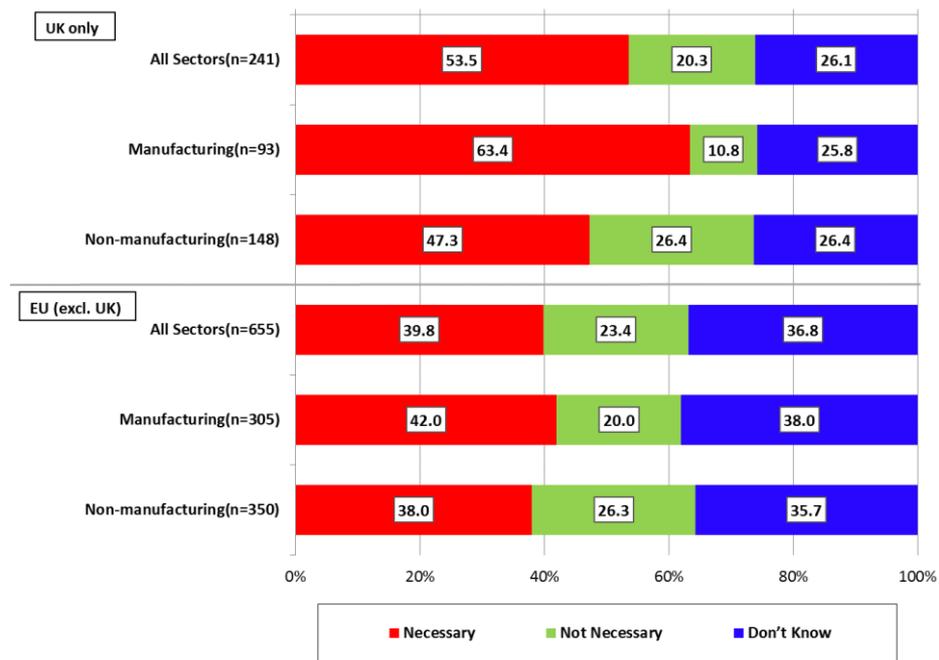
How necessary would it be to remain in the Customs Union after the UK leaves the EU

(Units : %)



How necessary would it be to remain in the Customs Union after the UK leaves the EU

(Units : %)

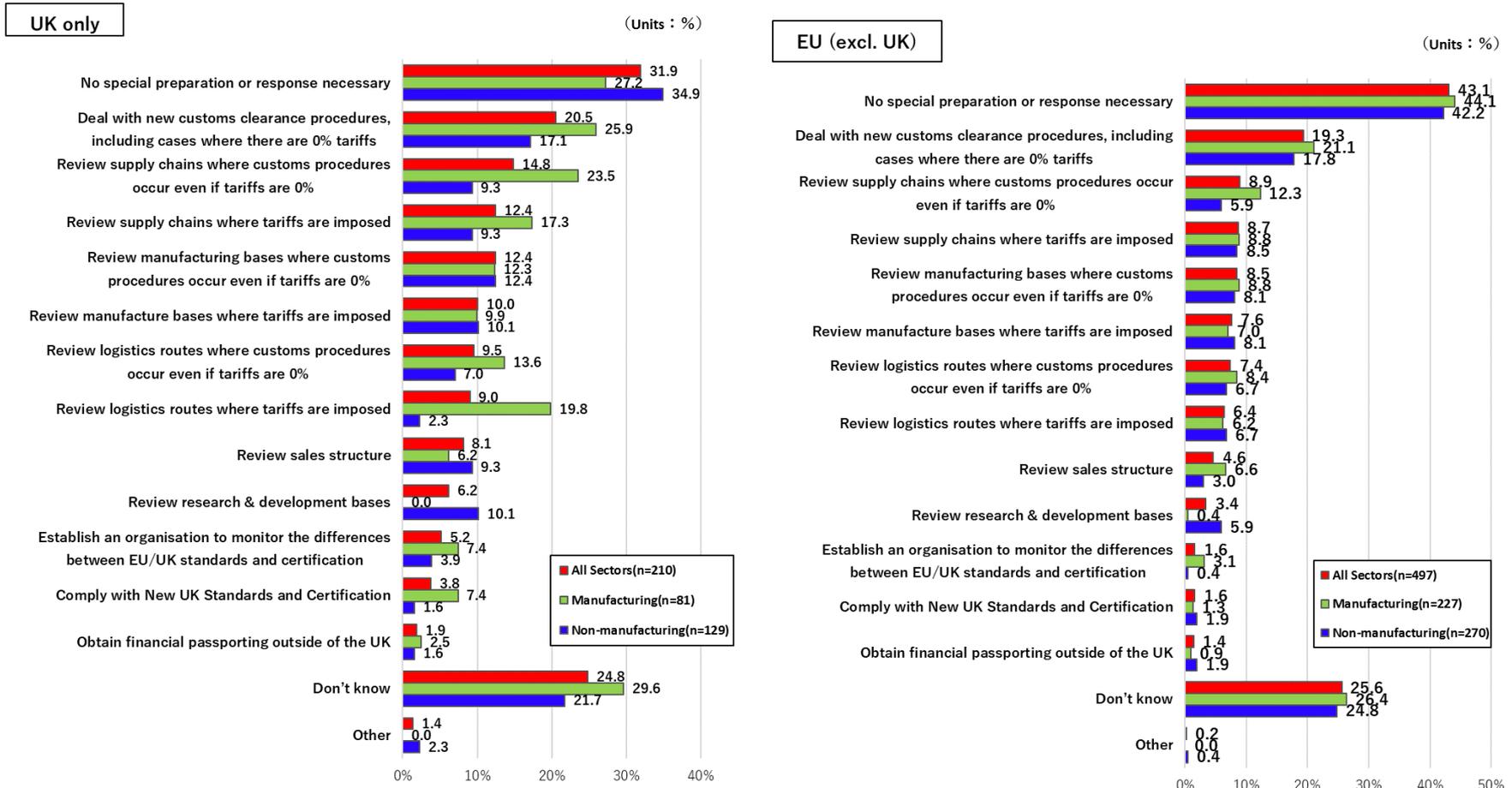


8. Britain's Exit from the European Union (8)

Concerning necessary actions or preparation for if the UK does not remain in the EU single market or Customs Union,

- Both UK and EU based companies gave the highest response that no special preparation or response would be necessary respectively at 31.9% and 43.1%.
- UK based manufacturing companies gave the highest response rate for the selection of "Review logistics routes where tariffs are imposed". This response was 13.6 pp higher than from companies based in other EU states.

