POLAND OFFERS A STABLE INVESTMENT CLIMATE TO FOREIGN INVESTORS

Results of the 11th edition of the “Investment climate in Poland” survey conducted by the Polish Investment and Trade Agency in collaboration with Grant Thornton and HSBC

2017 Edition

Polish Investment & Trade Agency PFR Group

HSBC

Grant Thornton An instinct for growth™

WE DRAW INVESTMENTS LIKE A MAGNET

Poland is a breeding ground for talent and we are satisfied to note that foreign investors are becoming increasingly eager to choose our country because of the knowledge, experience and commitment of highly-qualified employees who are ready to take on any challenge. We are glad to observe that, on a yearly basis, technologically-advanced FDIs in BSS and the investments including an R&D component are gaining prominence among the projects that we support. The examples speak for themselves: the American financial giant JP Morgan, whose presence presents Poland with an opportunity to become an important capital operations hub; Lufthansa and GE Aviation, which jointly operate the XEOS aircraft engine service centre in Środa Śląska that relies on the work of Polish engineers; or the South Korean company LG Chem, which entrusted Poland with the production of technologically innovative batteries for electric cars. Such ventures are hugely important to Poland, not only because they enhance the country's investment landscape, but chiefly because they contribute to the creation of added value for the Polish economy.

It is always worth seeking out ambitious projects, and – supported by Prime Minister Mateusz Morawiecki's Polish Strategy for Responsible Development – we are doing just that. The Foreign Trade Offices of the Polish Investment and Trade Agency are our "eyes and ears" when it comes to securing the best partners. Investor hunting is part of their DNA.

Tomasz Pisula

President of the Management Board

Polish Investment and Trade Agency

TABLE OF CONTENTS

ABOUT THE SURVEY

The role of foreign direct investment (FDI) in the Polish economy has evolved to a large degree over the last several decades. At first, the primary function of FDI was to inject Poland with capital, the shortage of which was the main barrier to the growth of domestic business, as well as to create jobs, which helped reduce high unemployment rates. Over the years, as the Polish economy generated more local savings, the capital and employment-related motives behind the influx of FDI into Poland became less significant, while another dimension gained prominence – the inflow of new technologies, know-how and specialized jobs. Still, irrespective of its historical role, foreign investment has always been one of the drivers of Poland's economic growth, contributing to the country's economic success.

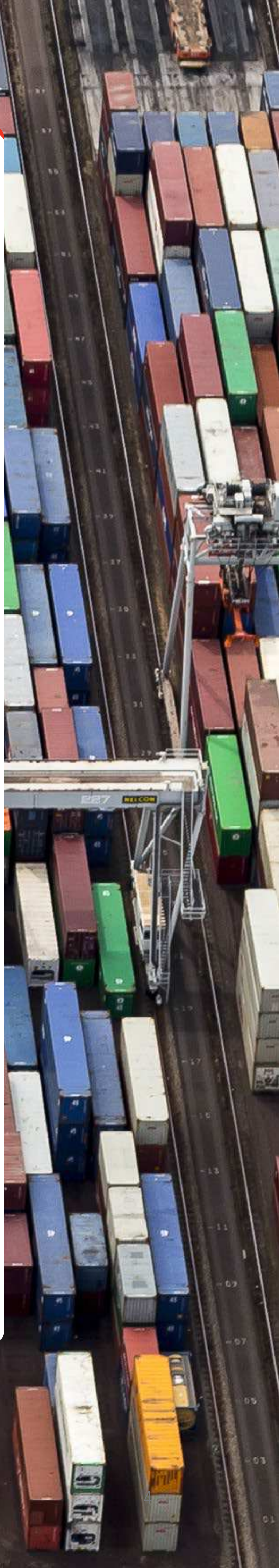
Creating good conditions for foreign capital investments continues to be one of the key objectives of Polish economic policy. Attractive conditions for investment help draw FDIs with the most desirable profile, i.e. ventures that have a high added-value component, bring about technological innovations and generate jobs for highly-skilled specialists. Whether Polish authorities will be able to succeed in this area will depend, among other factors, on how well they understand investors' evolving needs and whether they will manage to answer them effectively.

In order to understand such needs, the Polish Investment and Trade Agency (formerly the Polish Information and Foreign Investment Agency) listens intently to the voice of foreign business. For the 11th time now, the Agency has conducted the "Investment climate in Poland" survey among representatives of foreign capital companies, to learn how they assess the conditions for investment and business offered by our country.

As in the previous two years, we conducted the survey with the support of HSBC and Grant Thornton. This report, which is the fruit of our collaboration, presents conclusions from our analysis of the feedback provided by representatives of foreign capital companies operating in Poland.

Just like last year, the results are very encouraging. The overall rating of Poland's investment climate continues to be one of the highest in the history of the survey, with a vast majority of companies declaring that they would choose Poland again if faced with the decision where to locate their business.

We hope you will find this an interesting and informative read!



KEY FINDINGS OF THE SURVEY

92% of foreign investors are glad to have invested in Poland and would do it again

Foreign investors' rating of the investment climate in Poland averages at 3.7 points (on a scale of 1 to 5), which is one of the highest scores in the history of the survey

Economic stability and a large domestic market are pointed out as Poland's main assets as a location for foreign investments

Changeable laws, lengthy court procedures and a complex tax system represent areas that require urgent improvements

Chapter 1

OVERALL ASSESSMENT OF POLAND

INVESTORS WOULD CHOOSE POLAND AGAIN

When deciding to select Poland as the location for a part of their business, just like with any other business decision, foreign investors run the risk that the investment might not yield the expected return or might even generate losses for the parent company. How do foreign investors evaluate their decision to enter the Polish market in this context? A vast majority of the respondents (92 percent) confirm that they are glad to have selected Poland and would do so again if faced with the choice once more. The percentage of satisfied investors has decreased slightly compared to the previous two editions of the survey, where it stood at 98 and 97 percent, respectively. The change is too slight to support the claim that Poland's investment attractiveness has decreased to a noticeable degree. However, if the decline were to persist in the years to come, this would serve as a warning that the goals or tools of economic policy with regard to FDI need to be readjusted.

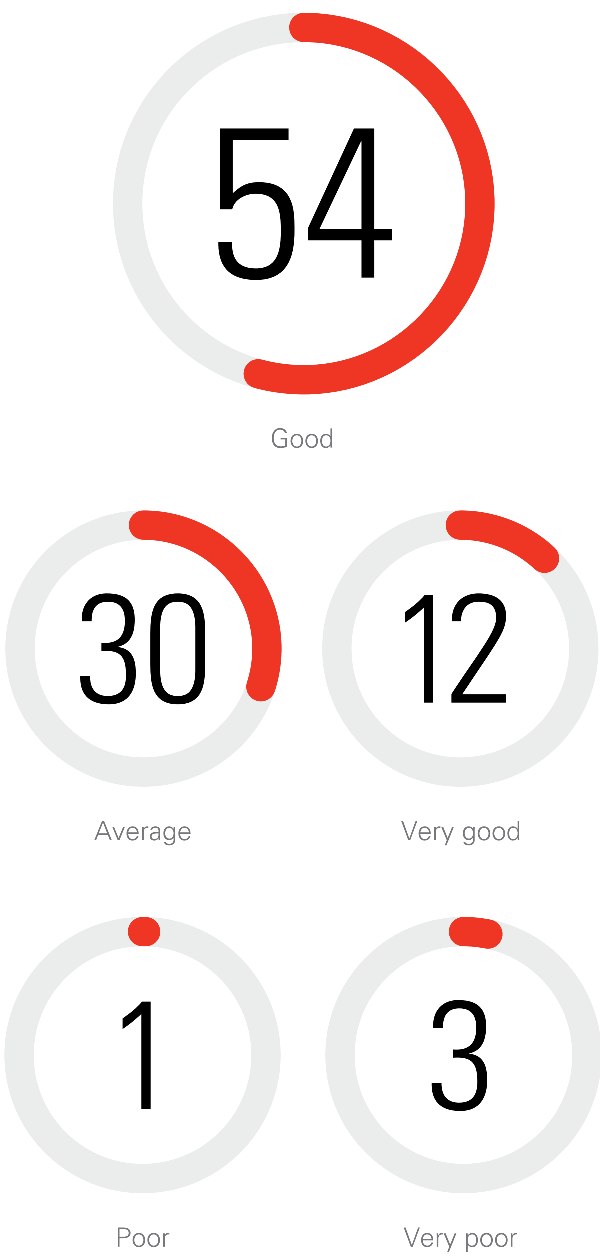
At present, it appears that the Polish market is still an attractive place for foreign capital. At this point, a claim from last year's edition of the survey should be reiterated: a possible barrier to attracting even more foreign capital to Poland is not so much a question of the macroeconomic environment and the institutional framework for business, but rather of foreign investors' very inclination to even consider Poland as a location for investment. Consequently, a broader scope of international promotional activity should be considered, especially to target investors from countries that have not been present on the Polish market so far or have conducted business in Poland on a very limited scale.

