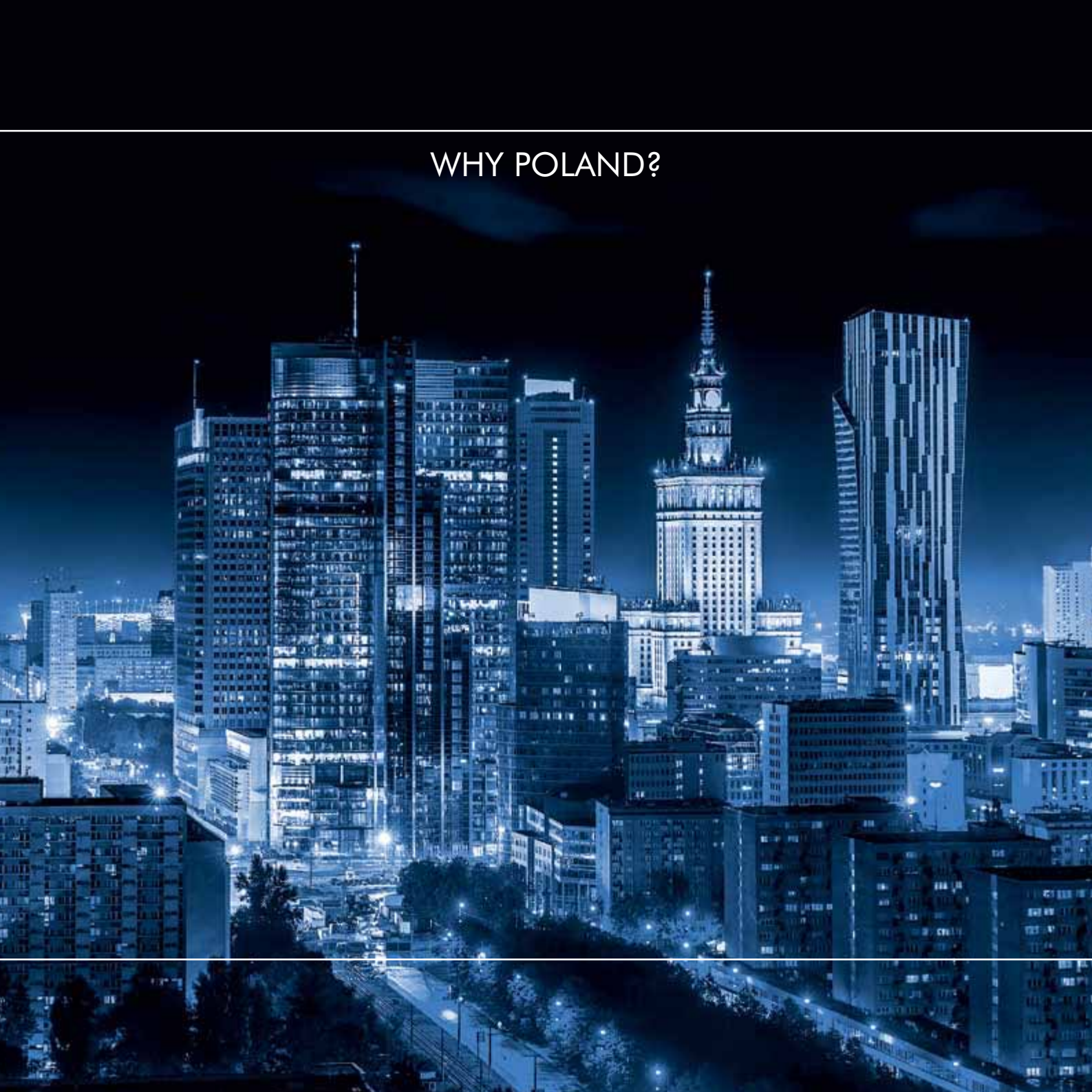
WHY POLAND?



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Cover photo: Warsaw by night

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CONTENTS

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 three 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 (PAIiIZ). By the PAIiIZ's report on investment climate in Poland 2014, the most appreciated factor was the size of the market and the country's political stability. The next most highly assessed aspect of the climate for business is the access to a pool of highly-skilled people.

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 (romantic landscapes!). 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 2014 Poland will be in the next two years, 5th in Europe, and the world's 13th most attractive economy. The report confirms Poland's strong position on the international investment scene. Poland is a perfect place for investment and business expansion. According to the E&Y Attractiveness Survey Europe 2014, Poland is the most attractive country for investment in Central and Eastern Europe. The report highlighted the fact that 2013, foreign direct investments (FDI) created in Poland by 8% more new jobs than the year before, the result of the whole of Europe is -2%. The sheer number of new jobs (13,862) ranks Poland in third place on the continent after the United Kingdom (27,953) and France (14,122). Poland was also the number one destination in the CEE region in terms of R&D projects, driven essentially by international software companies. With these results, Poland became the leader of growth in Europe.

Thousands of foreign companies already profit from investments in different sectors on the Polish market. The key

reasons behind their decision 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.

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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 development[1] and is the leader among Central European countries in terms of the level of optimism.[2] Poles are also above average in terms of life satisfaction among the 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.

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[1] United Nations Development Program, Human Development Report, 2013

[2] Deloitte, Business Sentiment Index, 2011

[3] OECD, How's life in Poland?, 2014

Chapter 2. Stable and growing economy

According to the European Commission data for 2013 Poland was one of the fastest growing countries in the EU. Only Latvia, Lithuania, Luxembourg, the UK, Malta and Romania recorded higher rates of GDP growth. While on the average the size of GDP in the EU increased marginally by 0.1% in 2013, Polish economy grew by 1.6%. Poland is set to outperform the European Union's largest post-communist members this year and in 2015, according to a spring forecast by the European Commission. GDP growth in Poland is expected accelerate to 3.2% in 2014 and 3.4% in 2015. Both of these figures are much above the growth forecasts for the EU as a whole, which in 2014 is expected to grow by only 1.6% and in 2015 by 2.0%.