Necessary Action or Preparation, If the UK does not remain in the EU Single Market or Customs Union

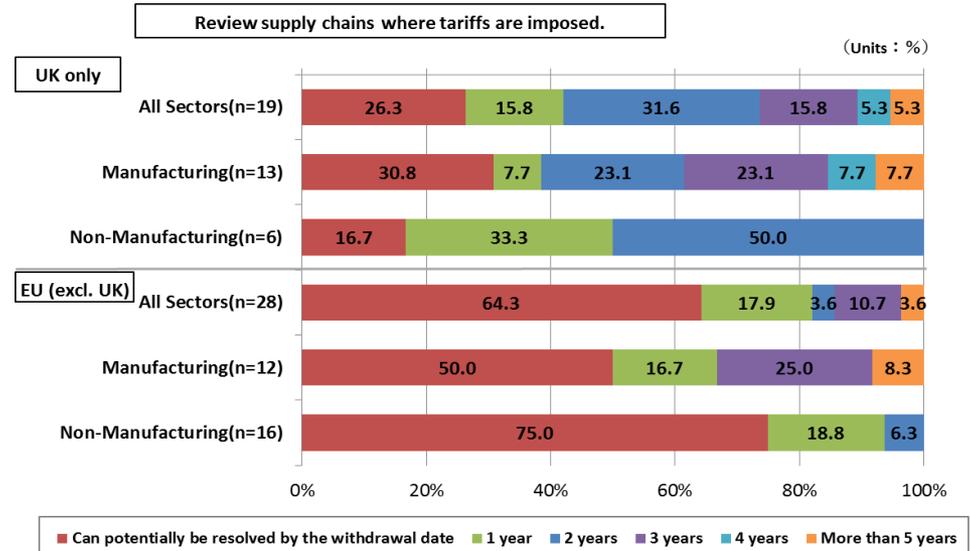
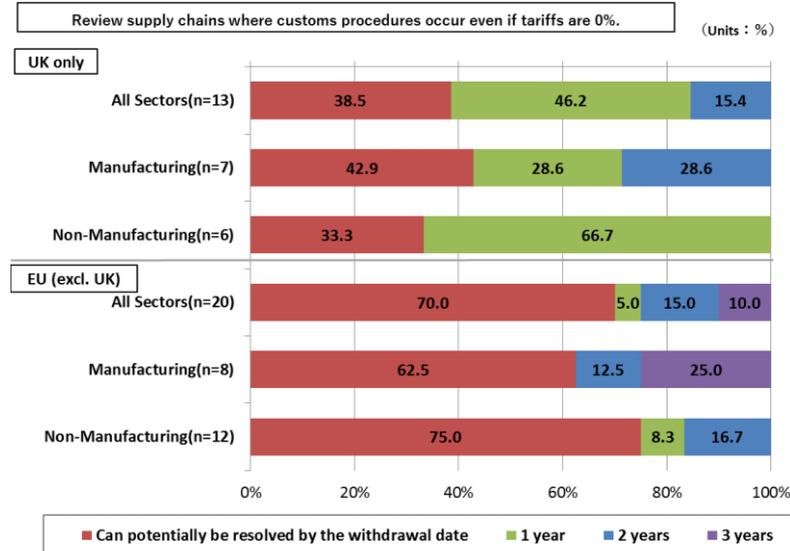
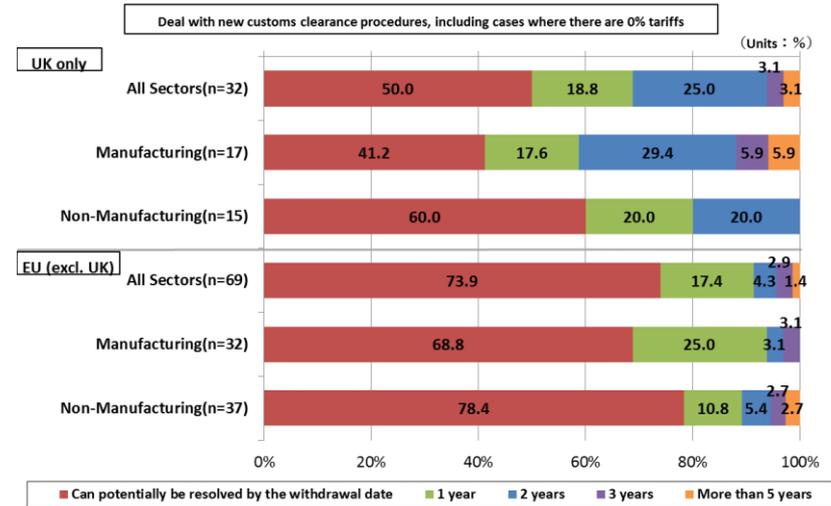


8. Britain's Exit from the European Union (9)

Companies were asked if the UK does not stay in the EU single market or customs union, how long would the transition period need to be?

- For dealing with "new customs clearance procedures occur, even if tariffs 0% tariffs", both UK and other EU based companies gave a significant response that these issues could potentially be resolved by the withdrawal date, respectively at 50% and 73.9%.
- For "reviewing supply chains", UK based companies responded that a transition period of at least 2 years would be necessary in the scenario where "tariffs are imposed" (58.0%) was higher than compared to the scenario where "customs procedures occur even if tariffs are 0%" (15.4%)
- 70% of companies based in other EU states replied that unless "tariffs are imposed" they could deal with reviewing supply chains by the 31st of March 2019 withdrawal date. However over 60% of respondents still said even if tariffs were imposed it would be possible to resolve the supply chains by the withdrawal date.

Necessary Transition Period If the UK does not stay in the single market or Customs Union

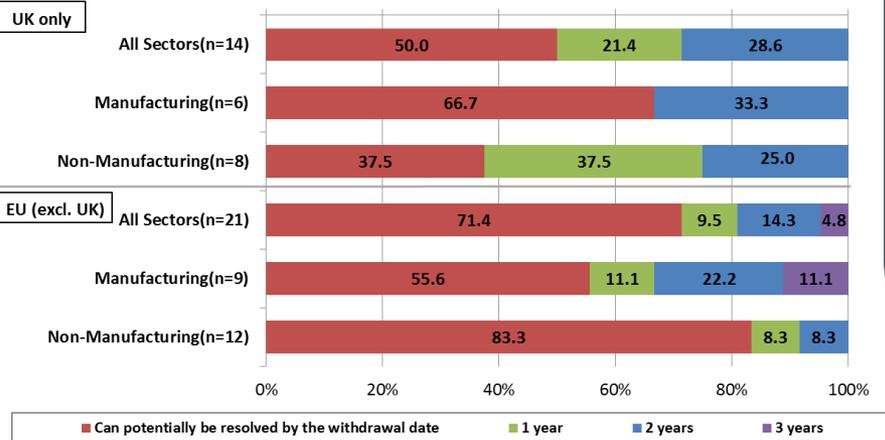


8. Britain's Exit from the European Union (10)

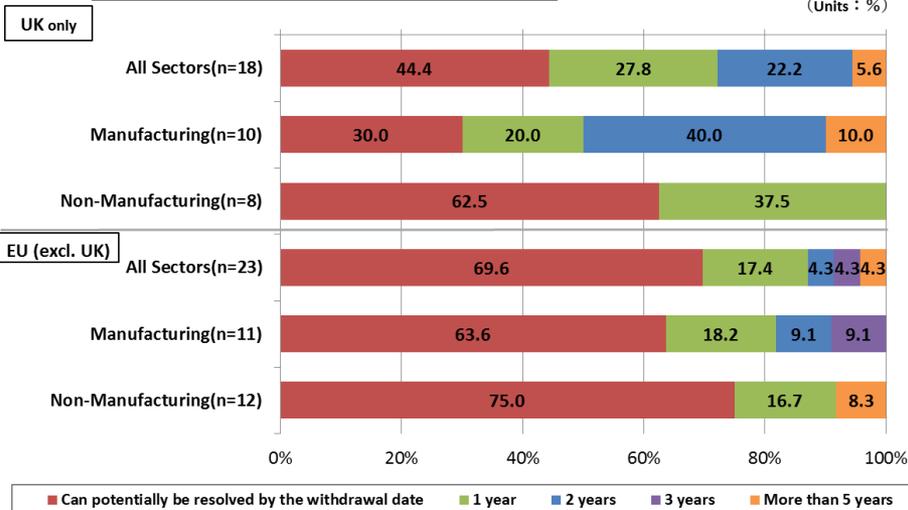
Necessary Transition Period If the UK does not stay in the single market or Customs Union