Would your company invest in Poland again?
Percentage of responses, 2017

It should be borne in mind that the results presented were affected by the characteristics of the surveyed population: it is possible that some of the investors who regretted their decision to enter the Polish market had already left the country and did not participate in the survey. However, it should also be noted that full operational divestments happened sporadically in recent years and are virtually negligible against the entire inflow of direct investments.

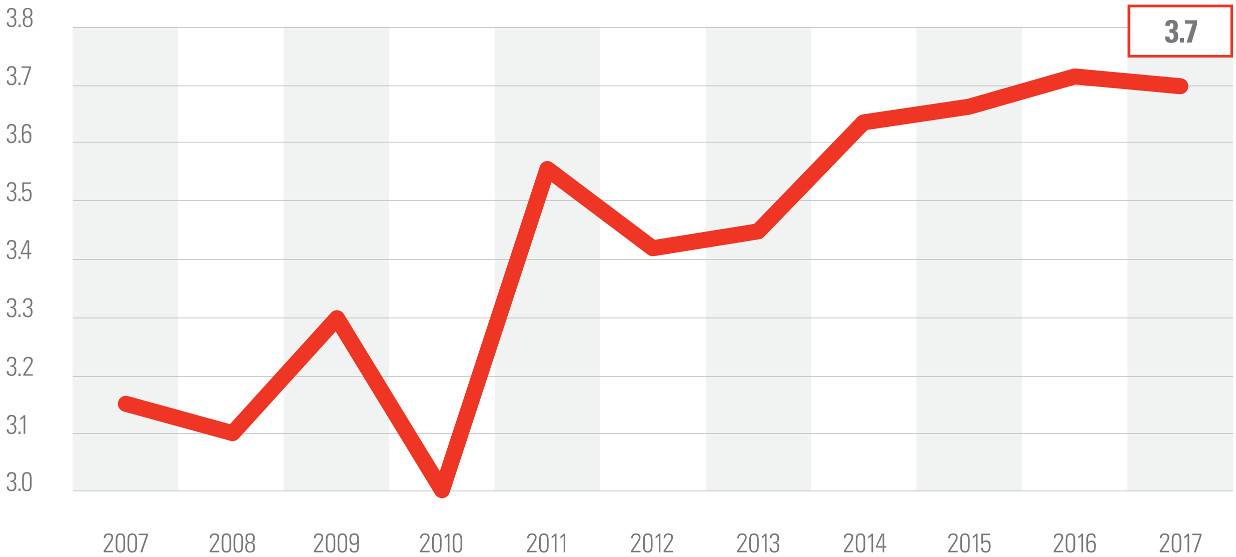
A GOOD AND STABLE CLIMATE

The representatives of foreign companies who took part in the survey were asked to give Poland as a place for business an overall mark. On a scale of 1 to 5, where 1 meant “very poor” and 5 – “very good”, the investors gave Poland an average rating of 3.7 points (compared to 3.72 a year earlier). The answer “good” was clearly in the lead (52 percent of responses). There were only isolated cases of investors choosing the answers “poor” or “very poor” (1 percent and 3 percent, respectively). These results show that the investments made in Poland by foreign companies have been generating satisfactory rates of return, and cases of low, unsatisfactory outcomes are infrequent.



What is your assessment of the overall investment climate in Poland?
Percentage of responses, 2017

Historically, the results are encouraging as well. The overall rating of Poland's investment climate has remained at a very similar level to last year: 3.70 points. It should be recalled that last year's score was the highest in the history of the survey. Notably, the rating still remains very high. Signs are that the factors which could potentially hinder investments in Poland, such as growing challenges associated with employee recruitment or additional reporting requirements due to the tightening up of the tax system (as discussed in greater detail below) have been counterbalanced by positive factors, e.g. a prosperous economy.

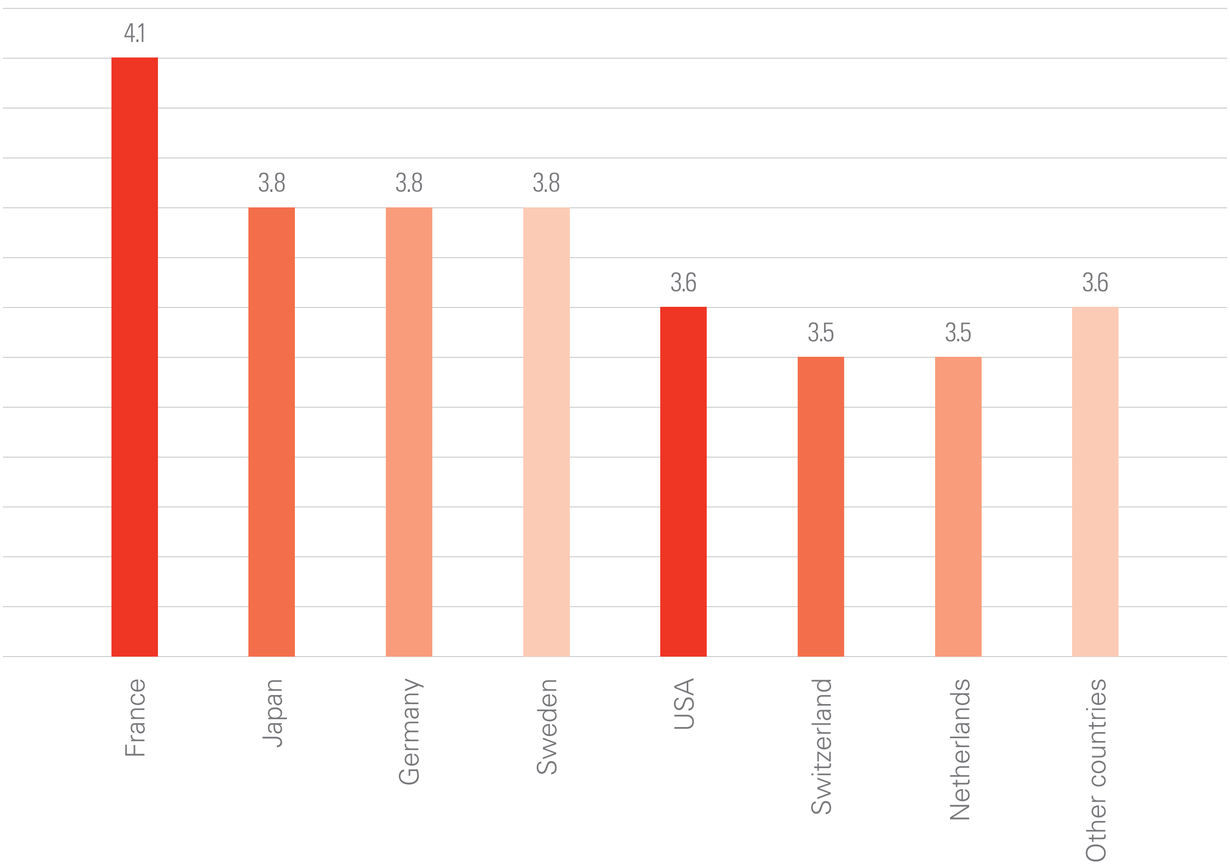


The overall rating of Poland's investment climate throughout the history of the survey
(average points)

THE FRENCH APPRECIATE POLAND THE MOST

A comparison of the countries of origin of the responding companies' capital reveals that Poland is rated the highest by French investors (on average 4.1 out of 5 points). Germany, Japan and Sweden follow with a score of 3.8 points. Poland's investment climate is rated the lowest by investors from Switzerland and the Netherlands (3.5).

Noticeably, the lowest average score obtained in the survey from investors from a single country, i.e. 3.5, is still very favourable and above the middle of the scale (2.5 points). This means that, in general, the investors' assessment of Poland is rather positive, while the degree of their satisfaction differs depending on the specific country of origin.



Average rating of the overall investment climate by country from which the responding company's controlling interest originates (in points)

OFFER TAILORED TO THE NEEDS OF "NEW" INVESTORS

As reported by UNCTAD, China ranks as the most promising source of FDI for the coming years. The top 10 of this ranking includes four European countries (Germany, the United Kingdom, France and Italy) which, together with the US, have been ranking high for many years.

In the newest edition of the report, they are also joined by the United Arab Emirates and the Republic of Korea. The Netherlands and Canada have not made the top 10 this time. This doesn't mean, however, that countries seeking to attract new foreign investments, such as Poland, should stop trying to appeal to investors from the Netherlands or Canada and instead focus on attracting capital from locations that have improved their ranking. This is rather a suggestion that attention should be paid both to the countries that have been investing for years and to "new" sources.

Effectiveness in attracting investments from such "new" sources, i.e. developing markets that are often both geographically and culturally distant, will depend on the ability to promote oneself in the eyes of those investors. The characteristics which make Poland an appealing location from their point of view may differ significantly from those appreciated by investors from developed markets. A large local market, dynamic growth of the national economy or low labour costs many not be sufficiently attractive to convince investors from regions such as Asia, where many countries can boast a much larger internal market, a higher GDP growth rate or even lower costs.

