



WHY POLAND?

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Poland – en vogue!

Poland has become a relative winner of the global financial crisis and may now, in the post crisis years, offer a product which has lately been in short supply - economic stability. Numerous companies which until lately have not seen Poland as priority investment location started to take serious interest in the Polish market.

The way Poland is perceived on the international scene changed considerably in the last two and a half year. Poland went up in lot of rankings. Firstly, because the country enjoys an uncommon and a very attractive economic stability and secondly because of the one of the most unique Polish values – human capital. The struggle with the recent economic upheaval helped Poles demonstrate their common sense and optimism. According to Deloitte Poland is the leader among Central European countries in terms of the level of optimism. Stable and dynamic economic growth, sensible business decisions and wise management of public finance became strongly associated with the country not only in political context but also in business.

Poland is a trustworthy and reliable partner for international business. Poland's exceptional business and investment opportunities attract investors from Western Europe as well as from the US and Asia. The growing interest of foreign investors can be observed in the number of projects currently supported by the Polish Information and Foreign Investment Agency (PAIIZ). As of end of December 2012, the number of serviced project and their value increased by around and over 6% compared to last year. Whereas the declared number of jobs, created by these investments, increased by more than 3%.

The number and variety of FDI projects located in Poland show that foreign investors from a wide range of industries have successfully been running projects in the country. For years the country has been attracting companies active in, among others, the electronics, BPO and R&D, domestic appliances, machine and IT sectors. The Polish economy turned out to be especially friendly to sectors developing in areas in which Poland already has or stands a good chance of achieving long-term success on international stage. Among the sectors which have been experiencing dynamic development and enjoying the greatest popularity there are industries which have a long tradition in Poland e.g. the aviation sector, sectors which require qualified people e.g. BPO sector, industries with a well-developed net of suppliers e.g. the automotive industry and those which have a considerable untapped development potential like the renewable energy sectors.

Yes, in the recent years Poland was among the selected few who bucked the trend of a slowing economy and became trendy. The end of the slowdown proved that it was not a mere passing fashion. Do not miss out on the opportunities. The flourishing Poland is trendy and will remain in vogue like Chanel N° 5 – for years to come.

Chapter 1. About Poland

Poland is located in the centre of Europe, and this factor alone should be enough to demonstrate the great potential of our country. Poland borders Germany to the west (with a long border on the Oder River), the Czech Republic and Slovakia to the south (mountain borders), and Ukraine, Belarus and a bit of Lithuania to the east. A small, separate fragment of Russia known as the Kaliningrad Oblast borders part of Poland to the north. The rest of the northern border comprises of the golden beaches of the Baltic Sea. The capital of Poland is Warsaw (Warszawa), located almost in the centre of the country.

Poland is a country with a well founded system of democratic government. Our republic is a multiparty democracy with a two chamber parliament. The Head of State is the President, elected by a majority of the voters for a five year term. The upper parliamentary chamber is the Senate, with 100 senators; whereas in the lower chamber the Sejm, there are 460 members. Parliament is chosen by a majority of the electorate for a 4 year term.

The state's internal and foreign policy is decided by the government, i.e. the Council of Ministers, whose activities are directed by the president of the Council of Ministers, i.e. the Prime Minister. He is designated by the President, as are the ministers upon Prime Minister's recommendation.

There are more than 38,5 million Polish citizens. The majority lives in cities. According to European standards, it is relatively young society - 50% of citizens are under the age of 35 -, with about half of the population professionally active (with the greatest number, 8 million, in the service sector, followed by industry and construction, 4 million, and agriculture and forestry with 2 million).

Poland is the biggest politically and economically stable country in Central & Eastern Europe, and that creates chances for successful long-term investment. Poles account for 24 % of the region's population, and produce nearly 40 % of its GDP. That is an indicator of the Polish economy's potential.

According to UNCTAD's World Investment Report 2012 Poland is the 14th most attractive investment location in the world. Poland is a perfect place for investment and business expansion. According to the European Attractiveness Survey 2012 prepared by Ernst & Young, in the next three years Poland will be the second in Europe (after Germany) most attractive country for investment, overtaking UK, France and Russia. The report highlighted a very stable macroeconomic situation of Poland. As the strengths of Poland, the experts have mentioned the availability of well qualified and productive employees, business friendly climate and transparent tax and legal systems.

Thousands of foreign companies already profit from investments in different sectors on the Polish market. The key reasons why they have decided to do business here are: strategic location, investment potential and human

resources. Another important factor that increases the competitiveness of the Polish economy are investment incentives.

No less important, from the investor's point of view, are the aspects of the quality of life and everyday conditions. Poland is in the group of countries with the highest degree of social development¹ and is the leader among Central European



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countries in terms of the level of optimism.² Poles are also among the most satisfied with their life nations in Europe.³ Poland is a great country full of opportunities. Its rich culture, traditions and lifestyle make Poland a fascinating, interesting and enjoyable country to live in.

¹ United Nations Development Program, Human Development Report, 2010

² Deloitte, Business Sentiment Index, 2011

³ European Bank of Reconstruction and Development, "Life in transition. After the crisis", 2011

Chapter 2. Stable and growing economy

In 2011 according to EUROSTAT Poland was one of the fastest growing countries in the EU. Only 3 Baltic Countries recorded higher rates of GDP growth. While the average rate of GDP growth in the EU was only 1.5% in 2011, Polish economy grew by 4.3%. The European economy is to slow down in 2012 and 2013 and Polish economic growth is also expected to decelerate, but the forecasts for Poland are still relatively optimistic. According to EUROSTAT estimates, GDP growth in Poland will slow down to 2.4% in 2012 and 1.8% in 2013. Both of these figures are still much above the growth forecasts for the EU as a whole, which in 2012 is not expected to grow at all and in 2013 by only 0.4%.

Avoiding the recession and keeping a reasonable growth rate in recent years have also enabled the Polish government to keep the level of public debt within reasonable limits – in 2011 Polish consolidated public debt amounted to 56.4% of GDP while for EU27 countries it reached 82.5%. It means that Poland has passed the test all the European economies have been subject to during the economic crisis quite well.

Obviously, passing this test was not an easy task. After a long and painful process of economic transformation which started in the early 1990s, Poland – similar to several other CEE countries – successfully completed the construction of an efficiently operating market economy and joined the EU. The market became liberalized and open to global competition, state-owned companies were privatized while the economic policy acquired features of stability and prudence. Labor productivity and international competitiveness radically improved, trade openness increased and foreign investments started to flow in widely. From the moment of joining the EU in 2004, all these positive trends were further strengthened.

There are several factors explaining the robustness of the Polish economy to the European economic turmoil of the last years.

Poland enjoys a good competitive position and high attractiveness as a production site. The producers have unlimited access to the whole European market and they enjoy access to improving infrastructure. The cost of labor, although gradually increasing, is still low and represents only a fraction of West European levels, but the quality and consequently productivity of Polish workers is constantly improving, making it one of the most competitive countries in Europe.

High flexibility of the Polish economy is also an important asset. Employers and employees are able to reach compromises which result in cuts in labor costs rather than in increased unemployment. Companies are able to adjust their operation in a way that allows them to survive the times of economic hardship and to develop quickly when the economic environment is more favorable.

Polish macroeconomic policy before and during the crisis, even though sometimes criticized by politicians and some economists as not optimal, has been conservative and prudent. The government deficit was kept on a moderate level resulting in only limited increase of public debt. The central bank was pursuing a careful monetary policy and hence unlike main global central banks it has still a room to maneuver when global economic situation starts to deteriorate.

Such a combination of positive structural factors and trustworthy macroeconomic policy led to huge FDI inflows. During a recession, investments went down everywhere including Poland, but foreign investors are coming back as the shifting of activity is still taking place. As a result, after a drop, which started already in 2008 and continued till 2010, FDI inflows to Poland restarted to increase in 2011.

Poland's large domestic market is a valuable asset and it is also taken into account by foreign investors. The relation of exports to GDP in Poland is only 45%, whereas in the neighboring countries such as the Czech Republic, Hungary and Slovakia it is much higher – 75%, 93% and 89% respectively. It means that Poland is much less dependent on exports and hence much more resilient to changing external economic environment. On the other hand the export growth recorded in the recent years was also satisfactory reaching 13,2% in 2010 and 7,7% in 2011.