- When reviewing Logistics routes, regardless of whether “tariffs are imposed” or where “customs procedures occur even if tariffs are 0%”. In both scenarios UK based manufacturing companies gave a significant indication that a transition period of at least 2 years would be necessary from the withdrawal date.
- For reviewing sales structure, although 42.1 % of all UK based companies said it would be possible to complete by the withdrawal date the 31st of March 2019, 85.7% of the manufacturing sector said that they would need more than two years even after the withdrawal date has passed to review their sales structures. Reasons given for why more than 2 years was necessary: “To examine the possible impacts of economic downturn”, “Continuously watching trends in order to be flexible”, “React when the concerns finally occur”, “necessary to relocate staff, and recruit new employees for new bases”

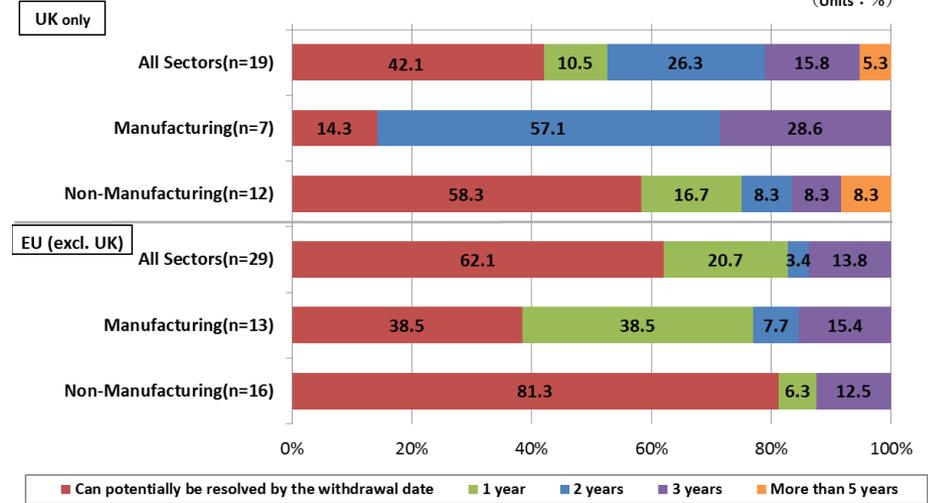
Review logistics routes where customs procedures occur even if tariffs are 0%.



Review logistics routes where tariffs are imposed.



Review sales structure.



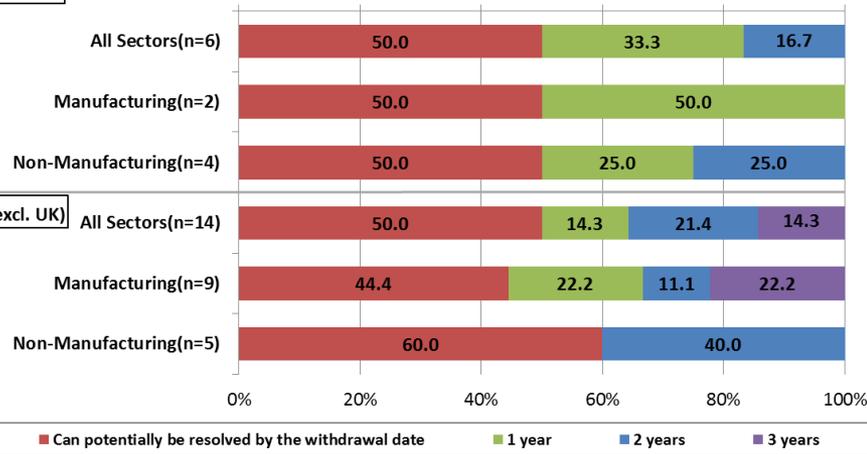
8. Britain's Exit from the European Union (11)

Necessary Transition Period If the UK does not stay in the single market or Customs Union

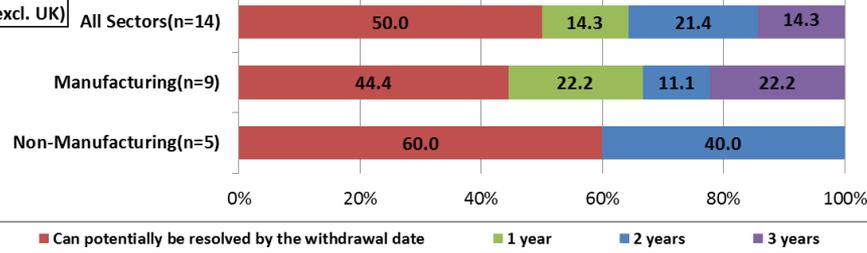
Establish an organisation to monitor the differences between EU / UK standards and certification.

UK only

(Units : %)



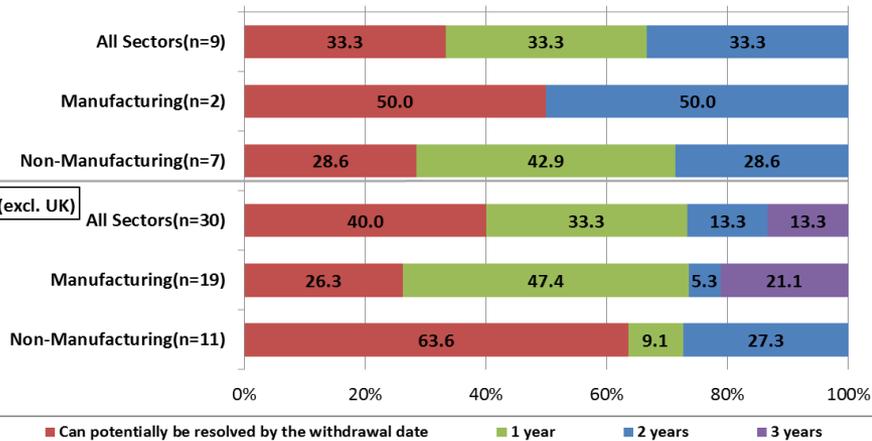
EU (excl. UK)



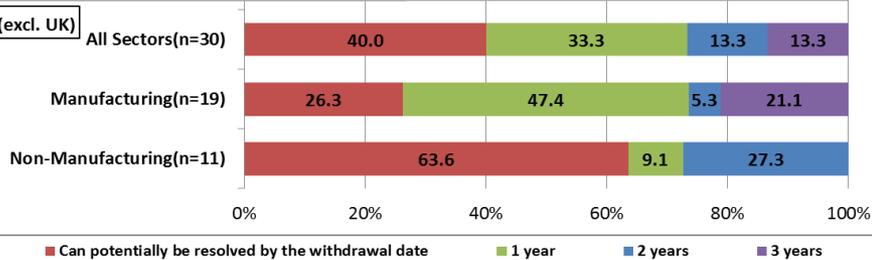
Comply with New UK Standards and Certification.