Appropriate positioning in relation to other countries which compete with Poland for the attention of foreign investors and may have a similar offer, e.g. other EU Member States from Central and Eastern Europe, poses an additional challenge.

Skilful promotion of Poland's business offering overseas will aid both new investments and Polish exporters, as well as the country's overall global perception.

Scott Solberg
Member of the Management Board, Head of Wholesale Banking
HSBC Bank Polska S.A.

Chapter 2

POLAND'S STRENGTHS AND WEAKNESSES

POLAND TEMPTS WITH ITS STABLE ECONOMY

As was the case in the previous editions of the survey, the questionnaire defines 26 factors that impact foreign investors' assessment of the investment climate in Poland. Respondents were asked to rate each of them on a scale of 1 to 5, where 1 point meant a "very poor" rating (a factor that significantly hinders business activity), while 5 meant a "very good" rating (a factor which favours business activity).

Respondents quoted economic stability as Poland's greatest advantage as a location for investments – the average rating for this factor was 4.01 points. The size of the internal market and the availability of materials and components were rated almost as high. In turn, the quality of legal regulations and the effectiveness of the economic judiciary were rated the lowest.

How would you rate the individual factors affecting the investment climate in Poland?
Average score based on responses (in points, on a scale of 1 to 5, where 1 is "very poor" and 5 is "very good", data for 2017)

POLAND'S GREATEST ASSETS

Undeniably, Poland's most appealing characteristic that attracts foreign capital is its "self-sufficiency". The local economy can offer investors a combination of dynamic economic growth, strong internal demand and a thriving environment made up of local suppliers and contractors, all within the borders of the European Union, in the vicinity of the largest European markets.

This makes Poland an attractive business destination, not only for investors looking to reduce production costs, but also for those searching for a convenient location from which to coordinate their distribution, sale or operational activity (and that is what companies which have already located their service centres here appreciate about the country).„nad Wisłą" swoje centra usług).

Below we present the highest-rating factors, grouped into three categories

The results of the survey indicate that the best thing Poland can offer to foreign investors is a favourable, stable macroeconomic environment. For over a decade, the country has been one of the fastest growing economies in the European Union. In Q3 2017, its GDP growth rate (calculated using Eurostat's methodology) reached 5 percent, while the average for the entire EU and the eurozone stood at 2.5 percent.

In addition, as opposed to most of its "rivals" from Central and Eastern Europe, Poland has a large, receptive internal market, which helps investors see it not only as a location for their production facilities, but also as an outlet for their products. High market receptivity was the second best-rated factor, with investors giving it an average score of 3.94 points.

MACROECONOMIC FACTORS

- **Economic stability** (4.01 points)
- **Size of the internal market** (3.94)

For another consecutive year, the results of the survey point to material resources as one of the strengths of the Polish economy. Firstly, these resources mean the supply base for production. Foreign investors emphasize that it is relatively easy for them to acquire materials and components on the Polish market. Not only does this stem from the availability of natural resources, but also – to a larger extent – from the "self-sufficient" internal market, as described above, which has enabled Poland to develop a comprehensive production profile in the business-to-business segment.

Secondly, Poland's technical and logistics infrastructure (roads, sewage systems or access to the power grid) has been receiving better ratings. Today, it is one of the eight best-rated factors, but it was rated very poorly when the survey was first published (2007).

Thirdly, according to foreign companies, Poland may offer relatively high-quality investment land, i.e. plots that have good locations and are well-prepared, both legally and technically. This is largely owed to good working relations with local authorities, which too have been rated highly in the questionnaire.

MATERIAL RESOURCES

- **Availability of materials and components** (3.89)
- **Condition of infrastructure** (3.74)
- **Quality of investment land** (3.58)

BUSINESS ENVIRONMENT

- **Working relations with local administration** (3.79)
- **Organizational culture of companies operating on the local market** (3.77)
- **Labour productivity and employee loyalty** (3.77)

In addition to the material setting, as described above, investors also appreciate the "soft" business environment, i.e. their dealings with the surrounding institutions, companies and employees. In this context, foreign companies mainly have a favourable view of their working relations with public administration – this factor has an average rating of 3.79. This is important, as frequently the support available from officials at the level of a district or commune determines the speed at which investors can set up their ventures – how quickly they can get building permits, access to utilities or local roads.

Respondents also had a favourable impression of the overall organizational culture of various market participants – business partners, suppliers, clients or business environment institutions. Investors appreciate labour productivity and the loyalty of Polish employees. All those factors were rated 3.77 points.

CHALLENGES

Out of the 26 factors those relating to legislation, bureaucracy and the tax system were rated the lowest by foreign investors. A complicated tax system, ambiguous interpretation of existing laws, difficulties in obtaining licenses or burdensome inspections – all these make it harder for businesses to grow. Year after year these factors are rated the lowest by investors, which highlights the scale of the problem and signals areas that require remedial actions to be taken by public administration.

It is noteworthy, however, that none of the factors has been rated lower than the midpoint of the scale (2.5). What is more, almost all of the lowest-rated factors have improved since last year.

Below we present the lowest-rating factors, grouped into three categories

Foreign investors are quite critical of the quality of the legislation created in Poland. As compared to last year, the stability and predictability of law is the lowest-rating factor affecting business activity (2.75). Low scores for the effectiveness of the Commercial Courts System (2.84) and the clarity and consistency of legal provisions (3.20) are also a cause for concern. This is particularly important, both from the point of view of companies that already operate in Poland and foreign investors that are considering whether to expand to our country.

In its reports, Grant Thornton has demonstrated that Poland has one of the most changeable legal systems in the European Union. According to regular surveys conducted as part of the Barometr Prawa initiative[1], 2017 may become another record-breaking year in terms of the volume of legislation created – after three quarters of 2017, 22.317 typed pages of legal acts have already been enacted, i.e. 8.3 percent more than in the corresponding period of the previous year.

QUALITY OF ECONOMIC LAW

- **Stability and predictability of law** (2.75)
- **Effectiveness of the Commercial Courts System** (2.84)
- **Clarity and consistency of legal provisions** (3.2)

TAXES

- **Formalities associated with taxes** (2.91)
- **Level of fiscal burden** (3.08)

Against the backdrop of the 26 factors that impact on Poland's attractiveness for business, those associated with the tax system have also performed quite poorly. Formalities associated with taxes have been rated 2.91, while the level of fiscal burden has scored 3.08 points (with a high score meaning a small fiscal burden and a low one – a heavy fiscal burden). The low scores were certainly influenced by the ambiguity of tax provisions – taxpayers repeatedly have to apply for tax rulings, with more than 30,000 individual interpretations issued every year, which is symptomatic of the scale of uncertainties surrounding business activity. Additionally, the past year has brought a number of new tax-related obligations, e.g. the requirement to submit VAT returns in the form of a standardized audit file, the introduction of the VAT reverse charge in the construction sector or the anti-tax avoidance clauses.

BUREAUCRACY

- **Burdensome inspections and review procedures** (3.24)
- **License/concession acquisition process** (3.30)

Similarly to the two previous years, factors associated with the bureaucratic burden are among the poorest-rating components of Poland's investment climate. As demonstrated by the latest edition of our survey, foreign investors are disapproving of the frequency of inspections or reviews (3.24) and the license and/or concession acquisition processes (3.30) – both these scores are markedly below the average rating in this year's report.

STABILITY IS NOT ENOUGH

Following the dynamic growth of the past few years, Poland's investment climate has stabilized at a high level. However, some alarming cracks start to appear in what is overall a perfect picture. Firstly, one can notice a decrease, since last year's survey, in the percentage of investors who would invest in Poland again (down from 97 to 92 percent). Of course, this is still a great score, but the decline itself should raise concerns. Secondly, there is a growing number of barriers to business development, e.g. a shortage of specialists or growing wages. Moreover, some old problems are resurfacing – unstable law, cumbersome bureaucracy or lengthy court proceedings. Bearing all this in mind, the aforementioned stabilization of the overall investment climate rating can also be viewed as inertia. As the world is moving forward, standing still sometimes means taking a step back. Other countries from our region which are vying to attract investors may have improved their appeal to foreign companies over the course of the last year.

Poland can still offer good conditions to foreign investors and our strong points outweigh the weaknesses. However, if we want to attract large investments sustainably and on a bigger scale, we need to be able to reach new groups of investors. This requires a clear vision and consistent, prolonged efforts aimed at promoting our country and showcasing its assets. That is why at Grant Thornton we are hopeful that consolidation of the public administration's initiatives, including the empowerment of the Polish Investment and Trade Agency, will help create an ambitious strategy for the promotion of the Polish economy overseas.