Fiscal prudence and keeping the economy growing in recent years have also enabled the Polish government to keep the level of public debt within reasonable limits – in 2013 Polish consolidated public debt amounted to 57% of GDP while for EU28 countries it reached 87.1%. What's more, the ratio in Poland is expected to fall below 50% in 2014. It means that Poland has successfully passed the test all the European economies have been recently subject to.

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 economic agents is also an important asset. Therefore both international and local business have become used to continual reform. Rapidly changing environment Polish companies operated in over the last 20 years helped them to become both: less fragile and more agile. They are less fragile to demanding and unstable regulatory environment which helps them to successfully play not only on local but also on other emerging markets. Polish

managers are able to take quick decisions necessary to react to changing market behavior. It helped many of them to take advantage of the changing consumer and business preferences on the EU markets that resulted from the recent crisis.

Also, 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.

Last but not least most of businesses are also the strong supporters of the reforms leading to the increase of the efficiency and transparency of public institutions and these are the kinds of reforms that still need to be continued in Poland.

Poland's big domestic market is a valuable asset and it is also taken into account by foreign investors. In 2012 the relation of exports to GDP in Poland was only 47%, whereas in the neighboring countries such as the Czech Republic, Hungary and Slovakia it is much higher – 78%, 95% and 97% respectively. It means the Poland is much less dependent on changing external environment. On the other hand the export growth recorded in recent years was also satisfactory, despite the adverse conditions in the EU, reaching in Euro terms 8.0% in 2013.

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 4.19, 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 August 2014, Poland was able to spend over EUR 40 billion from EU structural funds programs, more than 10% of Polish annual GDP, in the frames of the 2007-2013 framework program, where most of the money was spent on infrastructural, technological or human capital investments. Poland is also expected to obtain EUR 82.5 billion in the frames of the 2014-2020 program.

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. Between 2000-2003, unemployment increased from 10% to over 20%, productivity dramatically 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. Despite many problems that may still appear, the Polish economy is attractive, stable and set to grow substantially above the EU average in the coming years.

Chapter 3. Human capital

Undoubtedly, excellent quality of human capital is one of the strongest assets of Poland. Surveys made among foreign investors who do business in the country show, that among the most appreciated characteristic of Polish employees there are: high qualifications, communication skills, proficiency in foreign languages as well as motivation to work and organizational culture of Polish staff. Poles are innovative, creative and smart. Well-educated Polish economists, engineers, IT specialists and scientists are highly sought-after and appreciated employees who find employment in IT companies, R&D centres and scientific institutes. Investors who opt for Poland should barely have any problems finding suitable personnel. Also it is thanks to Polish highly skilled employees the shift in the profile of incoming investments to Poland towards more sophisticated and know-how projects was made. This may have much to do with the fact that Poland has over 450 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. In addition, Poland has the highest percentage of people with secondary and tertiary educational attainment (68%) in the labor market.

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.

It is worth noting that Polish scientists have been involved in the recent and most ambitious space project of the new century - the Rosetta mission that is the first ever precision comet landing. The touchdown of Rosetta satellite on Comet 67/PT was successfully completed in November 2014.

Also 2013 and 2014 students of the Białystok University of Technology have constructed the Mars rovers which won at the prestigious international competition University Rover Challenge (URC) in the U.S.A.

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.

Excellent universities and technical schools provide a wealth of academic talent. 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. Most recently, the Polish team under the aegis of the Warsaw School of Economics, won the Google Online Marketing Challenge 2014, beating over 2500 teams from all over the world.

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 competition[1].

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.[2]

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.

[1] Source: www.naukawpolsce.pap.pl

[2] 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 routs leading from the North to the South and form 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.
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 million domestic consumer market. Our country is the 30th largest market in the world and one of the biggest EU member states, the 6th most populated country in the Union and the biggest market in the region of Central and Eastern Europe. The Polish market is not only numerous and varied but it is much more dynamic than other markets in the region. Poland is 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!

According to the survey on investment climate in Poland conducted by PAIiIZ and TNS Pentor, the size of the Polish market constitutes the biggest advantage of the 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 recourses 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 of considerable importance for Polish economy, investment incentives in the special economic zones and real estate tax exemptions.

Governmental support system

Governmental grants are provided on the basis of Program for the support of investments of considerable importance for Polish economy for years 2011-2020 (further as the Programme), adopted by the Council of Ministers on July 5, 2011, and amended on July 22, 2014.

Form of support

Support is provided in the form of a grant on the basis of an agreement concluded between the Minister of Economy and the investor. The agreement lays down conditions for the payment of the grant, which is paid proportionately to the degree of fulfilling investor's commitments.

Beneficiaries

Support is dedicated to companies planning investments in the following priority sectors:
- automotive,
- aviation,
- electronics and household appliances,
- food processing,
- biotechnology,
- BPO, ICT, SSC,
- R&D.

Support is provided also for companies planning manufacturing investments in other sectors if a project's minimum eligible costs are 750 m PLN and minimum 200 new jobs or 500 m PLN and 500 new jobs (significant investments).

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

Support for creation of new job places (employment grant)

Sector	New job places	and	Eligible costs of the new investment (m PLN)	Amount of aid (% of eligible costs)
Automotive, electronics and household appliances, aviation, biotechnology, food processing*	250		40	PLN from 3 200 PLN to 15 600 (~ EUR 800 – EUR 3 900)**
modern services	250		1.5***	
R&D	35		1***	
significant investment in other sectors	200 500		750 500	

* Aid is not granted if unemployment rate in a district (poviat) is below 75% of the national average, unless Eastern Poland
** extra 20% for investments in Eastern Poland
*** excluding office space rental costs

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,
   - local input,
   - 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.