The Polish banking sector proved to be basically healthy, profitable and resilient to global financial turbulences, while Polish firms and households are only moderately indebted. The praise for this should go partly to the banking supervision in Poland. Further, the stabilizing role played by the foreign owners of the banks that control over 70% of the banking assets of Poland should be noted as well. Despite some initial fears, the foreign holding companies were ready to extend additional short-term loans to their Polish subsidiaries at the moment of the global turmoil rather than trying to transfer the liquidity abroad.

The policy of the flexible exchange rate used by Poland proved to be a good protection shield during the financial crisis. Polish exporters are still benefiting from a reasonably weakened currency (the current exchange rate EUR/PLN is about 4.10, while before the crisis it was about 3.20). With a weaker currency, Polish exports are more profitable, and imports more costly. Altogether, it improves the financial situation of Polish firms and helps to keep unemployment on relatively low level.

Poland also benefited from the growing inflow of EU funds that helped in increasing the scale of public investment. As the biggest beneficiary of the EU structural policy, Poland receives a growing amount of EU transfers every year. As of May 2012, Poland was able to spend EUR 25 billion from EU structural funds programs, close to 7% of Polish annual GDP, in the frames of the 2007-2013 framework program, where most of the money was spent on infrastruc-

tural, technological or human capital investments.

However, the most important factor is the last one. Shortly before joining the EU in 2004, Poland went through a 4-year period of the most painful and deep restructuring of banks and enterprises, caused by a combination of an extremely tight macroeconomic policy, very strong currency, and growing external competition. In 2000-2003, unemployment increased from 10% to over 20%, productivity noticeably increased, firms underwent the process of drastic cost reductions, and the banks made a huge effort to increase the quality of their asset portfolio.

All the economic fundamentals of the country, connected with the macroeconomic equilibrium, safety and stability of the financial sector, and the competitiveness of firms, have been greatly strengthened. As a result, Poland was perfectly able to face the global crisis and withstand both the financial storm and the deep worldwide recession in an astonishingly good shape.

In a nutshell, the test has been passed. A major slowdown recorded in 2009 was only temporary and the forecasts for the future are relatively calm taking into account the growing global and even more European uncertainty. With the high level of competitiveness, strong economic fundamentals and high flexibility, Poland is both well prepared for the next wave of global economic slowdown and perfectly able to benefit from the global recovery. Despite many problems that may still appear, Polish economy is attractive, stable and set to grow.

Chapter 3. Human capital

Polish intellectual capital is one of the key factors that make Poland an attractive place for FDI. Highly-qualified workers and well-educated specialists are easily available in Poland. This may have much to do with the fact that Poland has over 460 academic centres with almost 1.8 million students. University teaching staff accounts for round 100,000 specialists, half of the number holds a PhD degree. Every tenth European student comes from Poland.

The high standards of Polish educational system are reflected in a number of scientific achievements. Enough to remind that Polish scientists are well known for the discovery of the first extra-solar planetary system, the creation of the technology for the production of the blue laser, the production process to make the world's smallest synthetic diamonds and for the isolation of queen cells from bone marrow. Another important achievements is unmanned helicopter or modern prosthetic hand.

Students of the Bialystok University of Technology have constructed the Mars rover Magma2 which won at the prestigious international competition University Rover Challenge (URC) in the U.S. Magma2 defeated rover constructed by Americans from the Oregon State University, who had help from NASA. Today Magma2 visits international fairs and exhibitions.



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The quality of Polish scientific and technical thought is confirmed by the fact that the largest global corporations tend to locate their R&D centres in our country. Polish mathematicians and information technology experts are world

leaders in research and development, winning many prestigious international competitions like Microsoft Imagine Cup, European Merrill Lynch Investment Challenge, Google Code Jam, or the IBM-ACM International Collegiate Programming Contest. 2011 Cellardoor team of the Adam Mickiewicz University in Poznań won first place in the design of online games in the competition's world finals. Cellardoor presented a game for children, "The Book of Elm" which teaches children that everyone can participate in protecting the environment through everyday, simple activities.

Drive 607 km on one litre of fuel? It is possible thanks to the team of young scientists from the Warsaw University of Technology who constructed Kropelka (Droplet), a super-economic car. Kropelka is light (46 kg), comfortable and has a streamline shape. The constructors used the novelties from the aviation and automotive sector. It is so economic that it really seems to drive on a mere droplet of fuel.



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Excellent universities and technical schools provide a wealth of academic talent. Polish specialists from the IT sector are highly sought-after, not only by international corporations in Poland, but are often recruited to work abroad. In fact, Poles form a large percentage of managers responsible for R&D departments within the world's largest corporations. Poland is also an active partner in the Framework Programmes for Research and Development of the EU. Polish research centres have submitted 5 of the 20 winning projects included on the Research Potential competition main ranking list in the 7th Framework Programme. Polish projects received total funding in excess of 18 million euros, nearly one-quarter of the total budget of the competition⁴.

One of the milestones of the 7th Framework Programme are the Technology Platforms. Currently 34 Technology Platforms operate in Europe and 28 in Poland. Technology Platforms have been created in order to establish development strategies for essential European economy sectors and future technologies. One of the major aims is to settle an effective public and private partnership for the implementation of already prepared strategies.⁵

Needless to say, Polish students have an excellent knowledge of foreign languages. Over half of them speak fluent English and the vast majority of the rest do have a basic understanding of the language. The second most commonly studied language is German, followed by Russian, French and Spanish. Furthermore, according to the 2008–2011 EUROSTUDENT report, more than 70 percent Polish students are self-dependent. The report confirms that the Polish student is almost the busiest one in Europe.

Wise, clever, intelligent, open-minded, innovative and creative – this is the staff of companies running business in Poland.

⁴ Source: www.naukawpolsce.pap.pl

⁵ Source: <http://en.kpk.gov.pl>

Chapter 4. Strategic location

Poland's convenient location at the junction of the East-West and North-South communication routes, makes the country a perfect investment destination for enterprises targeting both Western and Eastern as well as Northern and Southern part of Europe. From Warsaw it takes only several hours either by car, train or plain to reach a number of Europe's major capital cities e.g. Berlin, Moscow, Vienna, Bratislava, Kiev, Vilnius and Minsk. Poland is a country where the main trade and transport routes leading from the North to the South and from the West to the East of the continent intersect. The country is crossed by 4 out of 10 constantly developed trans-European tracks. The international routes crossing Poland have been constantly developed and modernised. Transport investments are possibly large thanks to the co-operation between national roads' directorates and self-governments of the neighbouring countries and with a substantial help of funds and subsidies from the EU. Communication hubs have become centres where various types of means of transport interlace. Development of the country's road infrastructure is one of the Polish administration's priorities.



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According to the European Aviation Safety Agency (EASA), Poland ranks among the fastest growing markets of aviation services in the whole region which is mainly thanks to the increase in the number of air connections from Poland, initiation of numerous low-cost flights and a significant rise in the number of passengers. Both the central government administration and local self-governments have been developing plans envisaging construction and organisation of several new regional airports together with a development of convenient road and train transport infrastructure with the biggest cities in the country.

One of the elements that undoubtedly highlights the convenience of the country's geographical position and benefits resulting from the location is the access to the Baltic Sea. Poland has four major ports, located in Gdańsk, Gdynia, Świnoujście and Szczecin as well as several local ports supporting the freight reloading processes.

The central location of Poland and its importance as a gateway to the European Union is a major incentive in attracting foreign companies which aim at slashing time of order realisation for customers in the markets East of the centre of Europe. The fact that foreign entrepreneurs invest in creating logistic centres in Poland results from dynamic growth in demand, development of trade co-operation within the frame of the extended European Union and also from the ever more attractive domestic suppliers market in Poland. Despite the fact that currently round 75% of modern warehouse space is located in the vicinity of the capital, new office and commercial storage space has been expanding in regional business centres.