When thinking about the ways in which to enhance Poland's investment climate, we should set up very ambitious goals that will reflect the huge potential that Poland has to offer. It is high time we stopped settling for a strong position in Central and Eastern Europe and started aiming higher – it is time we started competing with the countries of Western Europe. After all, certain institutions are beginning to treat Poland as a developed market. In order to meet these ambitious goals, we have to be more efficient in encouraging the existing and, more importantly, future investors with Poland's investment advantages.

Prem Polaczek

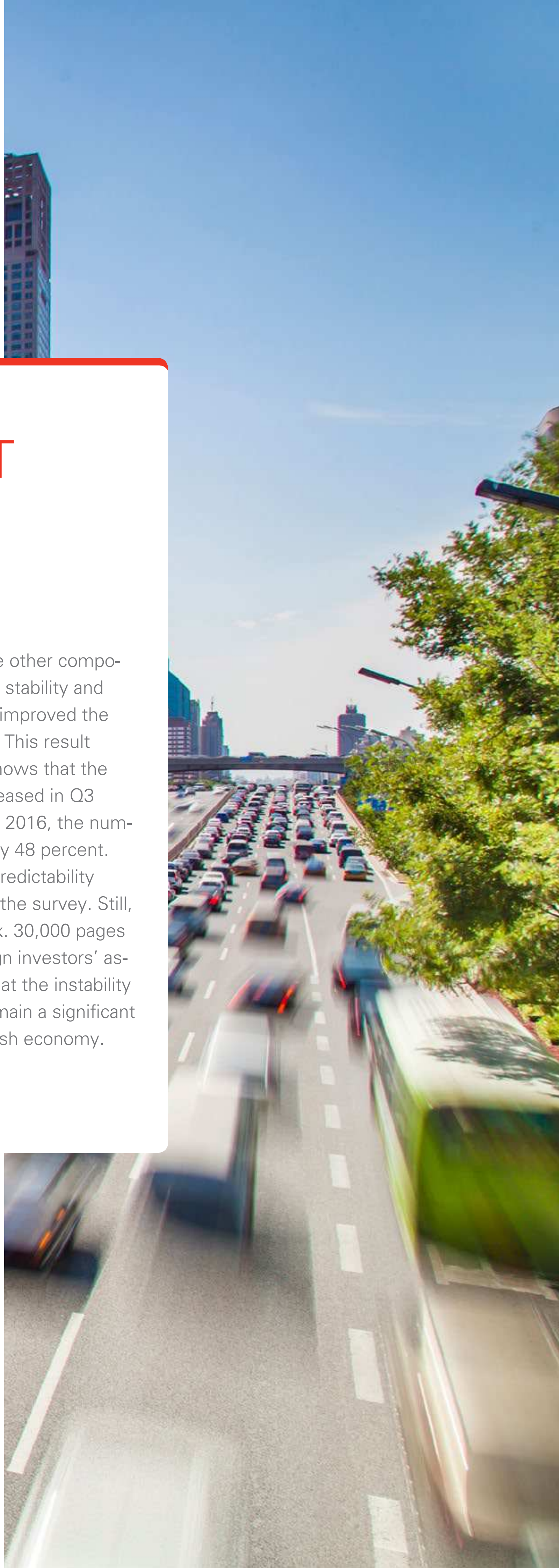
Managing Partner, Grant Thornton Poland

Chapter 3

CHANGES SINCE LAST YEAR

THE INVESTMENT CLIMATE HAS STABILIZED

Despite its relatively poor rating as compared to the other components of Poland's investment climate, the score for stability and predictability of legal provisions is the one that has improved the most since the previous survey (up by 0.15 points). This result coincides with Grant Thornton's research[2] which shows that the volume of legislative output created in Poland decreased in Q3 2017 – as compared to the corresponding period of 2016, the number of published pages of new legal acts dropped by 48 percent. However, it should be noted that the stability and predictability of legal provisions is still the lowest-rating factor in the survey. Still, despite the Q3 slowdown, 2017 contributed approx. 30,000 pages of new legislation. The slight improvement in foreign investors' assessment of this factor does not change the fact that the instability of law and the overproduction of new legislation remain a significant systemic barrier to the continued growth of the Polish economy.



5 factors that improved the most between 2016 and 2017

	2017	Change between 2016 and 2017
Stability and predictability of legal provisions	**2.75**	**0.15**
Ease of setting up a business	**3.58**	**0.14**
Economic stability	**4.01**	**0.13**
Level of fiscal burden	**3.08**	**0.13**
Clarity and consistency of legal provisions	**3.20**	**0.10**

In addition to the improved rating for legal stability, the sharpest increase among all the scores was recorded for the ease of setting up a business (up by 0.14 points), which may be surprising in light of the recently prolonged procedure for registering VAT payers. There is no surprise, however, when it comes to the third most improved area – economic stability (up by 0.13 points) – as macroeconomic conditions in Poland have markedly improved since the previous survey. Economic growth has picked up, wages have increased and inflation has remained very low. According to HSBC economists, the rate of Poland's GDP growth has reached 4.5 percent as at the end of 2017 and will stay at approx. 4 percent in 2018[3].

5 factors that deteriorated the most between 2016 and 2017

	2017	Change between 2016 and 2017
Availability of qualified workforce	**3.45**	**-0.23**
Property buying process	**3.38**	**-0.22**
Political stability	**3.33**	**-0.21**
Availability of external funding	**3.53**	**-0.11**
Quality of investment land on offer	**3.58**	**-0.04**

The sharpest decrease in the rating for an individual component of Poland's investment climate was experienced by the availability of qualified staff. Although this factor still isn't rated poorly (3.45), the score is significantly lower than in 2016 (down by 0.23 points). Yet, this shouldn't come as a surprise – employment office statistics show that last year saw a marked decrease in Poland's unemployment rate, which reached the lowest point in 26 years. HSBC economists predict that the country's unemployment rate (calculated using Eurostat's methodology) will stay below the 5-percent mark in 2017 and in the two coming years.[4]

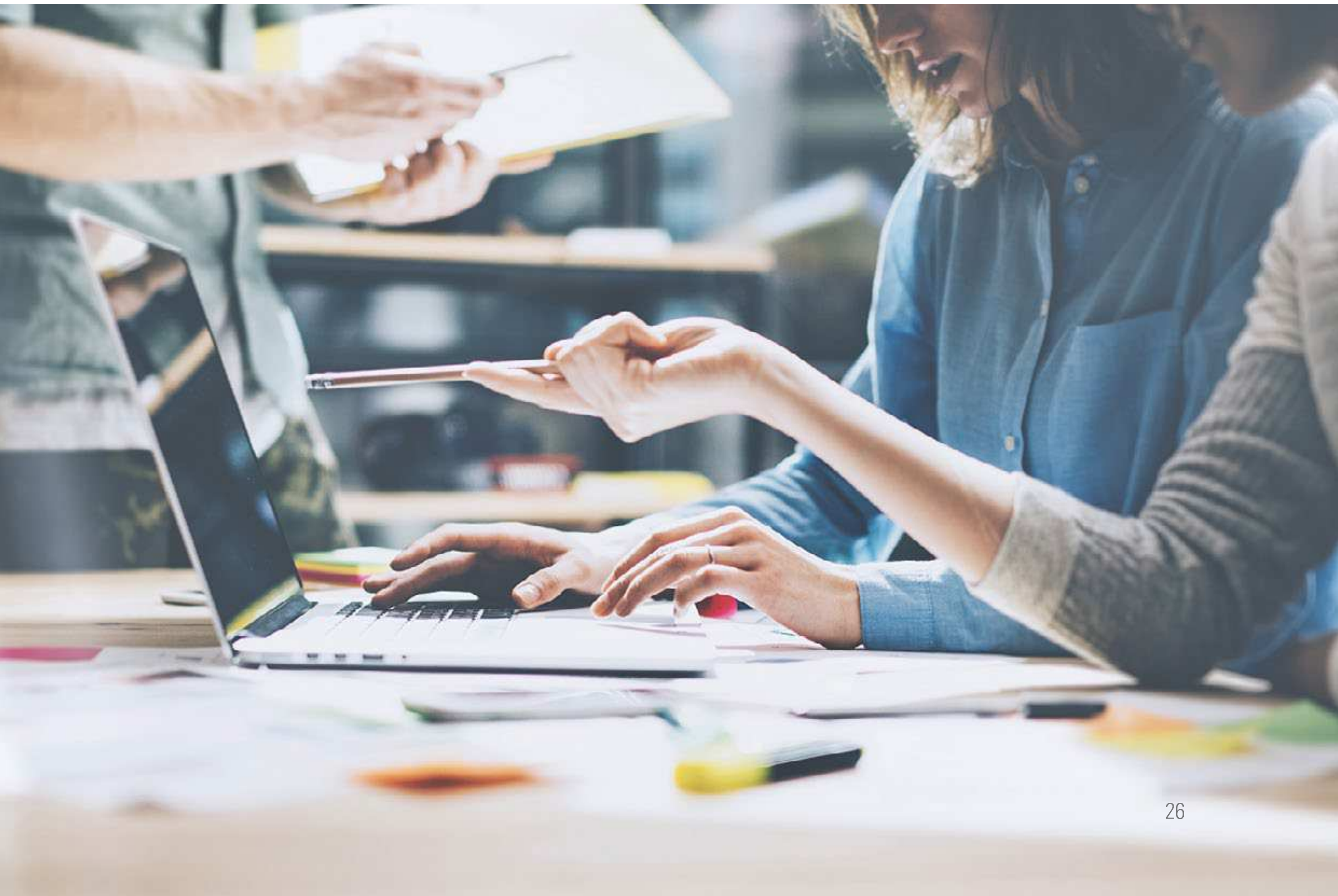
According to research by Grant Thornton[5], in 2017, as many as 60 percent of the companies operating in Poland assessed their difficulties with recruiting qualified workforce as a "significant" or "very significant" barrier to development. The number of companies reporting this problem doubled over a one year period. For the first time in the history of the survey, workforce shortage became the key issue for enterprises, taking precedence over other barriers such as bureaucracy or the absence of orders. Other characteristics of Poland's investment climate that deteriorated the most between 2016 and 2017 include issues related to property buying process (down by 0.22 points), which may be caused by the recent reform that imposed restrictions on the sale of farmland to buyers who are not engaged in agricultural activity. The rating of political stability is also worse (down by 0.21 points).