UK only

(Units : %)



EU (excl. UK)

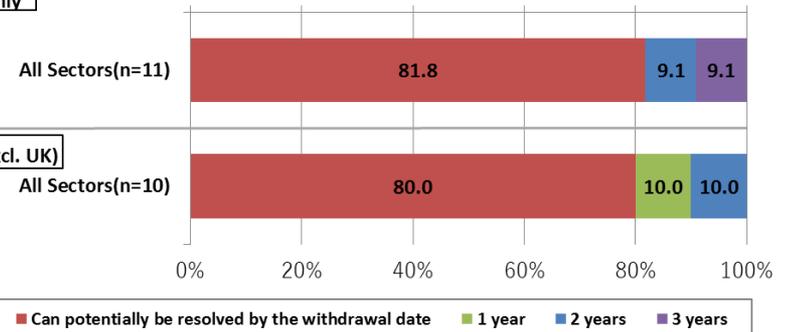


- Concerning compliance with new UK standards and certification. A large number EU based manufacturing companies (excl. UK) replied that at least a year would be necessary after the withdrawal date. This same trend was also confirmed for UK based non-manufacturing companies.
- For UK based companies looking to obtain financial passporting rights for Europe, 81.8% responded that it would be possible to achieve this by the 31st of March 2019 withdrawal date. Reasons for this were "It is necessary to obtain a passport for customers in the remaining EU states before withdrawing", "We have a obtained passporting rights in our other EU bases", "Currently applying for passporting rights" and "eager to apply".

Obtain financial passporting outside of the UK.

UK only

(Units : %)



EU (excl. UK)



9. EPA/FTA(1)

- The largest number of responses for using FTAs was the Turkey FTA for export and the South Korea FTA for import.

Current use of Bilateral or Multilateral FTAs

(Multiple Answers Given)

(Units : cos, %)

For Export	Are you planning/ considering to utilize preferential tax rates provided by these FTAs?			
	No.of responses	Currently Utilizing	Considering to utilize	Not Utilizing (& noo plan to)
Turkey	142 100.0%	46 32.4%	34 23.9%	62 43.7%
Switzerland	110 100.0%	33 30.0%	26 23.6%	51 46.4%
Mediterranean countries (Incl. Middle East)※1	74 100.0%	20 27.0%	18 24.3%	36 48.6%
South Africa	67 100.0%	19 28.4%	18 26.9%	30 44.8%
Korea	48 100.0%	20 41.7%	15 31.3%	13 27.1%
Litchenstein, Norway, Iceland ※3	41 100.0%	15 36.6%	9 22.0%	17 41.5%
Mexico	40 100.0%	14 35.0%	13 32.5%	13 32.5%
Canada	32 100.0%	5 15.6%	12 37.5%	15 46.9%
Chile	20 100.0%	5 25.0%	7 35.0%	8 40.0%

For Import	Are you planning/ considering to utilize preferential tax rates provided by these FTAs?			
	No.of responses	Currently Utilizing	Considering to utilize	Not Utilizing (& noo plan to)
Korea	47 100.0%	22 46.8%	14 29.8%	11 23.4%
Turkey	32 100.0%	16 50.0%	8 25.0%	8 25.0%
Switzerland※2	22 100.0%	9 40.9%	5 22.7%	8 36.4%
Mexico	18 100.0%	5 27.8%	10 55.6%	3 16.7%
Canada	12 100.0%	2 16.7%	4 33.3%	6 50.0%
Mediterranean countries (Incl. Middle East)※1	11 100.0%	3 27.3%	3 27.3%	5 45.5%
South Africa	7 100.0%	2 28.6%	1 14.3%	4 57.1%
Litchenstein, Norway, Iceland ※3	4 100.0%	1 25.0%	1 25.0%	2 50.0%
Chile	3 100.0%	1 33.3%	-	2 66.7%

※1, Mediterranean countries (including Middle East): Morocco, Tunisia, Jordan, Syria, Israel, Egypt, Middle East and North African countries (excluding Turkey)

※2, This includes Swiss based companies who export to the EU.

※3, These 3 countries are part of the European Economic Area (EEA) .

9. EPA/FTA (2)

- When companies were asked if they were intending to use any of these bilateral or multilateral FTAs/ EPAs currently under negotiation with the EU in the future, the largest response was for the Japan-EU EPA, of which the framework was agreed in July 2017.
- Many companies responded that they were considering or planning to use the Japan-EU EPA for export and Import

Intention to use future Bilateral or Multilateral FTAs

(Multiple Answers Given)

(Units : cos、%)

For Export	<u>Are you planning/ considering to utilize preferential tax rates provided by these FTAs?</u>			
	No.of responses	Planning to utilize	Considering to utilize	Not planning to utilize
Japan (Framework Agreed, negotiations ongoing)	187 100.0%	55 29.4%	65 34.8%	67 35.8%
Singapore Agreement (Negotiations Concluded October 2014)	32 100.0%	8 25.0%	7 21.9%	17 53.1%
Vietnam (Finalising Agreement December 2015)	23 100.0%	8 34.8%	5 21.7%	10 43.5%

(Units : cos、%)

For Import	<u>Are you planning /considering to utilize preferential tax rates provided by these FTAs?</u>			
	No.of responses	Planning to utilize	Considering to utilize	Not planning to utilize
Japan (Framework Agreed, negotiations ongoing)	433 100.0%	127 29.3%	161 37.2%	145 33.5%
Vietnam (Finalising Agreement December 2015)	35 100.0%	17 48.6%	8 22.9%	10 28.6%
Singapore Agreement (Negotiations Concluded October 2014)	28 100.0%	10 35.7%	9 32.1%	9 32.1%

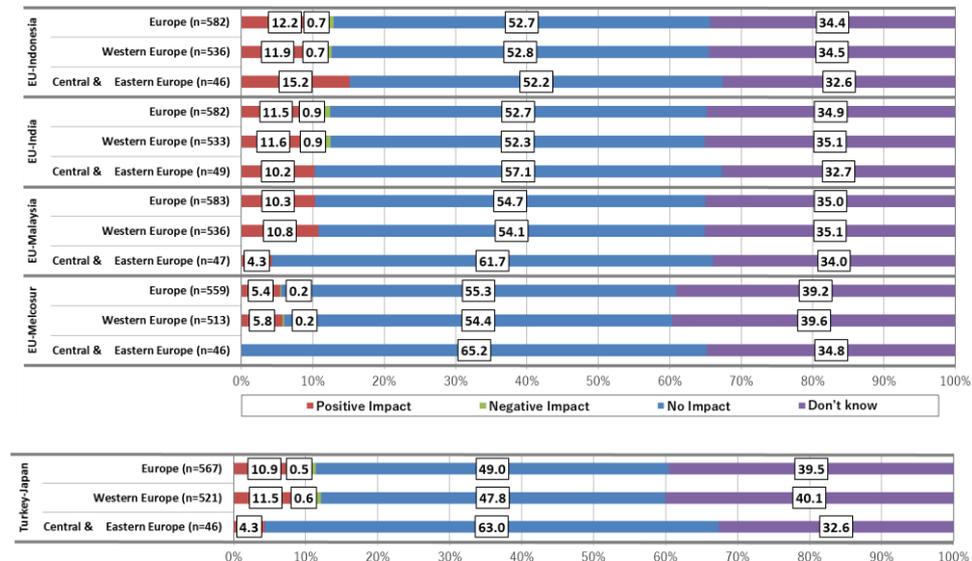
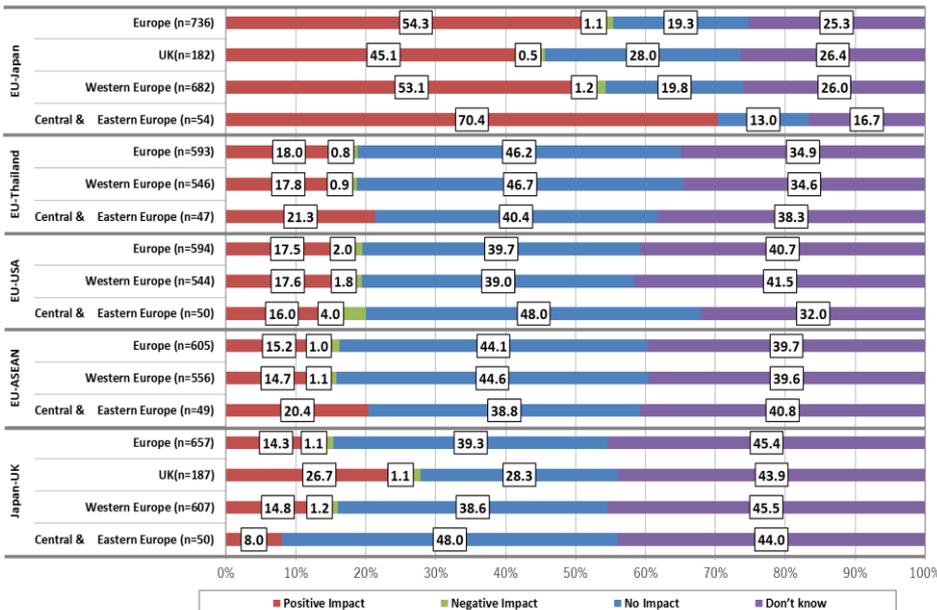
9. EPA/FTA (3)