Support for new investment (investment grant)

Sector	New job places	and	Eligible costs of the new investment (m PLN)	Amount of aid (% of eligible costs)
Automotive, electronics and household appliances, aviation, biotechnology, food processing*	50		160	1.5 -7.5**
significant investment in other sectors	200 500		750 500	
R&D	35		10***	up to 10

* Aid is not granted if unemployment rate in location (poviat) is below 75% of the national average, unless Eastern Poland
** extra 5 p.p.for investments in Eastern Poland or 4 p.p. for significant investment
*** excluding office space rental costs

The amount of investment grant depends, among others, on:
- the number of new jobs created,
- investment outlays per employee,
- location.

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 aid shall have an incentive effect).

The operator of the Programme and the authority granting state aid is the Minister of Economy. The Polish Information & Foreign Investment Agency (Polska Agencja Informacji i Inwestycji Zagranicznych S.A. - PAIiIZ) is responsible for accepting applications and providing the Interministerial Committee for Foreign Investment (hereinafter referred to as the Committee) with the dossier of investment projects.

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.

Special Economic Zones in Poland

At present there are 14 special economic zones operating in Poland. They differ in respect of area, location, 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 2026. 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.

The minimal level of investment in a SEZ is EUR 100 000. 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 new work places.

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.

The maximum permitted level of regional public aid

From the 1st July 2014 a new map of regional aid is in force for the years 2014 - 2020. The maximum level of regional public aid is calculated as a percentage of the investment expenditure (or two-year's labour costs, should the latter be higher). The following percentages apply:

1. **50%** - in areas belonging to the provinces (województwa) of: Lubelskie, Podkarpackie, Podlaskie, Warmińsko-Mazurskie;
2. **35%** - in areas belonging to the provinces (województwa) of: Kujawsko-Pomorskie, Lubuskiego, Łódzkiego, Małopolskie, Opolskie, Pomorskie, Świętokrzyskie, Zachodniopomorskie, part of Mazowieckie,
3. **25%** - in areas belonging to the provinces (województwa) of: Dolnośląskie, Śląskie, Wielkopolskie,
4. **20%** - in part of Mazowieckie,
5. **15%** - in Warsaw until 31.12.2017 r.,
6. **10%** - in Warsaw starting from 1.01.2018 r.

Real Estate Tax Exemption

The municipal council (gmina council) may, by way of a resolution, establish exemption from real estate tax for entrepreneurs as one of the forms of state aid.

The aid provided in the form of exemption from real estate tax is equivalent to the value of the tax exemption. What is worth emphasizing is that the tax aid granted under resolutions of municipal councils constitutes the so-called "automatic aid", which means that an entrepreneur is automatically entitled to exemption after fulfilling the conditions set out in the resolution of the municipal council. However, the intention to use aid always has to be notified in accordance with the model notification, which should be specified in the resolution of the municipal council. All investment expenditure incurred before the exemption cannot be regarded as eligible costs.

Chapter 7. Strategic sectors

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 subcontractors.

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 private 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

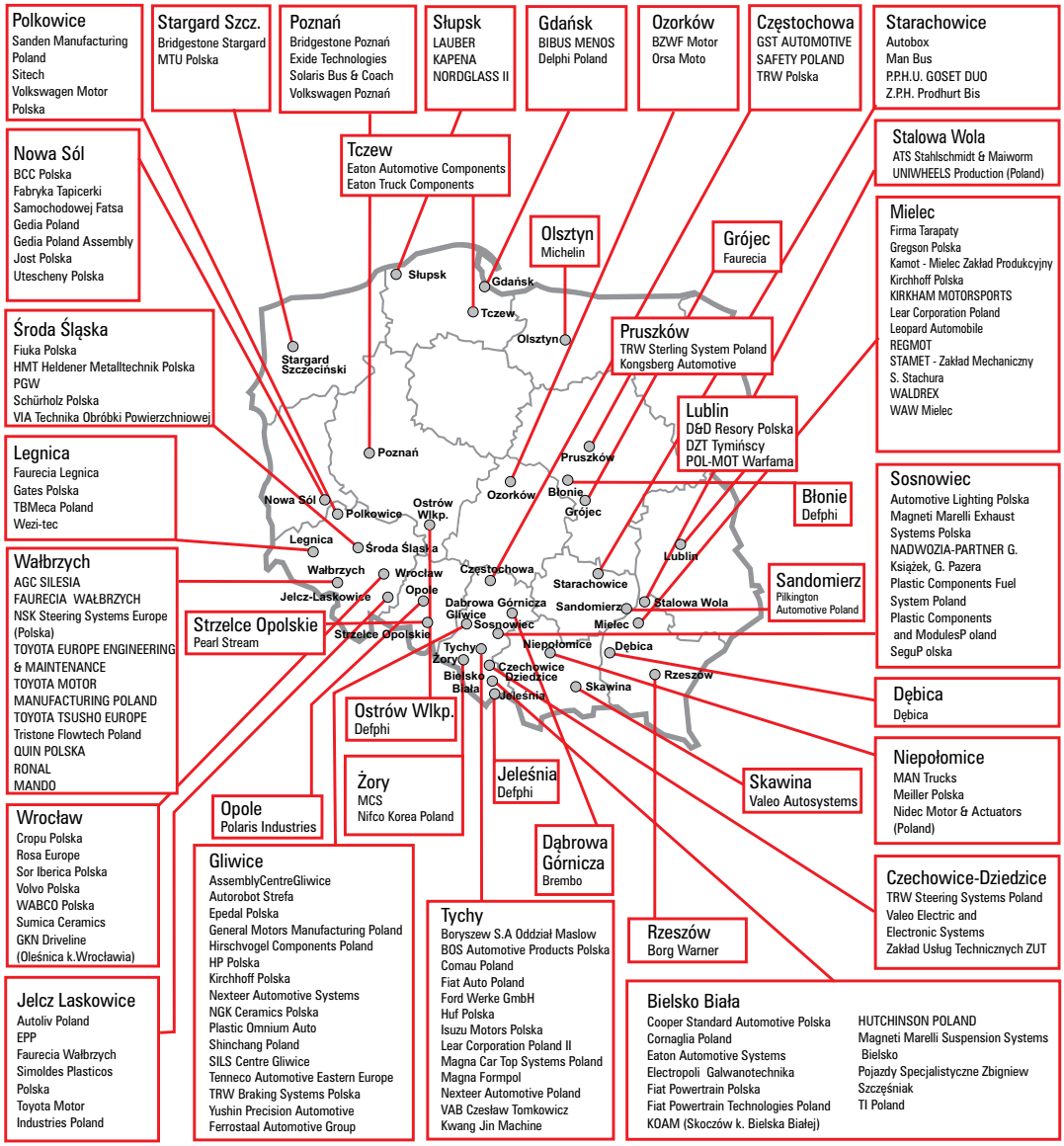
Polish Automotive sector ranks second in terms of manufacturing output is a solid backbone of country's economy. Thanks to flexibility and creativity of Polish workers, healthy cost structures and strong demand for vehicles and parts manufactured in Poland the industry has emerged from the turbulent times almost intact. Three major passenger car OEMs, several bus producers and hundreds of Tier 1 and 2 manufacturers make a solid industrial base. Worth to know that every sixth Zloty in Polish export is generated by the automotive sector. Out of 40 car and engine plants located in Central Eastern Europe (CEE) 16 are based in Poland. They sell abroad of vehicles, parts and accessories thereof accounted for about 11% of the country's total exports in 2013. Almost 80% of Polish automotive exports is directed to the EU markets. According to information from Central Statistical Office for 2013 it constitutes more than 12% of Polish manufacturing and gives jobs to around 160.000 of employees.