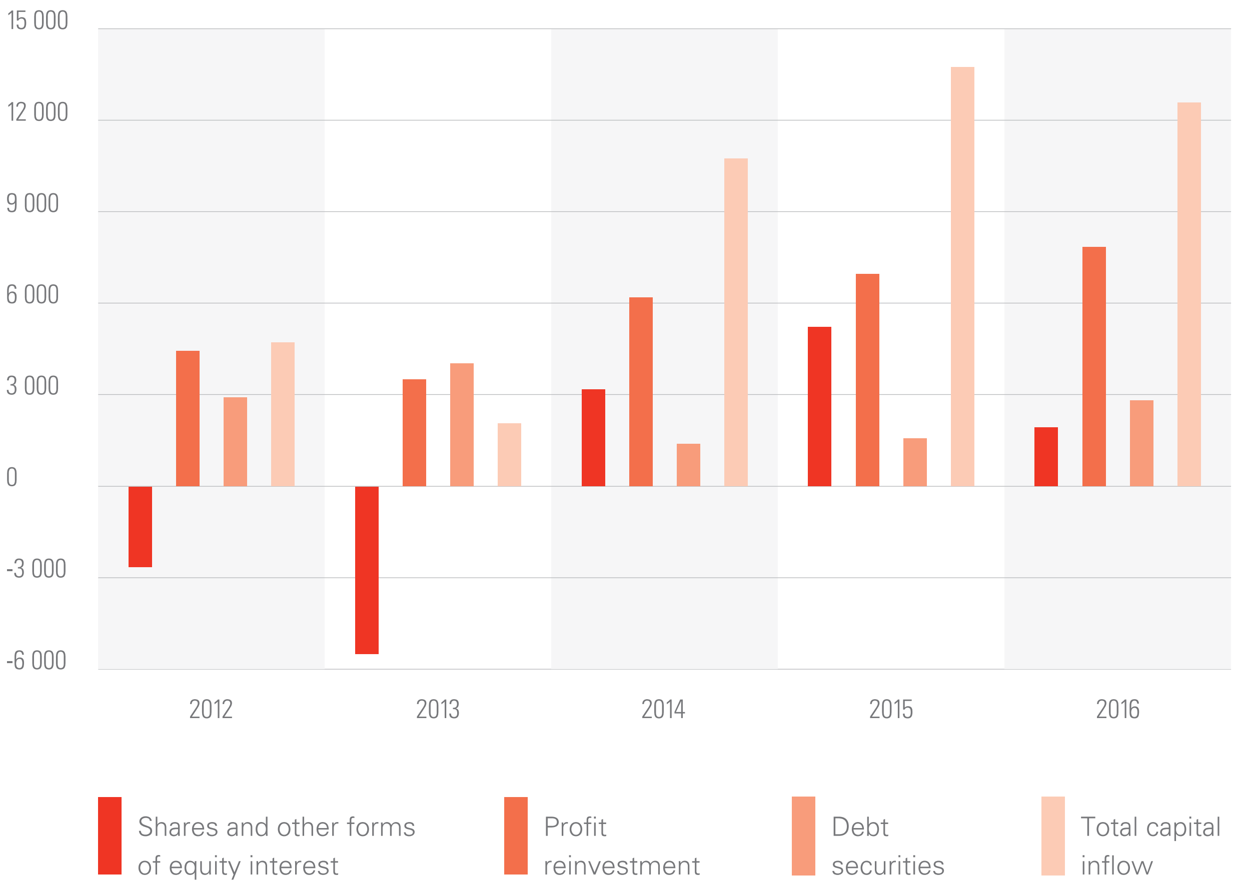
Chapter 4

THE STATUS OF FDI IN POLAND

SERVICES AND R&D ARE GAINING PROMINENCE

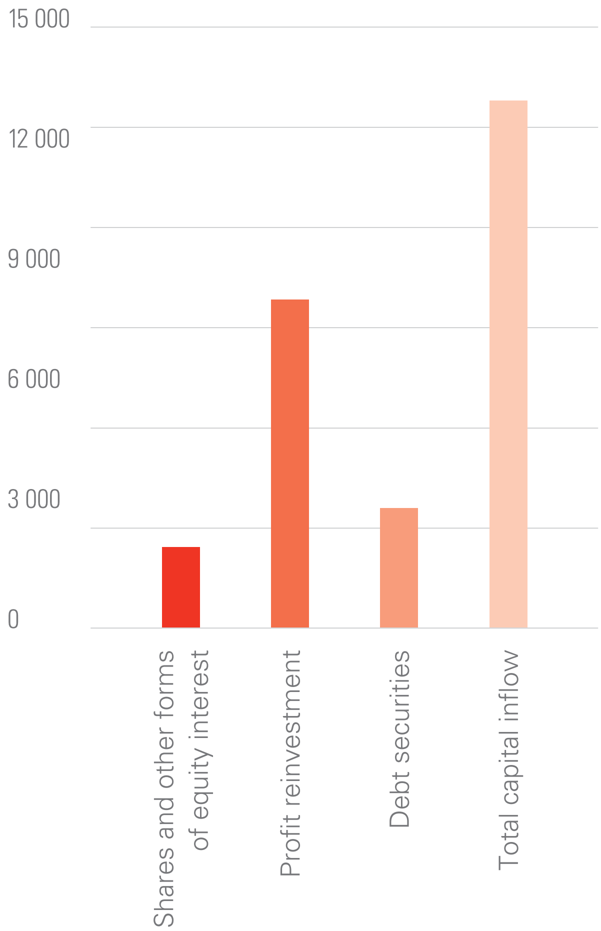
The inflow of foreign direct investment (FDI) to Poland grew systematically between 2013 and 2016, and then it decreased slightly. Significant changes took place, however, in the structure of FDI inflow, with the growing importance of reinvestment and capital raised through debt securities. Is this a sign of a changing perception of Poland as a destination for investment? This situation may indicate a certain degree of loyalty and trust demonstrated by the investors that are already present in the country. There is also a noticeable shift in areas attracting foreign investment towards the service sector, which can be seen as a positive trend.





Poland's FDI inflow in 2012-2016 **(in EUR million)**
Source: PAIH, based on National Bank of Poland data, 2017

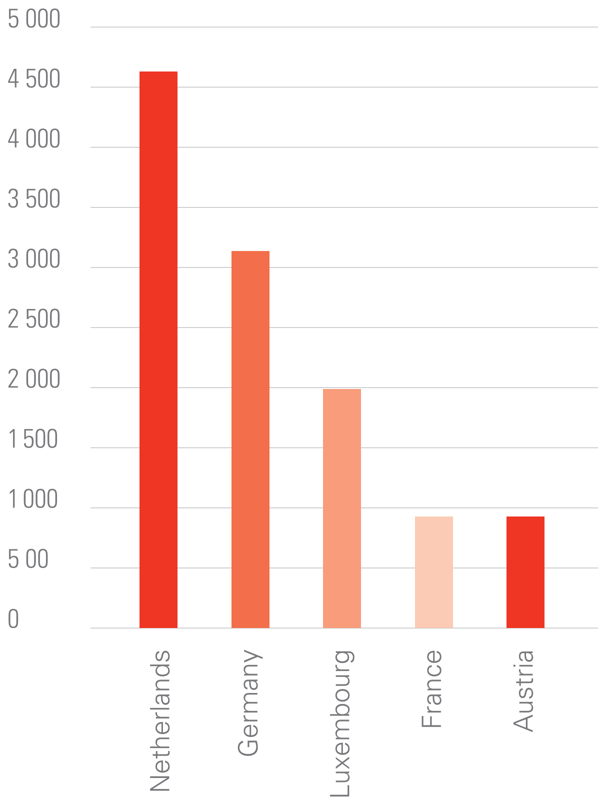
For many years, the motivation for locating FDI in Poland was associated with cost-related benefits. Following the transformation of economic system and the opening of borders to foreign investors, the low cost of labour was one of the key factors that encouraged companies to invest in Poland. However, the trend has been shifting for several years, with a growing share of investments in services, BSS and R&D. These sectors not only rely on the cost-related aspect of the Polish job market, but also on its quality, i.e. the availability of highly-qualified experts. The trend was maintained in 2017, which is reflected by the industry structure of completed investment projects, as presented below, in which the service sector has a dominant share.