- Regarding impacts of Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs) currently under negotiation with the EU, 54.3% of all respondents said that the Japan-EU EPA would be a major advantage for their business, showing a substantial increase of 16.5pp compared to the previous year. This was particularly seen for companies based in Central & Eastern Europe at 70.4%, especially within the non-manufacturing sector, which reached as much as 77.3%.
- The second most popular FTA currently under negotiation was the EU-Thailand FTA, which had a response rate of 18% from all respondents, followed by the US-EU Transatlantic Trade Investment Partnership at 17.5%, EU-ASEAN at 15.2%. For the EU-Thailand FTA, and EU-ASEAN, the main advantages cited were tariff reductions on imports to the EU. For TTIP, it could be seen that improving opportunities for exporting to the US and enhancement of competitiveness were considered major advantages on top of the benefits of Import tariff reductions.
- After the UK has withdrawn from the EU, 14.3% of all companies from Europe as a whole cited that the future possibility of the Japan-UK-EPA would be a major advantage. Even when narrowed down to UK based companies 26.7% said it would be a major advantage, which was a much lower proportion compared to their response rate for the Japan-EU EPA at 45.1%. These results indicate that even for UK based companies the benefits of the Japan-EU EPA currently is a higher priority than a future Japan-UK EPA.

EPA/FTA Impacts

(Units:%)

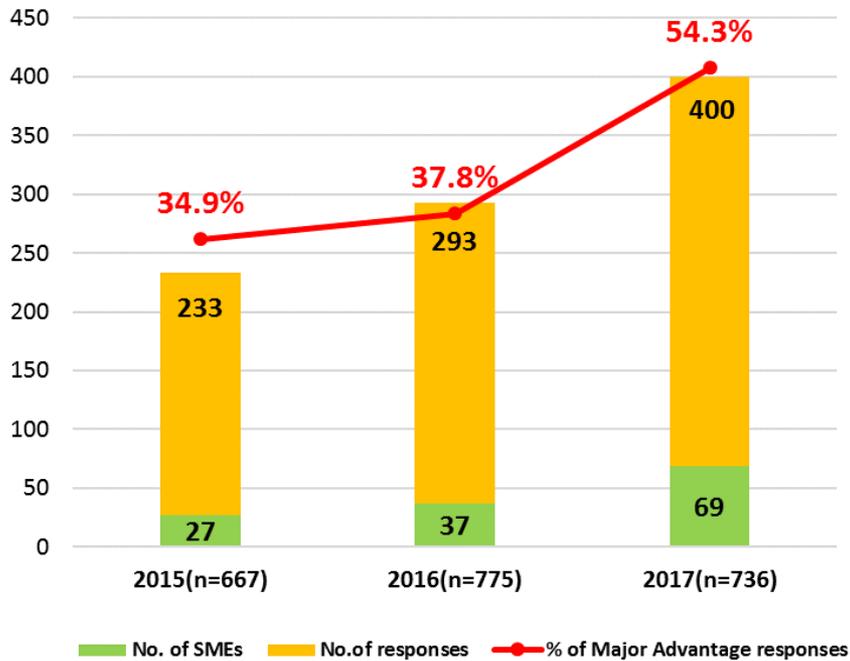
(Units:%)



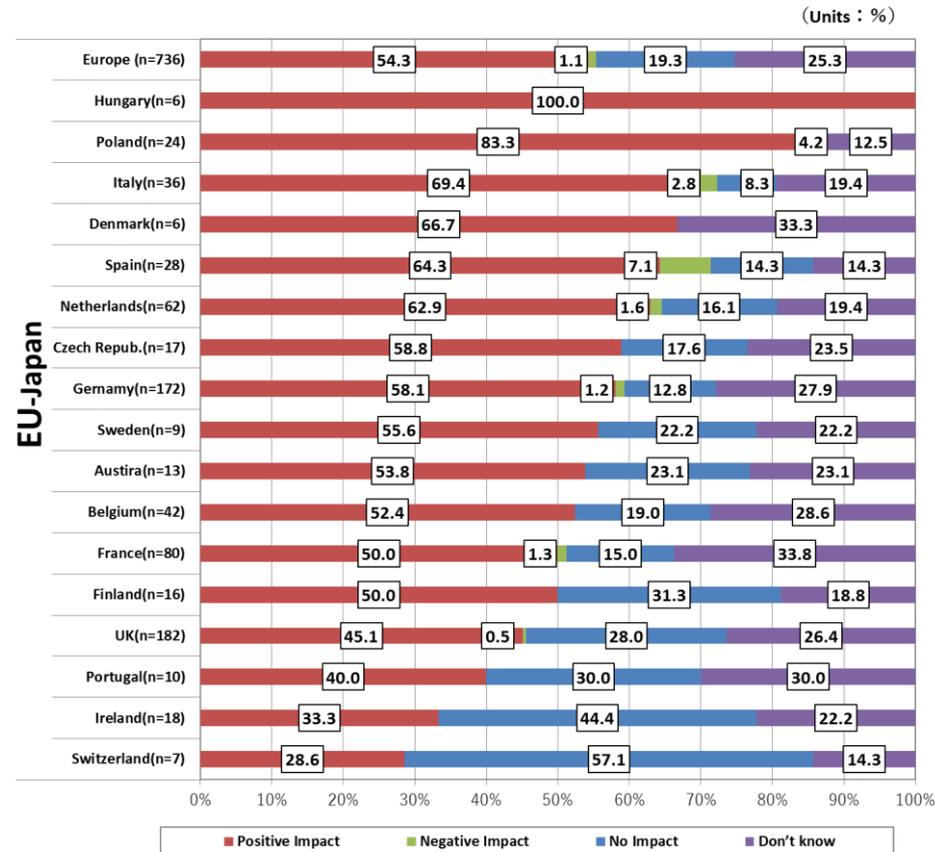
9. EPA/FTA (4)

- It can be seen that Japanese-affiliated companies have increasingly high expectations for the Japan EU-Economic Partnership agreement. The number of companies who responded that it would be a major advantage has risen to the highest number over the last 3 years.
- Looking by country companies in Hungary (100%), Poland (83.3%) and Italy (69.4% gave the highest response rates to the Japan-EU Economic Partnership Agreement being a major advantage.