Chapter 5. Significant European Market

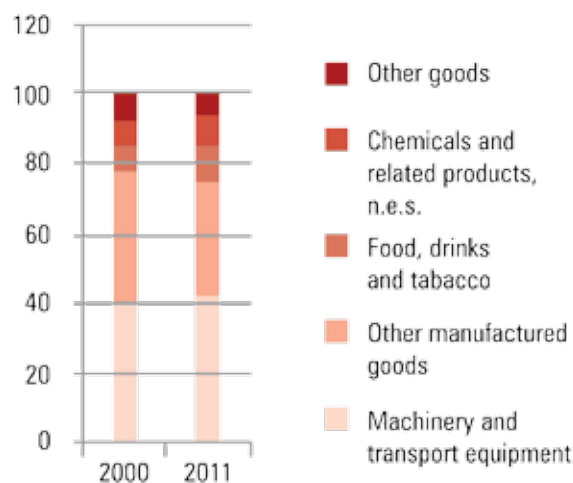
Poland is attractive for investors for many reasons, but top of the list is its over 38,5 milion domestic consumer market. Poles form over one third of the citizens of the new EU member countries. Our country is the 30th largest market in the world, with its position being strengthened year after year by rapid economic growth and the subsequent increases in rates of pay. Turbulences on the international financial markets and the slowdown of growth in the EU does not reduce consumption in Poland.

Here, in the very centre of Europe, entrepreneurs may establish business activity and not only sell products in Poland but also gain vast export opportunities and export to big markets situated both in the West and East of the continent – but always within easy reach from Poland! Polish exports are growing steadily - from 2000 to 2011 the export grew 4-fold in that time, despite the strength of the national currency, the zloty (PLN), creating a healthy foundation for stable economic growth. According to the data from the Central Statistical Office (GUS) during the period the value of Polish exports has grown significantly, from EUR 34.4 billion to EUR 136.7 billion. Polish trade turnover in January - October 2012 according to the Central Statistical Office amounted to 118 458,7 billion EUR.

The biggest trade partner of Poland is Germany. In January - October 2012 the share of Germany in total exports amounted to 25,2% and in total imports to 21,3%. UK, Czech Republic, France, Russia, Italy were the next destinations, whereas Russia, China, Italy and France were after Germany the most important import partners. The product structure of Polish exports has been seriously changing over the recent years. Between 2000 and 2011 machinery and transport equipment became the main group of products exported by companies located in Poland. As an example, the window panes produced in the new Pilkington Automotive factory will be sold to major world car makers e.g. General Motors, Ford, Volkswagen and Fiat and in the future some 70% of the facility's production will be exported.

According to the survey on investment climate in Poland conducted by PaliZ and TNS Penter, the size of the Polish market constitutes the biggest advantage of the

The changing structure of Polish exports 2000–2011



Source: EUROSTAT, 2012

country's investment attractiveness. This factor was evaluated as good or very good by foreign entrepreneurs. Also, the availability of factors of production and human resources were highly evaluated by foreign investors.

This all shows that investments in Poland are profitable, not only from the point of view of the export potential, but also and perhaps primarily due to, the very large domestic market.

Chapter 6. Investment incentives

The system of investment incentives in Poland consists of a series of instruments, which may be used by foreign investors. For entrepreneurs the most important elements of the system include: financial support for investments projects important for national economy, investment incentives in the special economic zones and real estate tax exemptions.

Governmental support system

Governmental financial support for creation of new jobs and/or investment is granted in a form of earmarked subsidy from the state budget. The support is allocated for the investor on the basis of the Programme of support of investments of considerable importance for Polish economy for years 2011-2020, adopted by the Council of Ministers on July 5, 2011.

The subsidy is granted on the basis of an agreement concluded between the investor and the Minister of Economy. If the company intends to combine government grants with the following other forms of regional aid: CIT exemption in SEZ and / or grants co-financed from the EU, there are separate criteria which the project has to fulfil.

The support is paid as a reimbursement of created job places and investment outlays. The newly created jobs and/or investment should be maintained for a period of at least 5 years (for SME 3 years) from the date of completion of the investment.

This kind of support constitutes so called ad hoc state aid (aid not granted within any scheme previously accepted by European Commission). In most cases it requires approval from the European Commission (obligation of notification), consequently no aid may be paid out before obtaining such approval.

The support is offered to companies making new investment in the following sectors:

- automotive,
- aviation,
- biotechnology,
- IT and electronics,
- modern services (business process outsourcing; shared service centers),
- research and development.

The Programme provides support for initial investments under the two following categories:

Support for creation of new job places (employment grant)

Sector	New job places and Investment outlays (m PLN)		Maximum support
Automotive, electronics, aviation, biotechnology	250	40	PLN from 3 200 PLN to 15 600 (~ EUR 800 – EUR 3 900)
modern services	250	2	
R&D	35	3	
Large investment in other sectors	500	1000	

The amount of employment grant depends, among others, on:

- 1) in case of manufacturing projects:
- the number of new jobs created,
 - the percentage of employees with higher education,
 - location,
 - investment expenditures,
 - sector,
 - attractiveness of the products on the international markets.
- 2) in case of services projects:
- the number of new jobs created,
 - the percentage of employees with higher education,
 - location,
 - complexity of processes provided by the company.

The amount of investment grant depends, among others, on:

- the number of new jobs created,
- investment outlays per employee,
- location.

Support for new investment (investment grant)

Sector	New job places and Investment outlays (m PLN)		Maximum support
Priority sectors	50	160	2% to 10.5% of investment outlays
Large investment in other sectors	500	1000	

Under the Programme, aid is provided exclusively for investment projects whose completion in Poland is conditional on receiving a financial grant from the State budget. The operator of the Programme and the authority granting state aid is the Minister of Economy. The Polish Information and Foreign Investment Agency (Polska Agencja Informacji i Inwestycji Zagranicznych S.A. - PALIZ) is responsible for preparing and providing the Interministerial Team for Investments of Major Importance to the Polish Economy with the dossier of investment projects and for preparing all documents required to carry out the entire procedure of providing financial support.

Each project is subject to an individual assessment by the Committee on the basis of detailed criteria laid down in the Programme.

The Special Economic Zones

Special Economic Zones (SEZ) are separated areas in selected regions of Poland intended for conducting business activities under preferential conditions. The purpose of creating such privileged areas was to accelerate the economic development of particular regions of the country by enhancing their attractiveness for new investments.

At present there are 14 special economic zones operating in Poland. They differ in respect of area, location, nature, development conditions and technical and telecommunication infrastructure. Each of the zones is managed by management authorities in the form of a commercial company controlled by the State Treasury or provincial local government.

The SEZ were established in 1996-1998 and will operate until 31st of December 2020. The principle underlying the zones' operation is the possibility of income tax exemption for entrepreneurs undertaking new investments in SSE areas. Additional encouragement for the entrepreneurs may also be the infrastructure that is prepared for investment purposes in the zones.

Special Economic Zones in Poland



The basic condition for tax exemptions in SEZ is that the entrepreneur must make a new investment incurring a specific amount of investment expenditure (at least EUR 100 000) and create new workplaces. The amount of tax exemption is based on the value of the investment expenditure incurred by the entrepreneur or on two-year's labor costs of newly employed person.

The limit of public support (including the tax exemption) is calculated as a percentage of the investment expenditure (or two-year's labor costs, should the latter be higher). Depending on the region, the limit is 30%, 40% or 50%.

The exemptions are available solely for business activity carried out in the area of the SEZ. If an entrepreneur conducts business activity also outside the SEZ, the business activity within the SEZ has to be organisationally separated and the amount of the exemption is determined on the basis of the data of the organisational unit conducting business activity solely within the SEZ.

The formal basis for tax exemptions is the receipt of a permit to conduct business activities in an SEZ. Such permits are granted by the Minister of Economy through the entities managing a particular SEZ.

Real Estate Tax Exemption

Real Estate Tax Exemption is a form of regional state aid. It is available in Communes which adopted resolutions concerning the possibility of exemption from real estate tax.

Maximum tax rates in 2013 are: 22.82 PLN/sq.m. for buildings, 0.88 PLN/sq.m. for land and 2% of construction value.

In each commune tax rates are set by local authorities within above limits. The exemption usually depends on the number of new workplaces created and/or value of investment.

Chapter 7. Strategic sectors

We understand that each sector has its specific nature and that investors operating in it have specific needs. In this chapter we concentrate on sectors in which the investors are most interested, that is, automotive, aviation, BPO/SSC, electronics, energy, food industry, household appliances, IT and R&D. Poland has at its disposal a highly qualified workforce. Our workers are well regarded by their employers for their expertise, knowledge and industriousness. In many places there already operate many different firms in a specific sector, as a result of which there is no problem finding sub-contractors.

All this has meant that many firms have already decided to invest in our country, both those that are giants in their fields and those that are seeking conditions for fast and safe development in our country.

We offer professional help and are able to assist in finding the best locations regarding the needs and plans for a firm's development. Additionally we are able to provide an in depth knowledge regarding specific Polish sectors.