Poland's FDI inflow in 2016 **(in EUR million)**
Source: PAIH own work based on NBP data, 2017

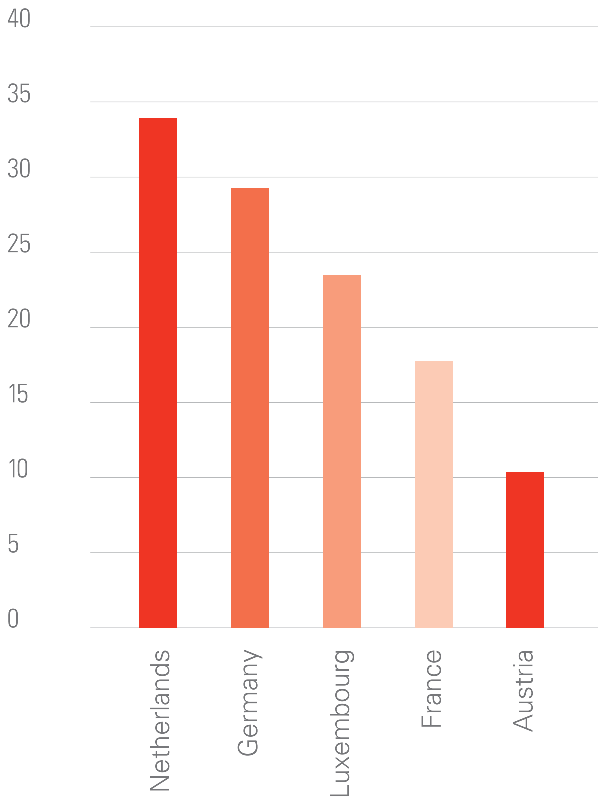
EXISTING INVESTORS HAVE CONFIDENCE IN POLAND

Poland recorded a lower foreign direct investment (FDI) inflow in 2016 than it did a year before. However, it should be noted that the change was not significant (4.7 percent) and that it was partly due to an update of data for 2015. A sharp decrease was recorded year-on-year in the value of shares and other forms of equity interest acquired by investors, but it was largely offset by the growing share of capital generated through reinvestment and debt securities. Consequently, the already high value of reinvested earnings, which attests to foreign investors' loyalty, increased to approx. EUR 7.8 billion.



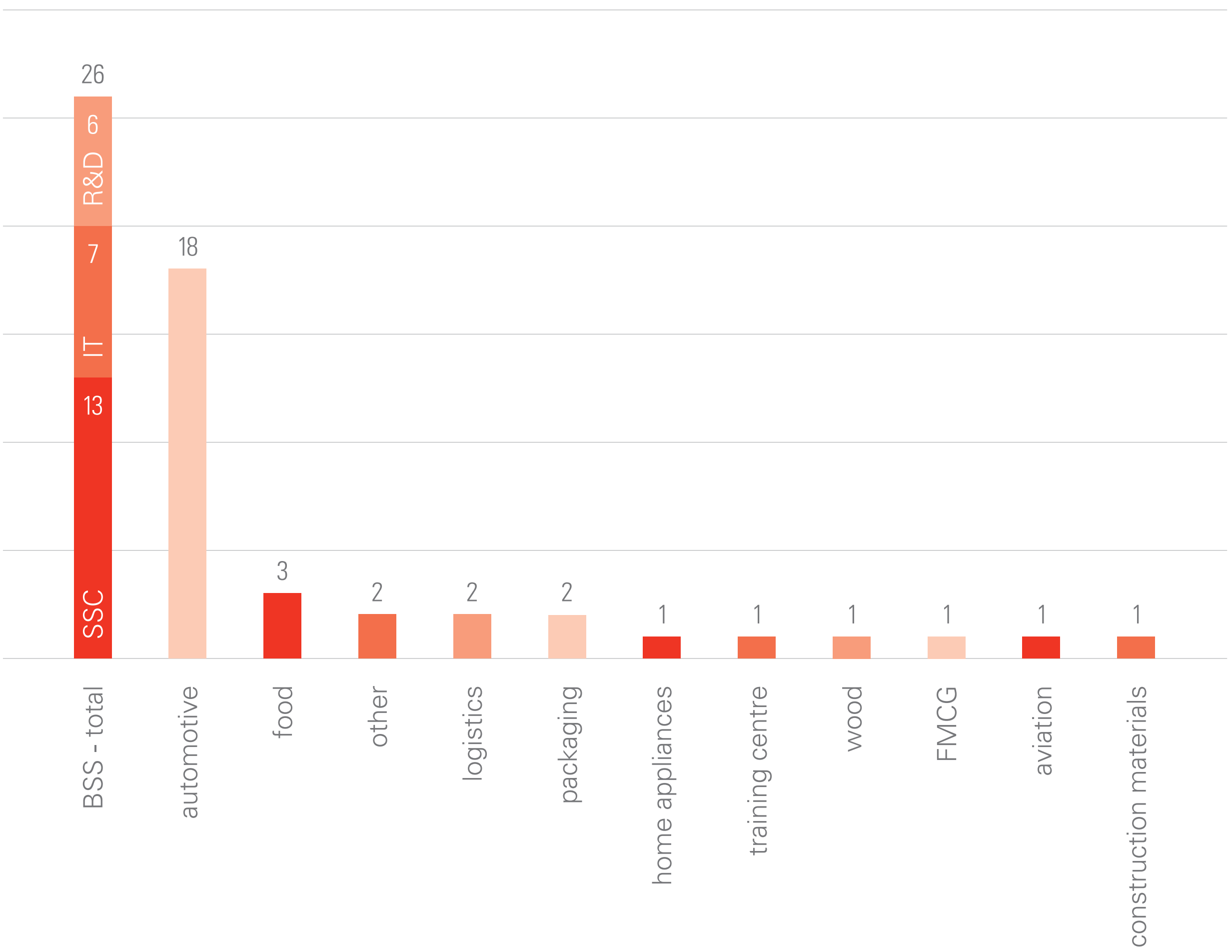
TOP 5 countries in terms of Poland's FDI inflow in 2016 **(in EUR million)**
Source: PAIH, based on NBP data, 2017

When analysing the geographical structure of FDI, it should be remembered that countries such as the Netherlands or Luxembourg are, to a large extent, transit countries for capital that originates elsewhere. The chart presented in this report includes both the Netherlands and Luxembourg among the top 5 sources of Poland's capital inflow. The situation is similar with the chart showing Poland's FDI stock. That is why the "transit" character of those counties should be considered, as it can affect further conclusions.



TOP 5 countries in terms of Poland's Foreign direct investment inward position at the end of 2016 (in EUR million)
Source: PAIH, based on NBP data, 2017

Statistical data on the investment projects supported by the Polish Investment and Trade Agency (PAIH) in 2017, grouped by value, number of jobs generated and targeted industries, completes the picture of foreign direct investment. We are talking about 61 completed projects with a total value of approx. EUR 2.08 billion, which generated over 17.000 jobs, and a further 175 ongoing projects which may potentially create 52.400 new jobs and be worth over EUR 5.6 billion in total.



The number of projects supported by PAIH and completed in 2017, by industry
Source: PAIH

Two sets of sectors dominate the list of the completed projects: BSS (Business Support Services – 26 projects) comes first, including: SSC (Shared Services Centres – 13 projects), IT (7 projects) and R&D (Research and Development – 6 projects). The second sector is the automotive industry (18 projects). Other industries had a much lower share in the number of completed projects. This structure demonstrates that foreign investors see Poland as a destination for investments based on qualified personnel, services and R&D rather than cheap workforce.

SOME EXCELLENT INVESTMENTS

2017 was another year when foreign investors, supported by PAIH, focused on high-tech industries and the service sector. This is evidenced, on one hand, by projects pursued within sectors associated with IT and business services and, on the other hand, by the use of advanced and capital-intensive technologies in newly opened manufacturing plants. There are numerous examples of such ventures, including:

In 2016, Korean company LG Chem decided to open a lithium-ion car battery factory in Biskupice Podgorne near Wroclaw – at the time, the largest such plant in Europe. Planned capital expenditure amounted to over EUR 300 million. This year, the company has decided to double the capex and the number of employees. This makes it the largest FDI in Poland (in terms of value) since 2001. Ultimately, the investment will be worth over EUR 1 billion and the expected headcount is 800 employees.