The numbers depicted above are not a result of coincidence or good luck. Besides an excellent cost-to-quality ratio Poland offers the biggest pool of talented people easy to reach. Almost 1.8 million students spread across several major university hubs, young professionals accustomed to the highest quality and efficiency standards create a strong asset for new investments. Short proximity to major European motor vehicle markets, attractive incentives system, stable and predictable economy make Poland a place worth considering as an investment location.

The product portfolio of Polish Tier 1 and 2 suppliers is very wide. It covers among others: powertrain units (two Toyota plants, Volkswagen Motor Polska, Fiat Powertrain and Isuzu Motors), steering systems (Nexteer Automotive, TRW, Delphi, Mando Corporation), lightning systems (Valeo, Automotive Lightning), cooling systems (Delphi, Valeo, Hutchinson), car body and underbody structures (Gedia, Kirchoff), tyres (Michelin, Bridgestone, Goodyear), car glasses (Pilkington, Saint-Gobain Sekurit, PGW), interior parts (Boshoku, Faurecia), seating systems (Faurecia, Sitech, Johnson Controls, Lear Corporation), safety systems (TRW, Autoliv).

Approximately 500 companies in Poland have ISO/TS 16949 certificate confirming quality management system required by automotive OEMs. Several R&D development centres operating in Poland is a testimonial of high technical potential of Polish staff. The largest R&D center in Poland was created in Cracow by Delphi company. Other R&D establishments includes: Tenneco, TRW, Valeo, Faurecia, Wabco, Eaton, DraexImaier or Mbtech operations. Poland is also an important bus producer, and this sector is also driven mainly by export demand.
Number of 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.

Automotive sector in Poland



© PAIiIZ, 2014, (selected investments)

The following are worth mentioning among the largest automotive suppliers:

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

After the couple of years of decline which resulted from weak external and internal demand the vehicle production is expected to regain momentum in 2014. In 2013 the size of production amounted to around EUR 26 billion, increasing by over 6% y/y.

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 domestic sales of Polish automotive industry will be able to achieve average annual growth rate of around 4% in years 2014-2016. Optimistic forecast for vehicle production in Poland is based on strong macroeconomic fundamentals which should result in accelerating GDP growth rates in years 2014-2016.

Export competitiveness is still strong as despite dynamic growth over the past few years, Poland's labour costs are still much lower than those in Western Europe and some CEE peers. Furthermore, the country's human capital is well-skilled, as well as efficient, and Poland is geographically well-placed to export to Europe. These factors should facilitate investment in the country, boosting the automotive output in the long run.

What is more, Poland has been constantly regarded as one of the top investment destination for automotive industry. Suffice to mention the spectacular investment decisions in 2014 made by Volkswagen in Września, or GM in Tychy.

Poland's advantages:

- Fiat, Volkswagen and General Motors will stay committed to treating Poland as the major hub for their automotive production;
- Poland is also one of the biggest among EU countries producer of trucks, busses and tramps;
- investors from the automotive industry as one of the priority sectors of our economy are still encouraged by the proactive policy of central and local government;
- the Polish internal market is relatively big and is expected to grow dynamically.

Chapter 7.2 Aviation

Poland has a 100-year history of aerospace and a tradition of aerospace industry dating back to more than 80 years. Strong scientific, academic and engineering centres were of key importance to the development of this sector. After the period of transformation in Poland, increased international business cooperation and direct foreign investments contributed to its further development. Currently, Polish aviation industry has a rich export offer of advanced aviation products.