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Chapter 7.1 Automotive

The automotive sector is one of the largest industrial sectors in Poland – it constitutes around 10% of Polish manufacturing and gives jobs to more than 130.000 employees. Selling abroad of vehicles, parts and accessories thereof accounted for about 15% of the country's exports in 2011. According to the BMI, the overall value of Polish auto exports is expected to reach US\$16bn over the course of 2012, which represents 8.78% growth over 2011's figures. Poland is the third largest player in CEE in terms of vehicle production.

Poland's automotive sector is largely oriented towards exports, with key players selling into Western Europe (Fiat, Ford, VW and Opel), using this Central European country as a low-cost base for manufacturing. The presence of many major parts makers and suppliers (e.g. TRW, Faurecia, Delphi, Goodyear, Michelin and Valeo) has resulted in the formation of a highly integrated segment of suppliers. Poland is also an important bus producer, and this sector is also driven mainly by export demand. Number of large multinational companies have made large investments over a number of years, attracted by government incentives, the low-cost and highly qualified workforce and Poland's attractive position in Central Europe. The existence of Special Economic Zones has also been an important factor influencing the location decision of foreign investors.

The following are worth mentioning among the largest automotive DIs:

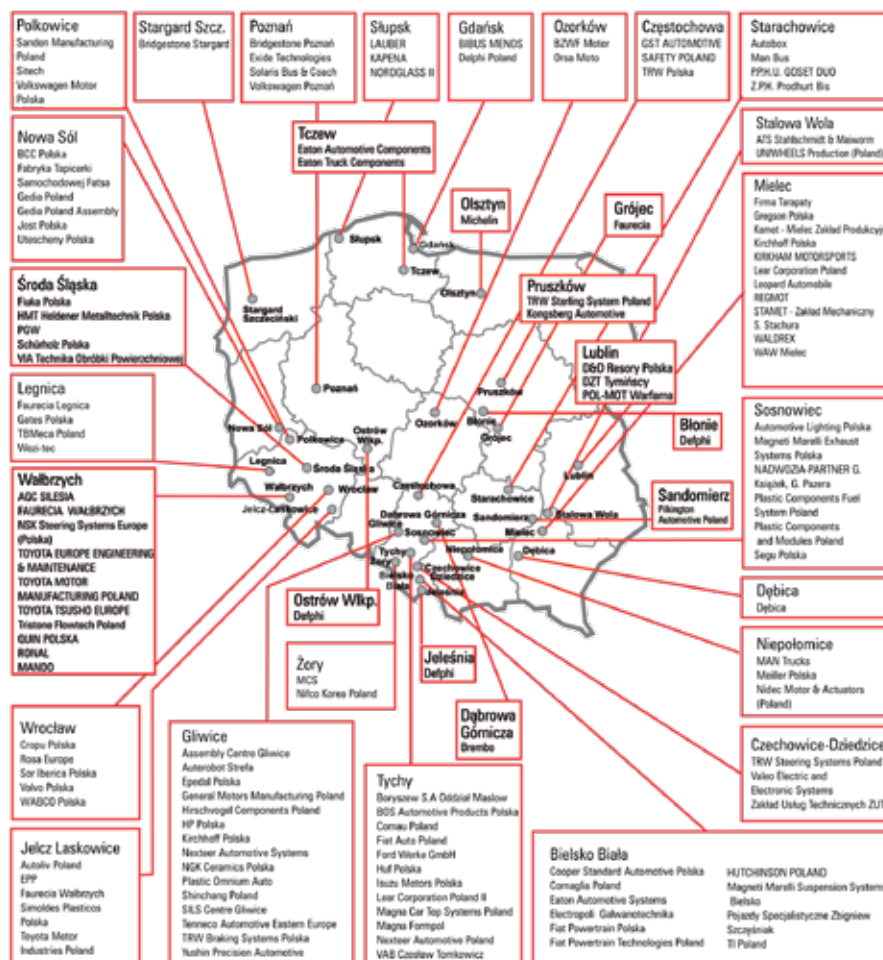
FIAT, General Motors, Volkswagen, Toyota, MAN, Scania, Volvo, TRW, Faurecia, Delphi, Goodyear, Michelin, Bridgestone.

After a decrease during the crisis years of 2009 and 2010, the auto production in Poland restarted to grow in 2011. There is a strong market expectation that the industry will continue to grow in years to come. Although much here will depend on international demand as about 90% of total sector production is sold abroad. According to BMI forecasts, the production of vehicles in Poland will increase from an estimated 870.000 units in 2011 to more than 1.2 million units in 2016. It will be driven mainly by exports the value of which should grow by 2016 to about 22 billion EUR.

The growth of production, however, will not only result from reviving export dynamics, but also due to strong domestic demand, which has not decreased even in the worst crisis periods. BMI believes that the Polish automotive industry will be able to achieve average annual production growth of 6,8%⁶ in years 2012–2016.

⁶ Poland Autos Report Q3 2012, BMI.

Automotive sector in Poland



Source: PAIIZ, 2012

Poland's advantages:

- Such large companies like Volkswagen and General Motors will stay committed to treating Poland as the major hub for their automotive production.
- Poland is also a growing producer of trucks, busses and tires with all the segments growing dynamically in recent years.
- Existing car plants result in increasing numbers of well qualified and relatively low-cost workforce.
- Investors from the automotive industry are still encouraged by the proactive policy of central and local government to treat it as one of the priority sectors.
- The last depreciation of zloty resulting from the economic crisis has made production in Poland even more competitive.
- The Polish internal market is relatively big and is expected to grow dynamically.



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Chapter 7.2 Aviation

The Polish aviation industry has a long tradition of almost 100 years. In more recent periods, due to an intensive restructuring process, the industry experienced rapid growth. The sector is currently almost entirely controlled by foreign corporations.

The aviation industry in Poland is highly concentrated: almost 90% of total production is concentrated in the south-eastern part of Poland, in the region of the Aviation Valley Cluster (Dolina Lotnicza). The cluster is not only a concentration of production plants, but consists also of numerous scientific research centres, as well as educational and training facilities.

It is estimated that around 100 firms operate in the aviation industry in Poland, employing more than 25,000 employees. Ninety firms are the members of the Aviation Valley cluster, employing approximately 22,000 qualified workers. Passenger, training and executive aircraft, as well as helicopters, gliders and aircraft accessories, are manufactured in Poland.

It has been achieved thanks to well developed and strongly business oriented research and development centres. Both international corporations and local producers have strong ties with local R&D community. They also cooperate with the local authorities and universities, as well as scientific centres, to optimally match an education profile to the needs of the labour market.

The largest education and research centres related to the aviation sector include:

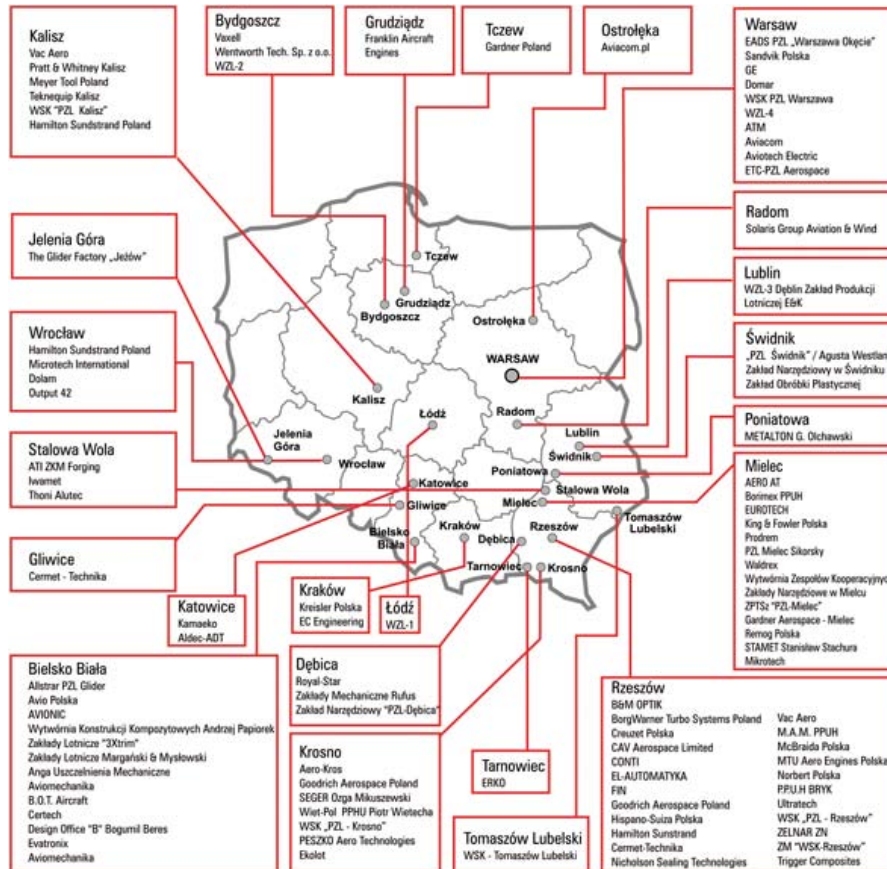
the Warsaw University of Technology, the Technical University of Rzeszów, the Institute of Aviation, the Military University of Technology, the Wrocław University of Technology, the Lublin University of Technology, the Łódź University of Technology, the Silesian University of Technology.