No. of Companies who responded Japan-EU EPA gives Major Advantage



EPA/FTA Impacts by Country

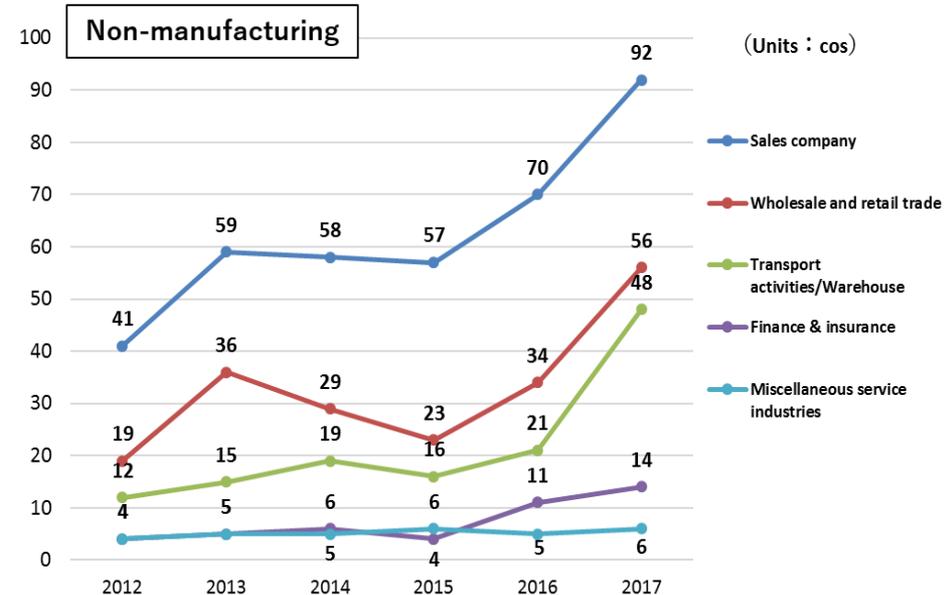
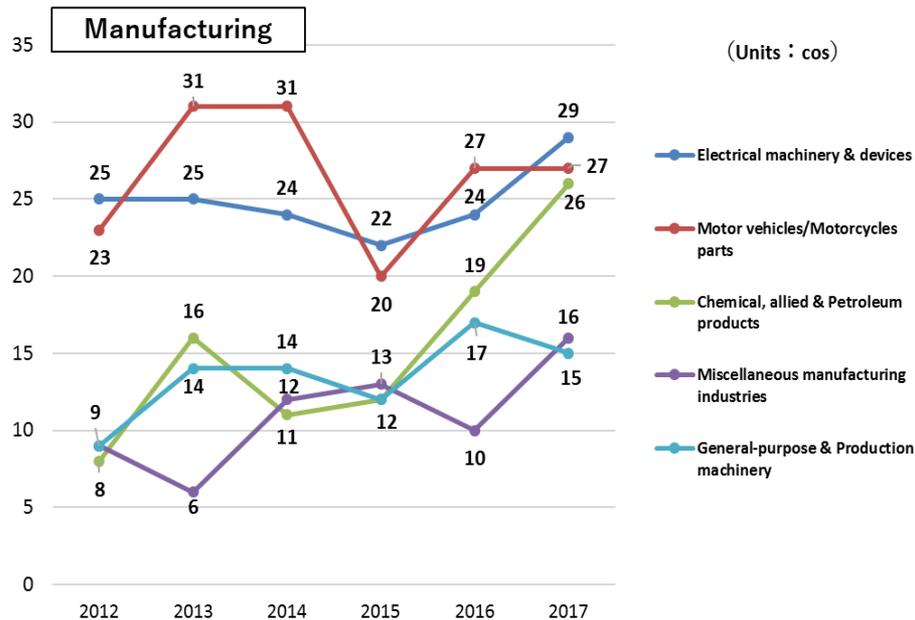


9. EPA/FTA (5)

Amongst sectors who cited the Japan-EU EPA as a major advantage,

- For manufacturing the most dominant industries were Electrical machinery & devices (Including parts), Motor vehicles & Motorcycle parts and Chemical, allied & petroleum products,
- For non-manufacturing compared to last year the number of companies from Sales companies, Wholesale and retail trade (Including trading), Transport activities/warehouse grew greatly. These Industries view it as a major advantage due to tariff reductions on Japan to EU exports and also expected to create business opportunities for logistics.
- When asked what was needed in order to fully utilize the future Japan-EU EPA, the most frequent answers were: list of goods subject to tariff reductions, schedules and custom rates. Others mentioned were visa requirements, instructions explaining how to enjoy the specific benefits after the EPA comes into effect, trends of Japanese-affiliated companies entering the European market, bilateral agreement regarding EU General Data Protection Regulation.

Key Sectors that see the Japan EU EPA as a Major Advantage

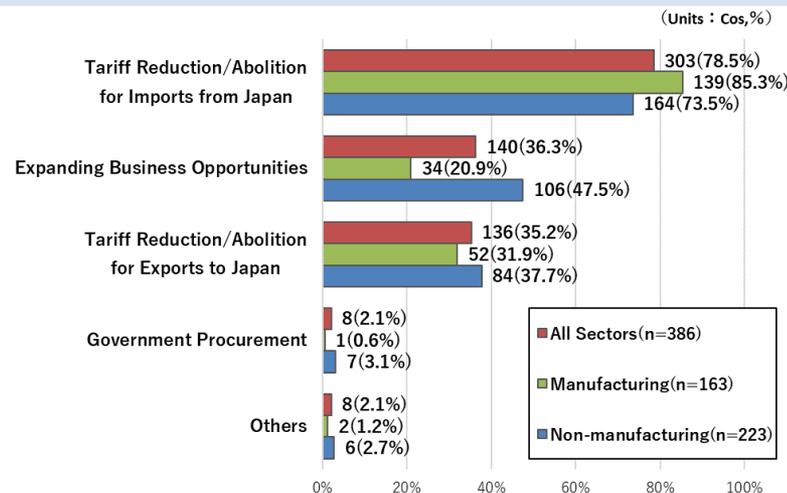


9. EPA/FTA (6)

- Looking at companies most selected reasons for the Japan-EU EPA being a major advantage, the most popular was "Tariff Reduction/Abolition for Imports from Japan" with a response rate of 78.5% selected by 303 companies.
- Breaking down these company response by sector, 83 companies were Sales companies (93.3%), 45 Wholesale and retail trade (Including trading) (81.8%), 27 Transport activities/ Warehouse (56.3%) 25 Electrical machinery & devices (Including parts) (92.6%), 24 Motor vehicles & Motorcycles parts (88.9%) and 21 Chemical, allied & petroleum products (84%).
- Looking at responses by country where they are based, 85 companies were in Germany (86.7%), 62 in the UK (78.5%), 30 in France (75%), and 28 in the Netherlands (73.7%)
- 140 companies selected "Expanding Business Opportunities" as a major advantage, giving a response rate of 36.3%.
- Breaking down these company response by sector, 38 were Transport activities/ Warehouse companies (79.2%), 24 were Wholesale and retail trade (Including trading) (43.6%) and 14 were Finance and insurance companies (100%).
- Looking at responses by country where they are based, 38 from Germany (38.8%), 26 UK (32.9%) and 17 in the Netherlands (44.7%).
- 136 companies selected "Tariff Reduction/Abolition for Exports to Japan" giving a response rate 35.2%.
- Breaking down these company response by sector, the highest number of responses came from 31 Transport activities/ warehouse companies (64.4%), followed by 36 Wholesale and retail trade(Including trading)(65.5%).
- Looking at the break down by the country the company is based in. Again Germany had the most companies at 29 (29.6%), 25 companies in the UK (31.6%), 19 in France (47.5%) and 17 in Holland (44.7%).