A significant economic opportunity has opened up for the Warmian-Masurian region, as EGGER is planning to locate a wood panel factory there. The investment will generate jobs for 400 people. This is the second-biggest foreign investment made by a PAIH partner in 2017. The Austrian company, which has over 9,000 employees worldwide, sees potential in Poland's furniture and wood industries and is considering extensive collaboration with multiple Polish partners. The investment will be located within the Warmian-Masurian Special Economic Zone.

The American financial giant JP Morgan Chase has chosen Warsaw to host its new operations centre. The institution, which operates in 50 countries, decided to relocate some of its operations from London to Central Europe. Locations in Hungary and Romania were also considered, but eventually Poland won. Capital expenditure amounting to EUR 8.5 million will make it possible to offer 2,500 new jobs to highly-qualified specialists. This is the largest foreign investment of 2017 in Poland regarding the number of jobs to-be-created.

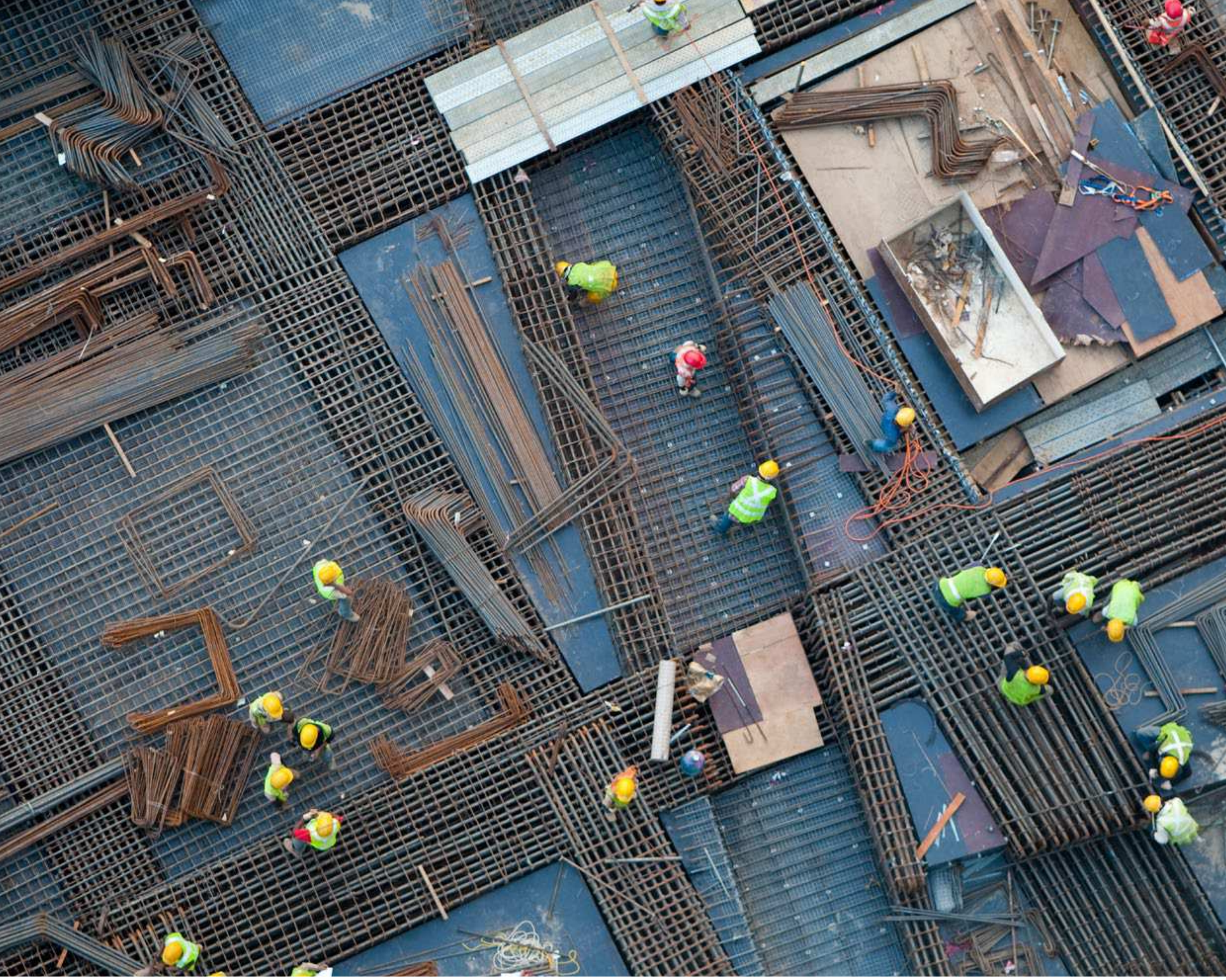
Luxoft, a company which specializes in designing IT solutions and software for business, which has been present in Poland for several years, is planning further investments in our country, worth EUR 1,3 million. As a result, 1.350 new employees will be hired – highly qualified IT specialists and managers. The advanced solutions offered by Luxoft correspond with the growing trend that sees more and more innovative projects being located in Poland. Luxoft opened its development centre in Krakow in 2010. Its new investments will help strengthen the innovative sector in our country.

In 2014, global e-commerce leader Amazon.com opened two distribution centres in Poland – one in Bielany Wroclawskie and another one in Sady near Poznan. Now, the company is set to expand its presence in Poland, by investing a further EUR 93 million. Its two new centres, in Kolbaskowo (Zachodniopomorskie province) and Sosnowiec (Silesian province) will offer employment to 1,000 people. The hub in Kolbaskowo, set to be Europe's most advanced facility of its kind, will use the latest robot and IT technologies to support the handling of goods distributed by the centre.

The projects listed above represent the most significant investments supported by PAIH in 2017 in terms of their value and potential employment levels. In addition, a number of smaller projects were completed. These projects provide examples of investments in technologies that enhance labour productivity by focusing not only on cost savings, but also on the quality of labour. This is a positive tendency, as it reduces the potential risk of Poland falling into a "middle-income trap"[6] and produces benefits in terms of developing a modern, knowledge-based economy in Poland.

ELECTRO MOBILITY

The global automotive industry, which is over 130 years old, appears to be rediscovering ideas that didn't gain recognition and couldn't be applied on a large scale at the beginning of its history. A car powered by electricity is one such idea. As regulators elevate expectations regarding the composition and volume of car emissions, which are becoming increasingly hard to meet for conventional internal combustion engines (especially diesel), the automotive industry has reached a breakthrough moment. The Polish government is aware of the possibility of mass diffusion of the electric car engine and the resulting market opportunities and treats the development of electro mobility as a priority. The electro mobility development plan includes programs such as e-Bus (development of the public transportation system based on electric vehicles), e-Car (an electric car design and 1 million electric cars on Polish roads by 2025), as well as schemes for the development of the vehicle charging network. Independently of the government's plans, both Polish companies (Solaris Urbino Electric 12 – the best bus of 2017; Ursus City Smile) and foreign companies (LG Chem – manufacturer of battery cells and batteries; BMZ – manufacturer of batteries) are already producing or – through significant investments (LG Chem – up to PLN 5.8 billion) – will produce solutions in the field of electro mobility. In addition, PAIH has introduced several investment schemes in response to a projected boom in the electric vehicle segment. Those projects will certainly gain publicity in 2018.



Chapter 5

FOREIGN INVESTORS' PLANS FOR 2018

INVESTORS WANT TO BENEFIT FROM THE GROWTH OF THE POLISH ECONOMY

In last year's survey, we asked foreign investors for the first time about their plans for the coming 12 months – whether they predicted an increase in their companies' revenues, whether they were planning to increase headcount or make growth-oriented investments. This year we asked these questions again and the responses we obtained reveal that the positive sentiment recorded in 2016 persists – foreign investors still intend to expand their businesses in Poland.

How will your company's revenue change in the upcoming year? (in %)

	2018	2017
It will increase	70	68
It will remain the same	20	27
It will decrease	9	5
Net rate*	61	63

*(Net rate = "it will increase" minus "it will decrease")

How will your company's headcount change in the upcoming year? (in %)

	2018	2017
It will increase	56	58
It will remain the same	41	36
It will decrease	3	6
Net rate	53	52

REVENUE

Over two-thirds (70 percent) of surveyed foreign capital companies expect their revenues to grow within the next 12 months, whereas less than one-tenth (9 percent) forecast a decrease. Therefore, the net rate, i.e. the percentage of companies declaring an increase minus the percentage of companies declaring a decrease, is 61 percentage points. This year's result is very similar to the one recorded last year, when the net rate for the group of foreign companies was 63 percentage points. Foreign investors are still highly optimistic when it comes to the revenue prospects of their ventures in Poland.