They are all either the members of or strongly co-operate with the Aviation Valley cluster.

The largest foreign investors operating in the aviation industry include:

Avio, Pratt & Whitney, Sikorsky Aircraft, MTU Aero Engines, Goodrich, AgustaWestland, Hamilton Sundstrand, Hispano Suiza.

Aviation sector in Poland



Source: PAIIZ, 2012

A further inflow of investments should be expected in the coming years – further foreign corporations are interested in the ability to open new plants in Poland, while those already present are expanding their activities in Poland.

In 2011 the total exports of the Polish aviation industry, according to EUROSTAT, increased by more than 18% reaching 390 mln EUR. Polish aviation industry is exporting mainly helicopters, small aircrafts and parts for aircrafts, the structure of exports however differs for depending on geographic destination. The aircrafts and helicopters are exported mainly outside the EU, whereas the parts are directed mainly to EU markets.

The development of the aeronautical industry in Poland is also supported by expansion of the aviation infrastructure and increasing number of passengers using Polish airports. According to the 2012 forecasts of the Polish Civil Aviation Office, the annual number of passengers at Polish airports will grow from current 22 million to above 30 million already in 2016.

In view of the above, it appears that the aviation industry in Poland has significant development prospects ahead. Foreign corporations are being attracted to Poland primarily by competitive production costs, a continuously developing and well integrated with manufacturing R&D base, the availability of a qualified workforce, a developed network of sub-suppliers and stable development of air transport.



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Chapter 7.3. BPO/SSC

Poland is one of the best places to locate BPO/SSC services. It offers public support, stable economy, EU standards and relatively cheap well qualified labour force with extensive foreign language skills and strong working incentives.

BPO/SSC investments are also strongly supported by the central and local administration, of various levels offering a number of incentives for potential investors. Cultural, institutional and geographic proximity to the rest of Europe, economic stability and good growth potential of the Polish economy are strong argument to locate BPO/SSC centres here. They guarantee western business values, low risk level, and prospects for dynamic development. Poland's EU membership means that all the standards concerning data protection and ownership rights are protected.

Last but not least the average cost level is competitive. It is related mainly to the labour market situation with large number of young people graduating each year and looking for jobs. Almost 1.8 million students are currently learning at Polish universities and large part of them study at business related faculties. Real estate business is still developing and a lot of new office space is offered at reasonable prices.

Therefore, it is not surprising that over the last 5 years, Poland has become a leading destination for offshoring services. Currently (ABSL data for the end of 2012) there are 375 BPO/SSC centres in Poland and 100 000 people are currently employed in this relatively new industry.

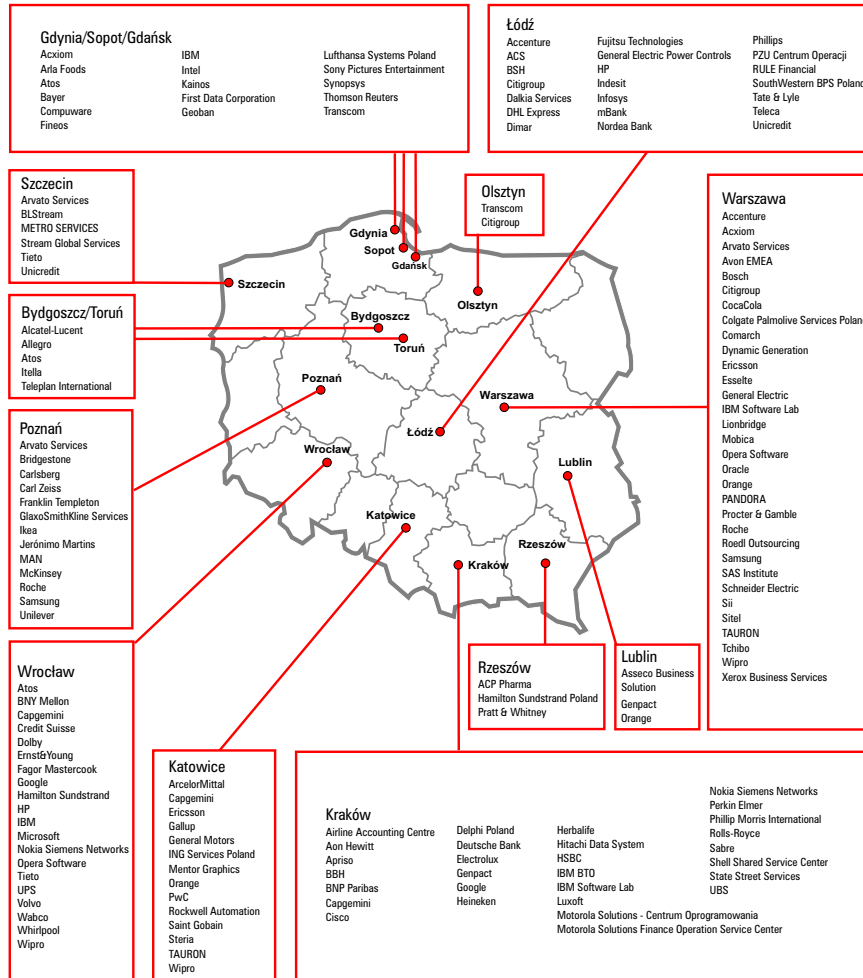
A number biggest world companies have already decided to locate their finance & accounting, research & development and IT centres in Poland. They are located mainly in the biggest Polish cities or in their proximity, taking advantage of a well developed local infrastructure, including easy access to airports and the best education and research institutions.

Most centres are located around: Warsaw (the capital city of Poland), Katowice, Kraków, Gdańsk (Tri-City), Poznań, Wrocław and Łódź.



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The selected BPO/SSC and R&D locations in Poland



Source: PaliZ, 2012

Chapter 7.4. Electronics

Poland is one of the biggest supplier of electronic equipment, TV sets in particular, to EU markets. The electronics industry in Poland has been expanding in recent years and has reached the position of one of the largest in Europe. According to available data total sales of the electronics industry in 2011 amounted USD 11.6 billion and should be increasing in years to come, reaching even USD 20 billion by 2016. Much will however depend in the situation of global economy as large part of the production is sold abroad.

The Polish market demand for electronic equipment is also expected to grow in the near future. According to BMI experts it is currently estimated to be approximately US\$ 7.5 billion and it is expected to grow at an average annual rate of 8,5% till 2016.

The growth will be driven, among other things, by strongly increasing demand for computer hardware – it will grow at the level of 9% until 2016. This segment is also strongly supported by government and EU financed programs of public sector computerisation. It does not only mean the purchases of new computers for government agencies but also co-financing for computerisation of schools, including the special “computer for every student” program. The development of this segment of industry arises from a high level of interest of Asian companies in transferring production to Poland, in order to gain direct access to the European market and to avoid EU’s high customs duties. Poland is currently one of the largest manufacturers of televisions in the EU, with official production at a level of 19 million units in the first 11 months of 2012 according to GUS (Central Statistical Office).

Despite the low level of computerisation, Poland has a major advantage over other locations for electronics manufacturers. This primarily refers to access to a large number of qualified computer engineers and electronics engineers and the low level of salaries, compared with the other EU member states.