Japan-EU EPA Impact
EU based Companies Reason for choosing "Major Advantages"

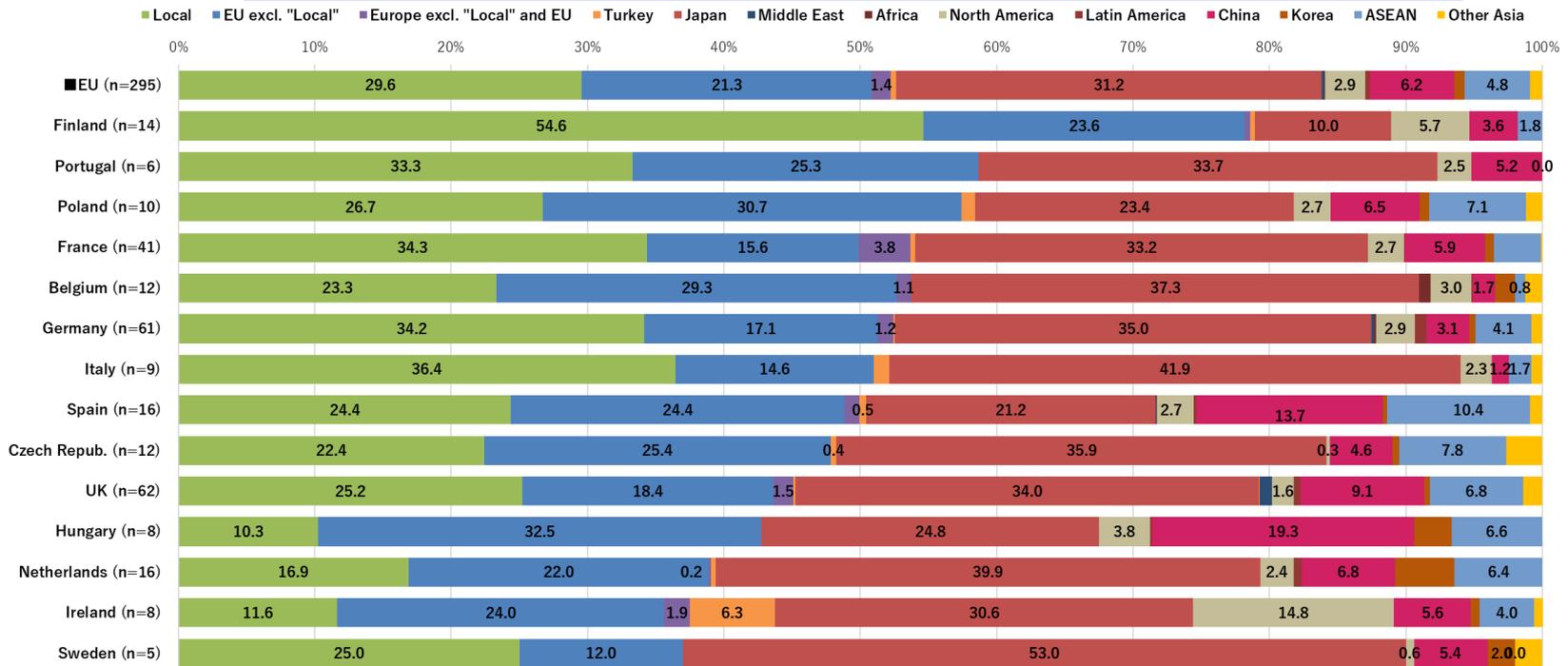
(Multiple Answers Given)



10. Local Procurement(1)

- For each company's response the average procurement percentage was calculated based on the purchasing value. The average procurement rate from Japan suppliers increased by 2.2 pp reaching 31.2%, the conclusion of the Japan-EU EPA will give more benefits by reducing or abolishing customs duties. Looking at the EU as a whole, the average procurement rate for "Local" (in other words domestic market) was an average of 29.6%, For "EU excluding local" the average procurement rate was 21.3%. For "Europe excluding EU and Local" the average procurement rate was 1.4%.
- In Western Europe, the average procurement rate from Japan and Local suppliers both reached around 30%, however in Central Eastern Europe local procurement from EU countries (excl. local) is the highest at 31.9%.
- For companies based in the UK manufacturing industry, whilst the average local procurement rate was 25.2%, for "EU excluding local" it was 18.4%. This creates concern about the impact of customs duties imposed on trading between the UK and EU, after the UK withdraws from the EU.

**Countries and Regions of Parts & Raw Material Suppliers for Manufacturing
(Breakdown Based on Value)**



*1 This graph shows the companies average response rate given for each procurement source. Each company calculated the percentage of their procurement sources to amount to 100%.