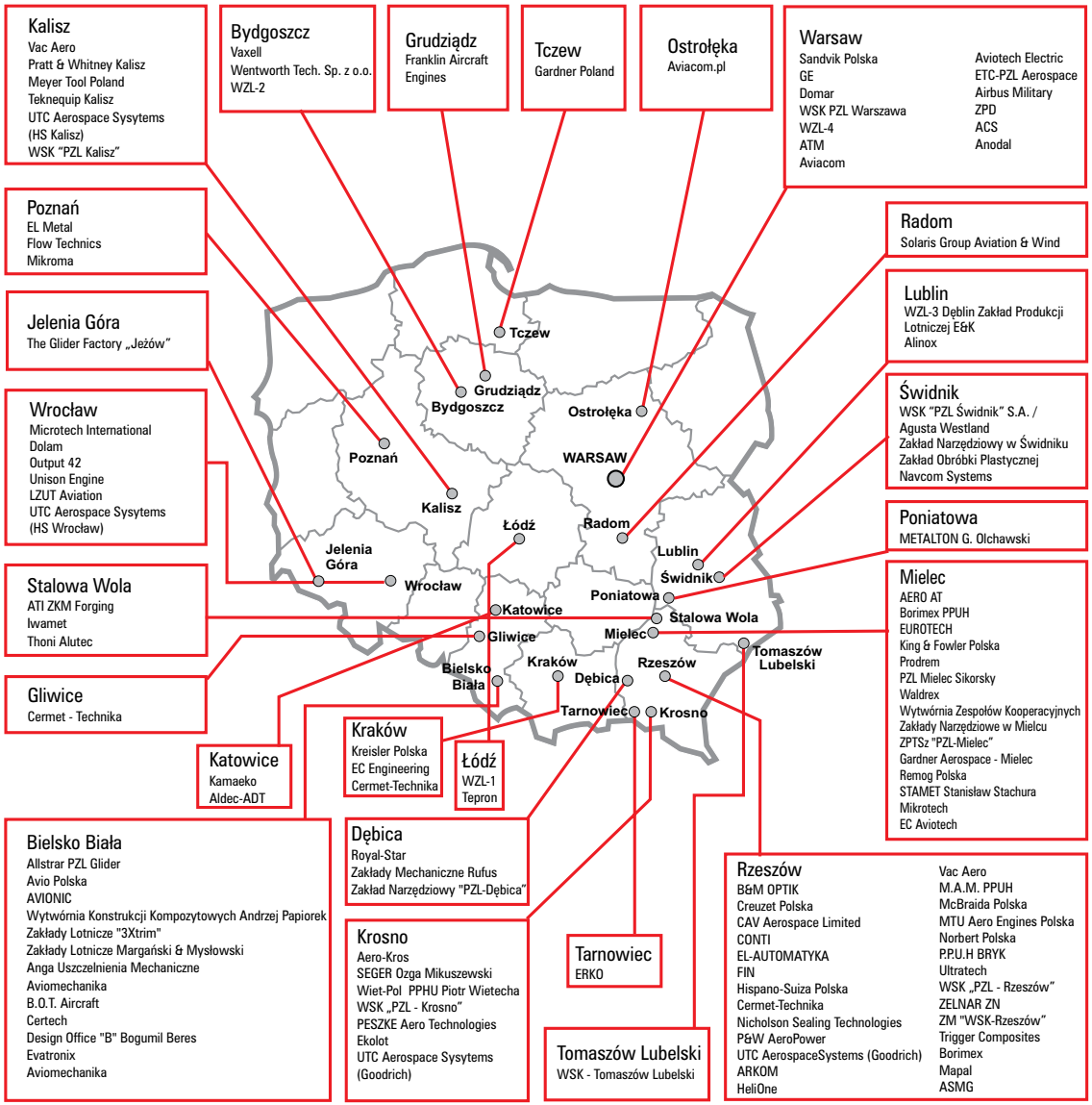
There are over 140 aerospace and aerospace-related companies with annual sales of EUR 800 million, and over 24 thousand employees in total operating in Poland. The majority of these are small and medium-sized enterprises (SMEs), companies with foreign capital, and a small group of enterprises with minority state shareholding. Around 80% of aerospace plants are located in south-eastern Poland in one of three aviation clusters.

Operating plants are specialized in the production of aircraft (agricultural, training, executive), helicopters, gliders, subassemblies (aluminium, composite, GRFP) and accessories. 90% of aviation production is exported to: USA, Venezuela, Indonesia, Italy, Greece, Canada, Spain, Germany, South Korea and Vietnam. The competitive edge of Polish aerospace companies lies in the high quality of products (expertise in treatment of materials, casting, mechanical engineering, electronics) and competitive labour costs. Polish network of production and service companies supported by R&D centres creates potential for cooperation and orders for aviation spare parts and final products. Aerospace is one of the most innovative sectors in the Polish economy due to companies' large expenditure on R&D, cooperation with research centres, participation in international projects, human potential and developing clusters. The advanced level of processes used in the Polish aerospace sector is best illustrated by the participation in the development of the innovative engines like PurePower ® PW1000G (GTF), GEnx, LEAP. Polish participation in such projects should increase owing to the subsidy of the National Centre for Research and Development, which in the years 2013-17 will invest EUR 75 million in research, development works and knowledge transfer to the aerospace industry.

Poland would also like to mark its presence in space. In 2012 we finally became a fully-fledged, 20th member of the European Space Agency with an annual budget of EUR 4 bn. This membership will enable Polish companies and researchers to fully participate in many European space programs and missions. Next step in Polish space exploration is establishment of the Space Cluster and the Polish Space Agency (POLSA). POLSA will fulfil governmental tasks in the area of space research and development of new technologies.

The development of the aerospace sector would not have been possible without qualified workers - over 11 thousand engineers (650 graduates in aviation studies) graduate from Polish technical universities every year.

Aviation sector in Poland



Highly developed university and vocational education system and long-standing tradition contribute to the quality of the aviation personnel. Moreover, initiatives such as AREOnet (www.areonet.pl) led to closer cooperation between industry, self-governments, and school and university authorities aimed at even more effective training of personnel, for example, through preparation of training programs, and adaptation of school profiles to the market needs.

Selected universities and research centres related to the aeronautical sector:

- the Warsaw University of Technology,
- the Technical University of Rzeszów,
- the Institute of Aviation,
- the Silesian Science and Technology Centre of Aviation Industry,
- 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.