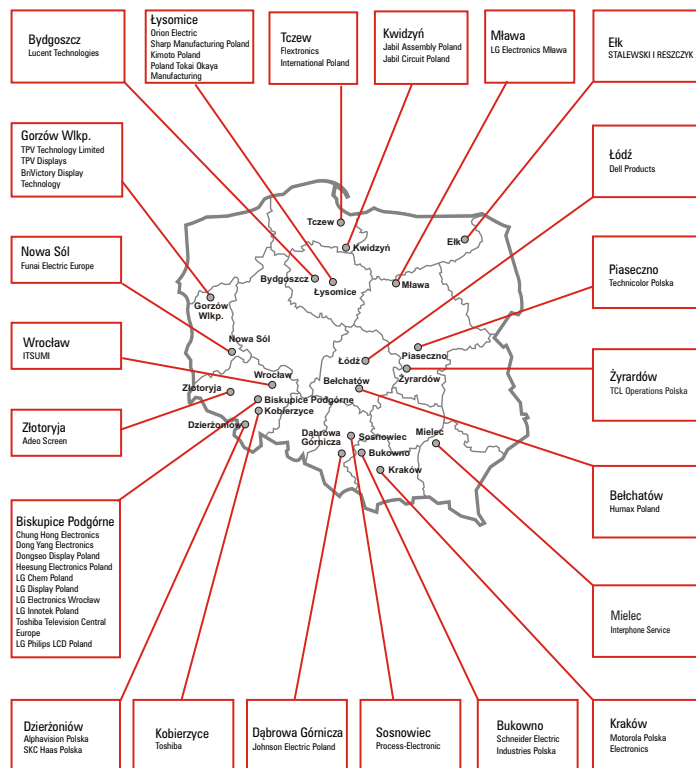
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Large part of electronic industry production facilities in Poland is also located in Special Economic Zones offering support during the investment process and significant tax reliefs for investors.

Currently approximately 300 enterprises conduct business in the Polish electronics sector, where the largest players are foreign companies. The main investors in the industry include:

LG Group, Sharp, Dell, Siemens, Toshiba, Phillips, Funai, Jabil, Orion, Flextronics.

Electronic sector in Poland



Source: PAliIZ, 2012

Chapter 7.5. Energy sector

The attractiveness of the Polish energy market for foreign investors results from two main factors. At first Poland needs major investment in energy generation and transmission, resulting from growing demand and serious underinvestment in the past. Secondly the share of electricity generated from bituminous coal and lignite in Poland is approximately 86% of the total volume of production, which in the light of EU ecology policies calls for serious action to increase the share of renewable sources in total energy production.

According to estimates of the URE (Urząd Regulacji Energetyki – Energy Regulatory Office), Poland will have to invest more than EUR 20 billion by 2015, in order to meet its energy sector needs. Apart from the investment in nuclear power plants and energy transmission it will also mean serious investment in renewable energy generation.

According to the latest EUROSTAT data for 2010, the share of renewable energy generated in Poland increased from 7% in 2006 to 9.4% in 2010. Meanwhile Poland as an EU member state is subject to EU policies on climate change mitigation. In particular, Poland must comply with the climate and energy package, referred to as “the 20-20-20 targets”. The Government is committed to low-emissions growth. According to Poland’s energy policy until 2030 the share of energy generated from renewable resources should increase to at least 15% by 2020, and according to the independent business forecasts of BMI experts it is a realistic goal as in 2016 the share of renewable energy in total production should be close to it (14.5%).



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At present, most of the planned investments into renewable energy generation are in the area of wind farms. According to the last available data from URE in 2012 they constituted almost 59% total power installed in renewable generation which amounted to 4000 MW. The share of hydropower plants was close to 24%, and the share of biomass was about 14%. The shares of biogas and solar energy are much smaller.

The Polish government is also proving its interest in stimulating investments in the area of renewable energy generation. The introduction of a new system of certificates of origin is an important step to stimulate and facilitate new investments in this sector. It is also accompanied by simplifications regarding connection to the gas network and power grid.

At present, the owners of most of the installed power in renewable generation assets are Polish entities, although foreign investors are also demonstrating increasing interest. Plans for entry onto the Polish market are being announced not only by energy firms, but also by foreign investment funds. So far, the following foreign firms are among those which have invested in the renewable energy sector in Poland:

RWE, EDP Renewables, Dalkia, Viessmann, LM WindPower, Green Source, Jabil Assembly Poland, Iberdrola, Poldanor.

The renewable energy sector in Poland is potentially a huge market, giving major development opportunities for both Polish and foreign investors. The strengths of Polish firms are the knowledge of local conditions and experience in operating on the Polish market, although, compared with the foreign players, they have less experience and know-how. Therefore, cooperation could prove advantageous for both parties (e.g. in the form of a joint venture). Foreign investors can also decide to acquire skills from the market by recruiting Polish specialists or by using advisory firms which know the peculiarities of the local market.

However, the key success factors will be quick decision making and a fast start to operations.

Chapter 7.6 Food industry

Poland is the 6th largest food producer in the EU with total sales of around EUR 40 billion and food industry is one of the biggest Polish industrial sectors. According to the 2011 data from the Central Statistical Office (GUS) its share in total manufacturing production was 18.4% and its share in employment was close to 19% of total manufacturing. It is a matured and well established sector facing stable demand conditions. It is one of the most attractive Polish sectors from the point of view of foreign investors.

Meat, dairy, fruits, vegetables and sugar are the most competitive parts of the Polish food industry on international markets. Although currently the sector is strongly dominated by SMEs (Small and Medium Enterprises) the share of large enterprises in total production is constantly increasing.

The accession to the EU was an important factor facilitating the development of this sector in Poland. It resulted in strong acceleration of international trade volumes. Only in 2011 the exports of Polish food industry increased by 11.8% reaching EUR 15 billion.

Constant quality improvement is one of the main competitive factors of the Polish food industry. Its competitiveness has also been constantly improving thanks to increasing efficiency of production organization leading to increased labor and capital productivity. This sector is also well known for its innovative solutions resulting in development of new products and visible expansion to international markets.

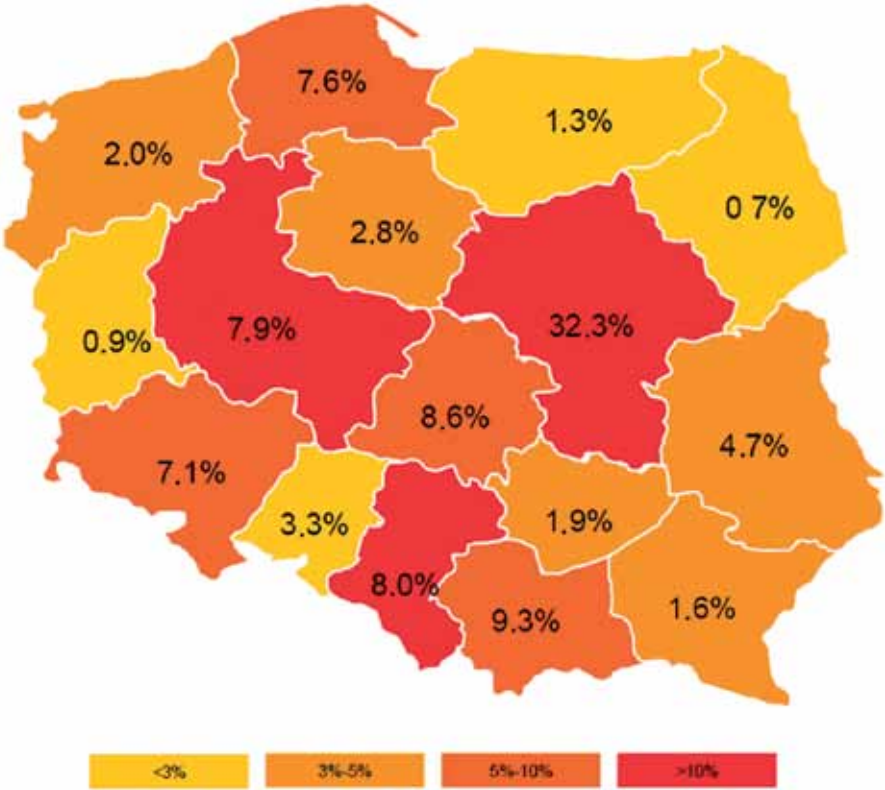
The success of Polish food industry is also a result of the large supply of well educated and skilled workforce. More than 3000 students graduate every year from faculties directly related to this industry such as Food Sciences and Bioengineering of Food Production. Strong position of the sector on Polish labor market results in large number experienced and skilled workers available for potential investors.