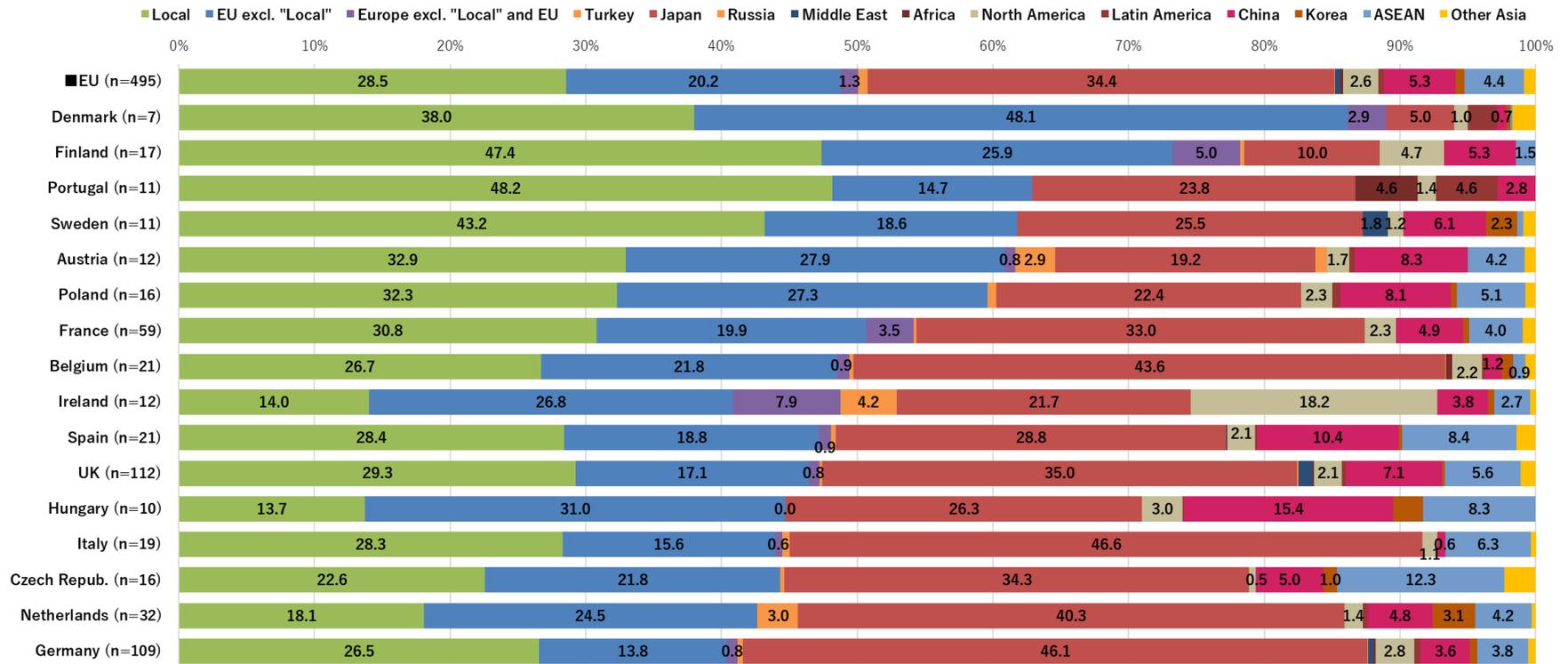
*2, "Local" indicates the country/region listed, Countries where respondents are less than 5 were excluded.

*3 Procurement from Russia was 0% in all countries.

10. Local Procurement (2)

- The average procurement rate from suppliers in Japan for Japanese-affiliated EU based companies (from all sectors including non-manufacturing), increased by 2.2 pp since last year reaching 34.4%. This percentage will be expected to rise once the Japan-EU EPA has been concluded. Only in Western Europe (excluding Switzerland) was the procurement rate of Japanese suppliers higher by 3.5 percentage points.
- For all companies based in the UK, the average local procurement rate was 29.3%, “EU excluding local” came to the average rate of 17.1%, therefore after the UK withdraws from the EU, If customs tariffs were to be imposed on business between the UK and EU, this will also impact all sectors in the UK as well as manufacturing.

**Countries and Regions of Parts & Raw Material Suppliers for all Sectors
(Breakdown Based on Value)**



*1 This graph shows the companies average response rate given for each procurement source. Each company calculated the percentage of their procurement sources to amount to 100%.

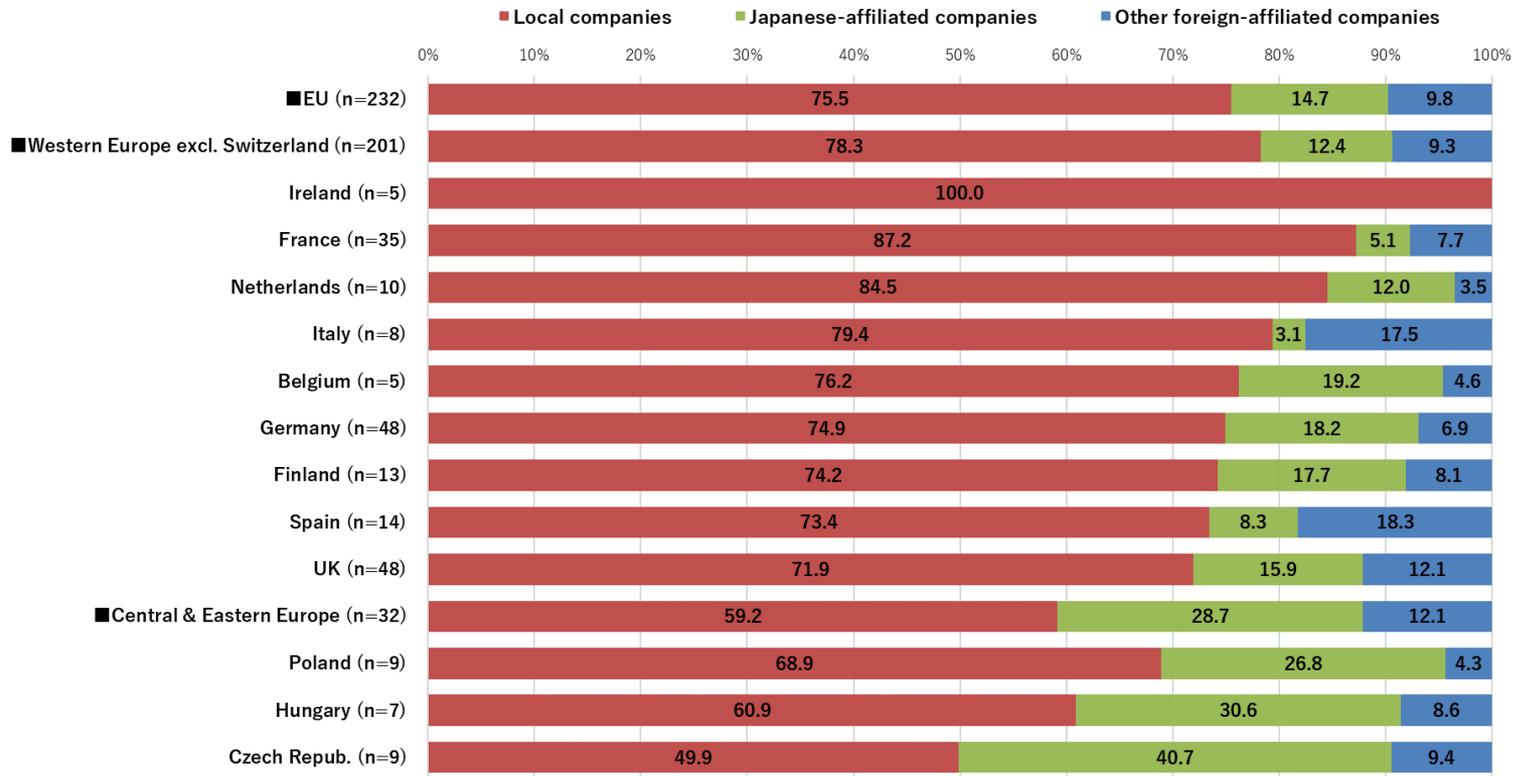
*2, "Local" indicates the country/region listed, Countries where respondents are less than 5 were excluded.

*3 Procurement from Russia was 0% in all countries.

10. Local Procurement (3)

- When breaking down Local procurement, local suppliers from Europe were the highest averaging at 75.5%. This is an increase of 2.5pp since the previous year. The second highest was locally based Japanese-affiliated companies averaging at 14.7% also increasing by 1.5pp, followed by other locally based foreign suppliers at 9.8%, decreasing by 4pp.
- The average procurement rate of Local Japanese affiliated companies in Central and Eastern Europe was higher than Western Europe (excluding Switzerland). Showing that there are is more accessibility to local suppliers in the Western than in Central and Eastern Europe.

**Break down of Local Suppliers for Manufacturing
(Breakdown Based on Value)**



* "Local" indicates the country/region listed, Countries where respondents are less than 5 were excluded



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