HEADCOUNT

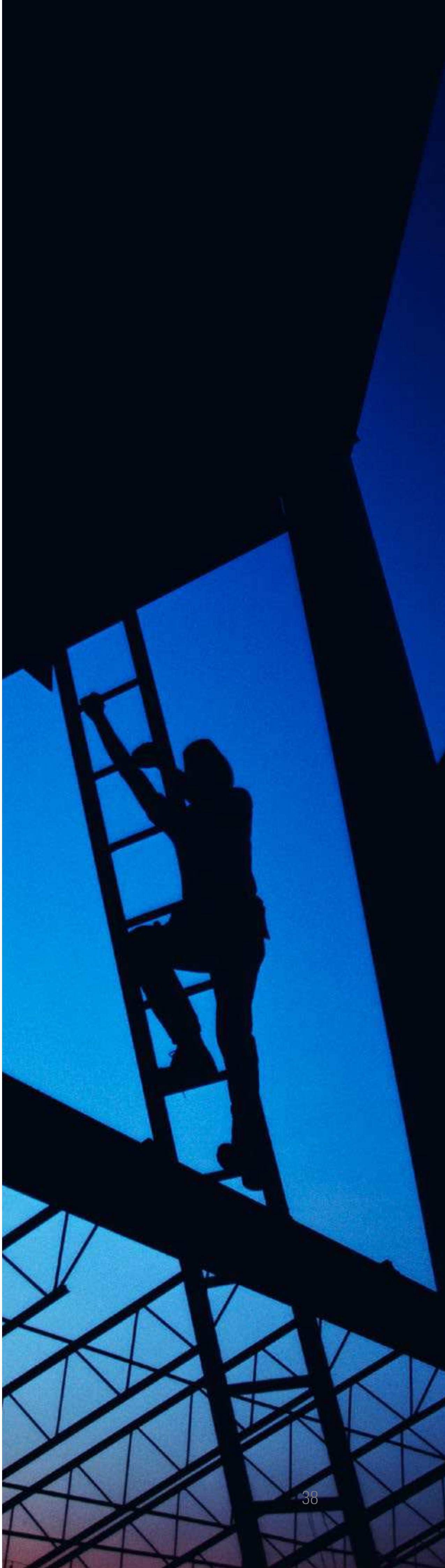
The survey by PAIH, HSBC and Grant Thornton shows that more than half (56 percent) of respondents are planning to increase headcount in 2018 versus 2017, while redundancies are only expected by 3 percent of companies. Thus, the strongly optimistic outlook recorded last year has been maintained in this year's survey.

How will your company's capital expenditure change in the upcoming year? (in %)

	2018	2017
It will increase	48	47
It will remain the same	44	42
It will decrease	8	11
Net rate	40	36

INVESTMENTS

Foreign capital investors have rather ambitious plans for investments in Poland. In the coming 12 months, 48 percent of respondents expect to increase their capital expenditure, while 44 percent are planning to keep capex at the existing levels. Only 8 percent expect to reduce spending in this area. As compared to the previous year, there has been a slight increase in the number of investors confirming their intention to make bigger investments, and the number of foreign companies declaring a decrease in expenditure fell by 3 percentage points. Consequently, the net rate increased slightly.



SUMMARY

The foreign investors who participated in the survey conducted by PAIH in collaboration with Grant Thornton and HSBC view Poland as a good location for business. A vast majority of the respondents declare that they would invest in Poland again and the overall rating of Poland's investment climate is one of the highest scores in the 11-year history of the survey.

Poland's investment attractiveness is determined by factors such as macroeconomic stability, a well-developed network of suppliers and co-operators, a strategic location, as well as a thriving and well-organized business environment. The country's transport and ICT infrastructure, which continues to grow, also has a positive impact on its perception.

However, there are some factors that require intervention. In particular, investors point out unclear legal provisions, overproduction of legislation, ineffective economic courts or extensive bureaucratic procedures as factors that reduce our country's investment attractiveness.

ADDITIONAL INFORMATION

CONTACT DETAILS

Marcin Buliński
Plenipotentiary of the Management Board on Strategy
Polish Investment and Trade Agency

+48 22 334 98 35
+48 692 197 011

marcin.bulinski@paih.gov.pl

Magdalena Ujda-Tarczyńska
Communications Manager
HSBC Bank Polska S.A.

+48 22 354 06 44
+48 695 070 388

magdalena.ujda@hsbc.com

Jacek Kowalczyk
PR and Marketing Director
Grant Thornton Poland

+48 22 205 48 41
+48 505 024 168

jacek.kowalczyk@pl.gt.com

ABOUT THE REPORT

The report was developed on the basis of a survey conducted among foreign capital companies that operate in Poland. The latest edition of the survey (2017) was carried out by the Polish Investment and Trade Agency in collaboration with the audit, advisory and outsourcing company Grant Thornton and the global bank HSBC between 7 and 30 November 2017. The survey was completed by 76 foreign capital companies that operate in Poland. The survey was conducted by means of electronic questionnaires and personal interviews. The data was collected by PAIH, while all three partners were involved in analysing the responses and developing the report. Entities that offered their support during respondent recruitment included: The British Polish Chamber of Commerce (BPCC), the French-Polish Chamber of Commerce (CCIFP) and the Association for Ukrainian Business in Poland.

The International Business Report survey, referred to in chapter IV of this report, was conducted by Millward Brown for Grant Thornton International among managers and owners of 200 companies operating in Poland.

Polish Investment
& Trade Agency
PFR Group

POLISH INVESTMENT AND TRADE AGENCY

Polska Agencja Inwestycji i Handlu SA (Polish Investment and Trade Agency – PAIH) was established in 2017, replacing Polish Information and Foreign Investment Agency (PAIiIZ). The institution, which operates within the framework of the Polish Development Fund, executes tasks outlined in the Polish Strategy for Responsible Development, and is a central state agency responsible for providing support to Polish exporters and attracting high-quality foreign investment projects. Within the scope of attracting foreign direct investment, PAIH relies on over twenty-years' experience gained by PAIiIZ.

GRANT THORNTON

Grant Thornton is one of the world's leading audit and advisory organizations. The knowledge, experience and commitment of more than 3,000 partners and 50,000 Grant Thornton employees is available to clients in 136 countries. The firm has been present in Poland for 25 years. A team of 550 employees and offices in the key agglomerations (Warsaw, Poznan, Katowice, Wroclaw, Krakow and Torun) ensure that the company is in close contact with its clients and is capable of providing audit services, tax, business and legal advisory, as well as accounting and payroll outsourcing services regardless of the size, type or location of the client's business.

HSBC BANK POLSKA

HSBC Bank Polska SA is company registered in Poland and a member of the HSBC Group. The HSBC Group is the largest financial institution in Europe, with a presence in countries that are Poland's main trade partners (e.g. Germany, France, United Kingdom, Italy, Czech Republic); it is also one of the largest financial institutions worldwide. HSBC Bank Polska SA focuses on providing banking services to corporate and institutional clients, as well as executing treasury operations. Operating from its central office in Warsaw, regional corporate banking centres in Katowice, Poznan, Gdansk, and the business service centre in Krakow, HSBC supports both Polish companies in expanding internationally and foreign investors in conducting business in Poland.

[1] www.BarometrPrawa.pl

[2] www.BarometrPrawa.pl

[3] HSBC Global Research, Q1 2018

[4] HSBC Global Research, Q1 2018

[5] http://grantthornton.pl/wp-content/uploads/2017/09/Firmom-coraz-mocniej-brakuje-rak-do-pracy-raport-Grant-Thornton-06-09-2017.pdf

[6] The situation in which a fast-growing economy enters a period of stagnation after reaching middle income levels and is unable to join high-income countries. Cf. *Growth Slowdowns and the Middle-Income Trap*. Shekhar Aiyar, Romain Duval, Damien Puy, Yiqun Wu, and Longmei Zhang. IMF Working Paper, 2013

DISCLAIMERS

HSBC Bank Polska S.A. („HSBC”)

HSBC does not warrant that the contents of this document are accurate, sufficient or relevant for the recipient’s purposes and HSBC gives no undertaking and is under no obligation to provide the recipient with access to any additional information or to update all or any part of the contents of this document or to correct any inaccuracies in it which may become apparent. The recipient is solely responsible for making its own independent appraisal of any investigation into the products, services and other content referred to in this document. This document should be considered in its entirety and shall not be photocopied, reproduced, distributed or disclosed in whole or in part to any other person without the prior written consent.

Grant Thornton Frąckowiak Sp. z o.o. Sp. k.

The information in this document is of a general nature and is provided for illustrative purposes only. It does not give rise to any commercial relationship or a relationship whereby tax, legal, accounting or other professional advisory services are provided. Prior to taking any action, you ought to contact a professional advisor in order to obtain advice adjusted to your individual needs. Grant Thornton Frąckowiak Sp. z o.o. Sp. k. has made every effort to ensure that the information provided in this document is complete, accurate and based on credible sources. However, Grant Thornton Frąckowiak Sp. z o.o. Sp. k. is not liable for any misstatements or gaps in the presented information or errors resulting from it not being up to date. Moreover, Grant Thornton Frąckowiak Sp. z o.o. Sp. k. is not liable for the consequences of any actions arising as a result of using such information.