Polish domestic market for food products is also very attractive. It has been one of the fastest growing countries in the EU since the beginning of the economic crisis. Its macroeconomic situation is stable and the success of the recent years is well founded on robust domestic demand. Following increasing incomes the preferences of Polish food consumers are also changing. The quality and variety of the products are of growing importance.

According to the last available data from the National Bank of Poland Polish food and drink industry was the largest single direction of foreign investments in manufacturing sector in the years 2000-2011. The current stock of investments in this sector is close to EUR 9,5 billion and it is close to 19% of total manufacturing FDI to Poland.

Kernel Holding, Nestle, Cargill, Ferrero, Coca-Cola, Danone, Kraft-Foods, Mars, Pfeifer&Langen and Kofola are among the biggest investors in Polish food industry in recent years. They owe several of top 20 of food and drink industry companies in Poland according to revenues.

According to the last sectoral report prepared by PAIIZ Polish food industry is concentrated in several voivodships with dominating position of Mazowieckie, Śląskie and Wielkopolskie. (see map below).



Source: Food sector in Poland, PAIIZ, 2011

Chapter 7.7 Households appliances

The domestic appliance manufacturing is the sector with long history in Poland. The manufacturing of modern equipment started in early 70-ties. Currently (2011 data of CECED – European Committee of Domestic Appliances Producers) the value of sector's production reaches EUR 4 billion and it is comparable to the biggest producers in Europe.

The sector is strongly export oriented. The value of household appliances exports from Poland in 2011 was estimated to EUR 3.1 billion and it recorded and 11% growth since 2010. Washing machines are the main export product (23% of total exports) and they are followed by other large appliances such as: cooking appliances (16%) and driers, dishwashers and refrigerators each comprising 15% of Polish total exports.

However the domestic market is also significant and growing. The sales of household appliances in Poland in 2011 were estimated to EUR 1.6 billion and it more than 3% of total European market. The growth rate is stable and oscillates around 2%-3% annually. It is expected that the market will grow by 11.3% by 2016. The growth of Polish domestic market is strongly related to the increasing wealth of Polish consumers. As economic forecasts for Poland are still optimistic, taking into account the current slowdown of the world economy, the expected market's growth rates are based on strong macroeconomic fundamentals.

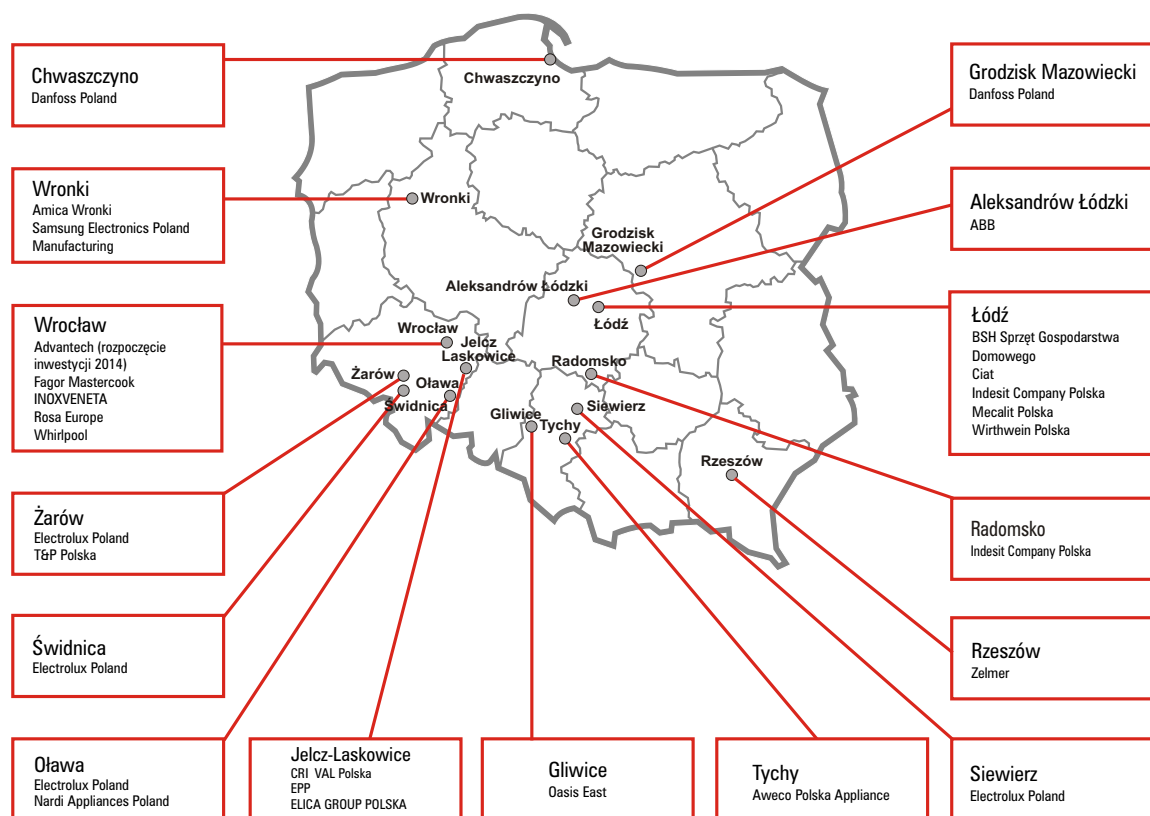
Leading multinationals and companies of Polish origin are present and competing on Polish home appliances market. It stimulates constant improvement of quality and technological advancement of production. Productivity of the sector has also been constantly increasing in recent years. Currently the producers of household appliances in Poland, similarly as on other leading markets, are putting much focus on innovative solutions leading to energy efficiency of their products.

Similarly as in other sectors the development of households appliances manufacturing in Poland is also strongly supported by the labor market situation in country. Large number of students graduate each year and, as the competition for jobs is high, the wage levels are relatively low. Moderate wage levels are accompanied by high skills of Polish workers, both resulting from increasing education level but also from years of experience in this highly competitive and quickly developing sector. Currently there are more than 20.000 of well educated, experiences and dedicated employees working in this industry.

It is not a surprise that largest and leading world producers of household appliances located their factories in Poland. The factories of Electrolux are located near Katowice and Wrocław. LG produces, among others, side-by-side refrigerators in Wrocław, Whirlpool has its production facilities in Wrocław, Indesit and BSH near Łódź, Samsung near Poznań, and Philips in Białystok.

The biggest producers of household appliances of Polish origin are Amica in Wronki near Poznań, Mastercook in Wrocław and Zelmer in Rzeszów. Polish producers are also exporting their products mainly to the markets in former Soviet Union.

The map of household appliances sector in Poland



Source: *PALiZ*, 2012

Chapter 7.8. IT

According to the latest projections, the IT sector will be one of the fastest growing industries in Poland. It will be the fastest growing IT market in CEE during the next few years. The market grows mainly due to still robust consumer spending in Poland. Polish households will continue to buy more notebooks and smart-phones and Polish companies will continue to modernize their IT systems. Polish government agencies will also continue to invest in new IT systems as this process is vastly supported by the EU funds.

According to BMI, the Polish domestic IT market is expected to grow at a level of about 10% in years 2012-2016. It means it will grow from US\$ 9.1 billion in 2011 to more than US\$ 14 billion in 2016.

The future condition of the domestic market is obviously strictly dependent on the state of the Polish economy, strongly influencing the level of demand for information technology. As one of the fastest growing countries in the EU since the recent economic crisis, and as the country with one of the highest projected GDP growth rates in the EU until 2016, Poland looks well positioned to experience dynamic development of the IT sector in the nearest future. On the other hand much will depend on the global (mainly European) economic environment which may negatively affect the Polish economy.

Provided the economic situation is stable, the Polish hardware market is expected to grow from US\$ 3.5 billion in 2012 to more than US\$ 5 billion in 2016, which gives an average annual growth rate of 7.3%. The market for services and software will grow even faster, which will result both from increasing market maturity and rising awareness of end-users. It will also be related to the increasing share of legal software sold to private households. The market for IT services will grow from almost US\$ 3.5 billion in 2012 to US\$ 5.6 billion in 2016, reaching an annual growth rate of 9.8%.