It is worth to emphasize that Poland is the 5th best investment destinations for aerospace manufacturing projects in Europe (8th in the world) according to PwC survey.

Selected foreign companies operating in the aerospace sector:

- Airbus Military
- Avio Aero Polska
- GE EDC Poland
- Hamilton Sundstrand
- Hispano Suiza
- MTU Aero Engines Polska
- Pratt & Whitney / WSK Rzeszów
- Sikorsky / PZL Mielec
- Thoni Alutec
- UTC Aerospace Systems

The presence of the foreign companies in Poland may significantly increase due to 120 billion PLN expenditures allocated to the Polish army modernisation.

Strengths of Polish aerospace industry:

- long-standing tradition,
- high quality of products,
- competitive costs of production and labour,
- qualified workforce,
- constantly developing R&D, educational and training activity,
- well-developed suppliers network,
- three aviation clusters,
- dense network of international and domestics airports.

Chapter 7.3 Biotechnology

Despite being one of the fastest growing sectors in Poland, biotechnology is still an emerging industry. In the coming years further dynamic growth of the domestic biotechnological market is expected, largely thanks to innovative research projects carried out by the Polish biotech companies and academic institutions, as well as inflow of foreign investment into biotech sector. Key reasons why Poland attracts investors is availability of highly qualified professionals and competitive labour costs. Particularly noteworthy is the continuous development of biosubstances and biofuels production technologies. Hormones, antibodies and diagnostic tests, all generated with the use of modern genetic engineering techniques, are becoming a specialty of Polish biotechnology industry. Biopharmacological products have also gained recognition, and this branch is currently the most rapidly expanding one within the biotechnology sector. Manufacturing processes of human proteins and peptides based on E. coli and cell cultures are constantly improving. Undoubtedly, there is still a lot of untapped potential in the section of vaccines, protein drugs and reagents.

The most important reason why Poland is one of the most attractive locations for international biotechnology projects is a broad access to highly qualified researchers. Due to rapid growth of student base in Poland, we are dealing with a significant surplus of alumni, especially in the field of biotechnology. Despite that, university admission is highly competitive and over the last 5 years there were approx. 6 candidates per place. Biotechnology major is offered by 39 universities (including 30 at PhD level), which are educating more than 13,000 students and generating about 4,000 graduates per year. Research facilities constitute a network of more than 110 scientific institutions employing over 3,000 scientists, who mostly work in biotechnology and molecular biology. Biotech companies and research institutes generally locate their activities in one of 6 mature biotech clusters (Warsaw, Łódź, Tri-City, Kraków, Wrocław, Poznań).

Business spending on R&D in Poland has increased over the last year by 800% (from EUR 61 mln to EUR 500 mln). Also, the budgetary R&D expenditure noted a significant increase – Ministry of Science and Higher Education funding, including grants provided by the National Science Centre and the National Centre for Research and Development, amounted to EUR 302 mln.

Rationale for development of biotechnology in Poland:

- numerous facilities with high research capabilities,
- favourable government policy supporting investments in new technologies,
- development of biotechnology-related sectors,
- competitive labour costs and rapidly increasing labour productivity,
- government grants dedicated for biotechnology projects,
- wide variety of financing programmes (both national ones available through NCBiR, as well as financed from the EU funds).

Chapter 7.4. BPO/SSC

Poland is one of the best places to locate BPO/SSC services in Europe. It offers public support, stable economy, EU standards, well qualified and cost-competitive labour force with extensive foreign language skills and strong working incentives. BPO/SSC investments are also strongly supported by 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.

The main strength of Poland's business services centers is the high skills of human capital offered. Apart from offering simple business processing, Polish BPO's are able to provide more advanced services that are often a source of innovation for their customers' organizations. The comprehensive nature of Poland's business services center operations is reflected by the functioning of highly specialized units that handle complex processes.