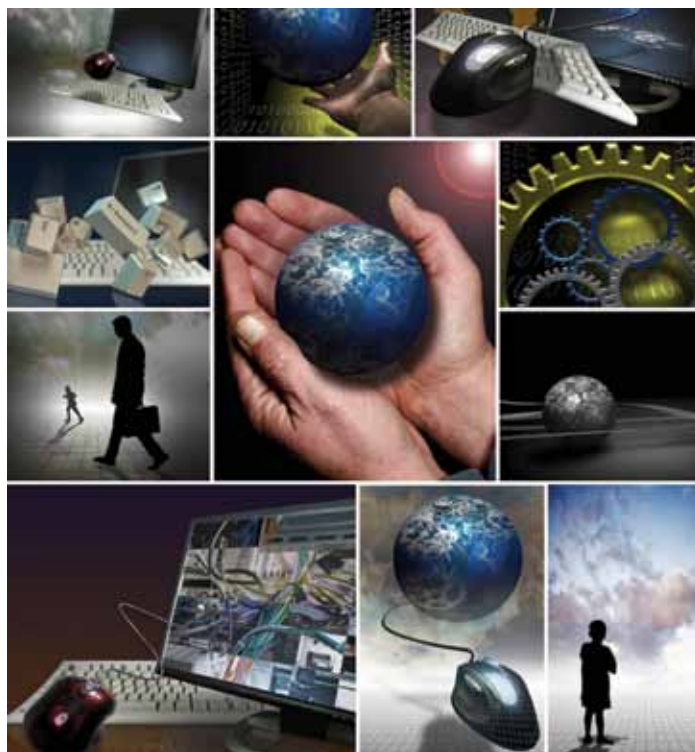
According to the sector participants surveyed by the PMR company in 2012 cloud computing and mobile devices are the two areas that will develop most dynamically in years to come. The services related to IT security are also expected to grow dynamically. It is very optimistic that most of surveyed experts does not see any important sector specific barriers for further development. They are anxious only about the influence of general economic situation on the sector.

One of the most important factors affecting the attractiveness of the Polish IT sector for foreign investment is the quality of human capital in Poland. Polish IT specialists are well known in Europe for their creativity and high level of professional capabilities. Polish students are frequently being given awards at the most important and biggest programming contests (e.g. 2011 ACM ICPC contest in Orlando, Imagine Cup 2012).

Investing in the IT sector in Poland is also cost effective, not only due to low labor costs, but also due to low-cost attractive investment fields and strong support foreign investors can obtain both from local and central authorities.

The attractiveness of Poland as the host for international investments in the IT sector has been proved by growing interest of the world leading companies, which have already decided to invest here. These are, among others:

Microsoft, Google, Oracle, IBM, SAP.



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Chapter 7.9. R&D

The R&D environment in Poland is developing dynamically. According to the most recent EUROSTAT data the total R&D spending in Poland in 2011 amounted to EUR 2.8 billion and was 8% higher than in 2010. The share of the business enterprise sector in total R&D spending in Poland is around 32% and in 2011 amounted to EUR 850 million.

Companies from the R&D, biotechnology, IT, renewable energy, automotive, BPO centres, domestic electronic appliances, mechanical, aeronautics and metallurgical sectors can benefit from various tax and non-tax incentives when investing in Poland. Innovative investments, research and development activities, the establishment or expansion of a BPO centre and employee training can be co-financed with funds from the European Union or state budget.

The accessibility of European funds and the increase in understanding for research, development and innovation activities stimulates the development of multifunctional, organisationally-advanced and conceptual types of centres. Currently there are 24 fully operational technological parks. Additionally 2 parks – in Poznan and Bialystok are currently (2012) in the process of initiating their activity.

According to the most recent data from July 2012, almost EUR 280 million has already been spent on projects of the priority 5 of the “Innovative Economy” Operational Programme (2007–2013), from which the technology parks are financed. Hundreds of millions of euros are being spent in parallel within the framework of the Regional Operational Programmes (2007–2013) in each of the (16) Polish voivodships. These funds are allocated to construction of new and expansion of existing parks and incubators, the growth of which is stimulating the innovative economic development of the region.

The circle of companies operating in the technology parks includes both Polish firms and large foreign companies. In the latter group, attention should be drawn to the Wrocław Technology Park, which is home to global industry leaders, such as Balluff, Ericsson, Schneider Electric, Texas Instruments and Wincor Nixdorf. Inteliwise should be mentioned in the Pomeranian Science and Technology Park. It is also reasonably common for parks to attract companies from a given region and individual companies with a leadership position on the domestic market – Tallex S.A. (Toruń Technology Park), Wasko S.A. (Technopark Gliwice) and TP S.A. (Łódź Regional Park of Science and Technology).

The representatives of ICT, biotechnology, chemical, as well as renewable energy and environmental protection sectors are among the most interested in locating their activities in technological parks. Research is conducted in the innovation centres in the areas of medicine, health protection, medical engineering and e-health, electronics, materials engineering and nanotechnologies.

Polish technology parks are a very good offering for foreign investors. At present, one in nine companies, which create one in three jobs, are based on foreign capital. The benefits for foreign investors primarily include:

- a high quality infrastructure,
- a dynamic business environment, extensive contacts and access to information,
- contacts with scientific and research institutions, technology transfer and access to highly qualified labour resources,
- assistance with the administrative formalities and in the investment process.

Simultaneously, companies with foreign capital are an opportunity to enrich the variety of entities and skills which are key to the crystallisation of the innovative environment.



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Chapter 8. About the authors



PwC

How can PwC help your company?

Having developed various investment projects, we have gathered practical experience in the process of choosing an investment. Hence, we are able to answer such questions as: why, where, when and how to set up a production plant. We know how to find credible information and how to evaluate it and apply it in a project. We understand the entire investment process and we facilitate contacts with local authorities. Such knowledge is essential when considering a particular location. We offer our clients various services: from choosing a location, to cost modelling, compiling and supporting business justification, planning an investment, supporting the recruitment process, assisting with the transfer of processes and overall project management.

Moreover, we help optimise state aid. Our help encompasses drawing up all essential applications with required attachments. We also provide support in the negotiation process.

At PwC, we measure our success by yours. Every day our almost 180.000 people in 158 countries go to work to help our clients succeed. PwC in Poland has a successful record of cooperation with the largest local and international businesses and government institutions. We are committed to serving as a force for integrity, good sense and wise solutions to the problems facing businesses and the capital markets today. Transparency and good standards of corporate governance - both in our clients' businesses and in our own - are central to our ability to achieve those objectives. And we aim to continue to achieve them from our position of strength and professional leadership.

PwC

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Polish Information and Foreign Investment Agency

The Polish Information and Foreign Investment Agency (PAIIZ) is a governmental institution and has been servicing investors since 1992. Its mission is to create a positive image of Poland in the world and increase the inflow of foreign direct investments by encouraging international companies to invest in Poland. PAIIZ is a useful partner for foreign entrepreneurs entering the Polish market. The Agency guides investors through all the essential administrative and legal procedures that involve a project. It also provides rapid access to complex information relating to legal and business matters regarding investments. Moreover, it helps in finding the appropriate partners and suppliers together with new locations.

PAIIZ provides professional advisory services for new investors in Poland, including:

- assistance and support for finding the best location for investment,
- finding the potential cooperation partners and suppliers,
- support concerning the investment incentives,
- assistance for the entrepreneurs during the whole investment process.

Besides the OECD National Contact Point, PAIIZ also maintains an Information Point for companies which are interested in European Funds. All of the Agency's activities are supported by the Regional Investor Assistance Centres. Thanks to the training and ongoing support of the Agency, the Centres provide complex professional services for investors at voivodship level.

On the website www.paiz.gov.pl an investor can find all the necessary information concerning key facts about Poland, the Polish economy, legal regulations in Poland and detailed information which could be useful for any company considering to set up a business in Poland.

Since 2011 in PAIIZ operates also China – Poland Economic Cooperation Centre as a "one-stop shop" providing com-

prehensive information on investment opportunities in Poland and offering support for Chinese companies during the investment process. The Centre is responsible for: promotion of Poland as a location for FDI, identifying sources of foreign direct investment, supporting the missions and delegations from China, preparing analysis & information, maintaining regular contact with Chinese companies operating in Poland as well as Go China website. More information you can find on: www.gochina.gov.pl

All the services mentioned above are free of charge.

Contact us to learn more about how your company can profit from the unique business potential of Poland.

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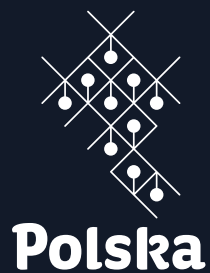
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