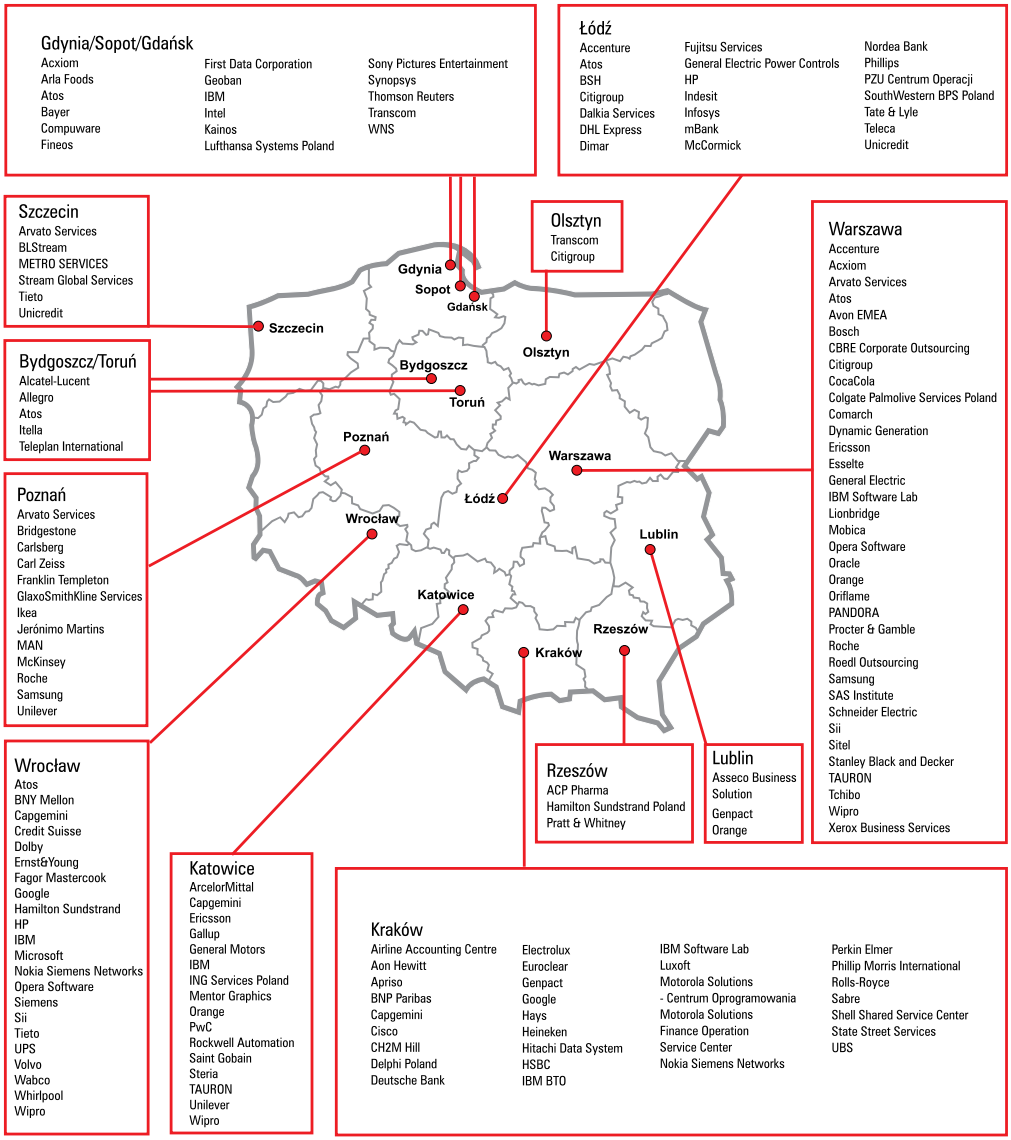
Last but not least the average cost level is low. It is related mainly to the labor market situation with large number of young people graduating each year and looking for jobs. Almost 1.7 million students are currently learning at Polish universities and large part
of them study at business related faculties. Real estate market 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 (as of August 2014) there are around 470 BPO/SSC centres in Poland and about 130 thousand people are currently employed in this relatively new industry. Currently approximately 40% of all BPO centres in CEE region are located in Poland.

A number of the most recognizable brands are already present with their finance & accounting, research & development or IT centres in Poland. They are located in the proximity of the biggest Polish cities, taking advantage of well developed local infrastructure, including easy access to airports and the best education and research institutions.

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

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



Source: *PAIiIZ, 2014, (selected investments)*

Chapter 7.5. 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 estimates total sales of the electronics industry in 2012 amounted EUR 8.5 billion and should be increasing in years to come, reaching even EUR 12 billion by 2016. The total worth of production of electronics and household appliances is estimated to reach EUR 13.8 bn in 2014[1]. Much will however depend on the situation of global economy as large part of the production is sold abroad.

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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 EUR 6.5 billion and it is expected to increase above EUR 8.5 billion till 2017.

The growth will be driven, among other things, by strongly increasing demand for audio, video and gaming hardware which will be responsible for almost 40% of the total growth. 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 responsible for more than 1/3 (over 20 million units) of total television sets production in the EU, with official value of production close to EUR 4 billion in 2013 according to EUROSTAT data.

[1] Infomarket

Other segments are also expected to grow dynamically, although the role of the computer hardware will be losing its dominating position in the total market value.

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.

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.

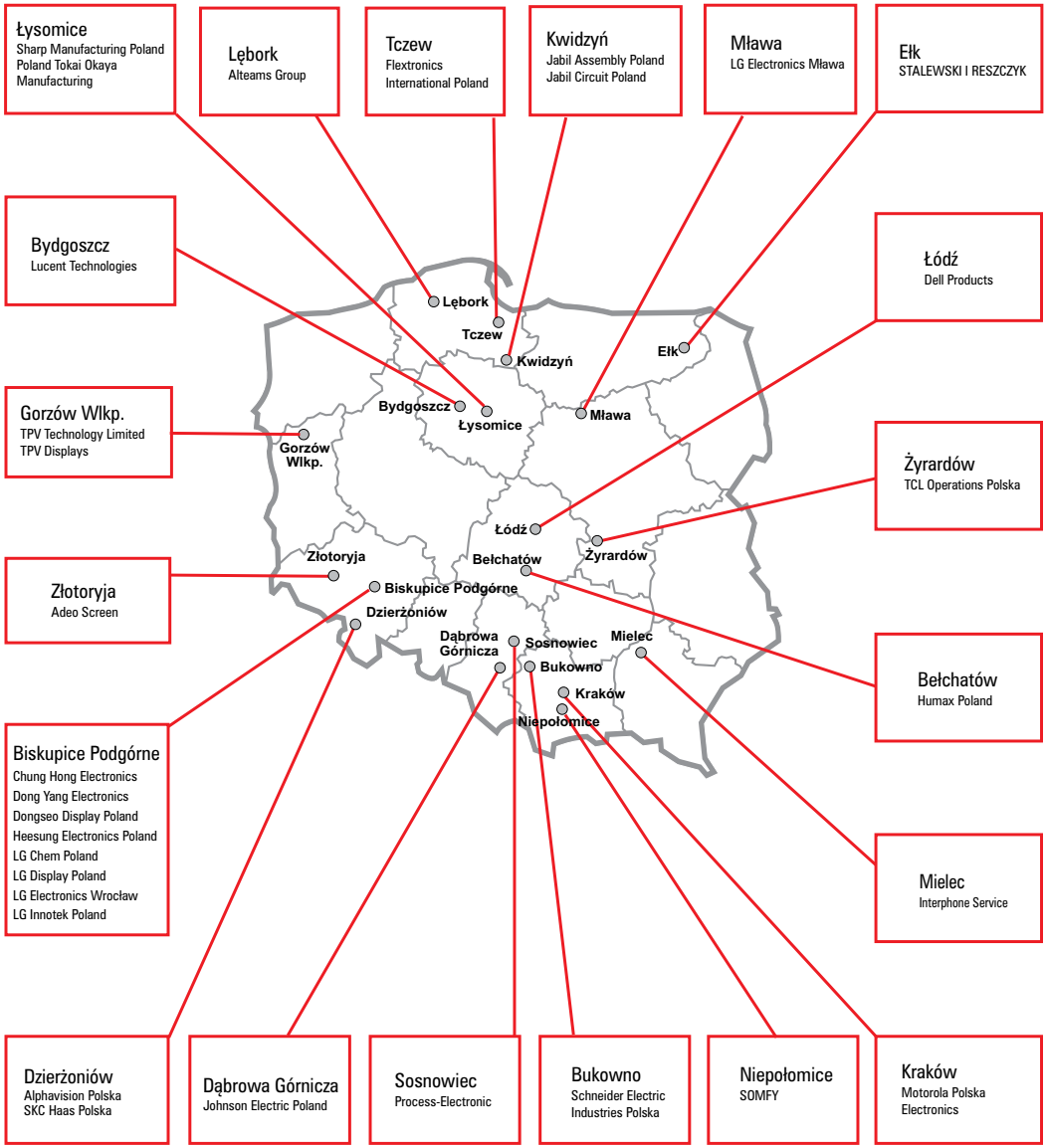
Currently approximately 300 enterprises conduct business in the Polish electronics sector, where the largest players are foreign companies. The main investors in the industry include:

- LG Group
- Dell
- Compal
- Phillips
- Jabil
- TPV Displays
- Flextronics

The rationale for the development of the electronic industry in Poland:

- long-standing tradition in the electronic industry,
- presence of international companies, manufacturers of electronics equipment,
- highly trained labour force, offering the highest standards of knowledge in their fields,
- well-developed base of suppliers: small and medium sized enterprises are well prepared to work with large corporations as subcontractors,
- institutional climate: the state helps manufacturers creating their own R&D centres,
- clusters: continuously developing technological parks closely cooperating with research centres,
- increased investments: new investment projects that generate demand for products and services of suppliers from the electronics industry,
- investment incentives for the electronics sector.

Electronic sector in Poland



Source: *PAIiIZ, 2014, (selected investments)*

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 2013 data from the Central Statistical Office (GUS) its share in total manufacturing production was 19.6% and its share in employment was close to 18%. 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, diary, fruits and 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 Entreprises) the share of large enterprises in total production is constantly increasing.

This sector in Poland is characterized by high international competitiveness and ability to increase exports even in adverse international economic conditions . It resulted in strong acceleration in of international trade volumes. Over the last 3 years – since 2010 to 2013, the exports of Polish food industry increased by 25% reaching USD 14 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 is large number experienced and skilled workers available for potential investors.

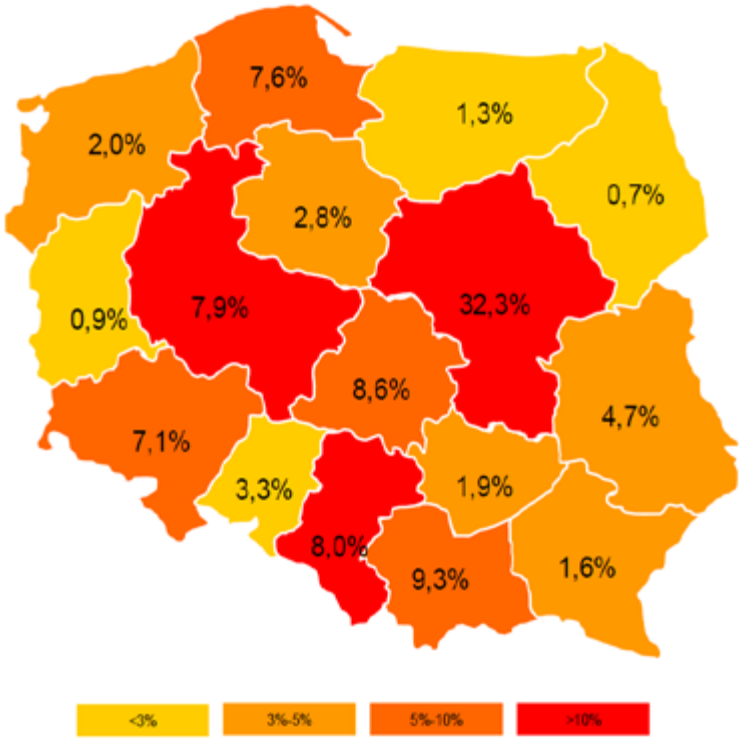
Polish domestic market for food products is also very attractive. It has been one of the fastest growing countries in the EU since the beginning of the economic crisis. Its macroeconomic economic situation is stable and the success of the recent years is well founded on robust domestic demand. Following 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 Central Bank food and drink industry is one of the dominating sectors of foreign investments in Poland. The current stock of investments in this sector is close to USD 14 billion and it is 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 companies in Polish food industry in 2013. 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 PAIiIZ Polish food industry is concentrated in several voivodships with dominating position of Mazowieckie, Śląskie and Wielkopolskie. (see map below).

The map of Polish food and drink industry



Source: *Food sector in Poland, PAIiIZ, 2011*

Chapter 7.7. Households appliances

The domestic appliance manufacturing is the sector with long historical tradition in Poland. The manufacturing of modern equipment started in early 70-ties. Currently according to Intellinews the value of sectors 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 2012 increased by more than 10% and reached EUR 3.4 billion. Washing machines are the main export product (more than 20% 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. The leading export destinations for domestic appliances in 2012 were Germany, France, the United Kingdom, Russia and Italy.

However the domestic market is also significant and growing. The sales of household appliances in Poland in 2012 increased by around 6% and were estimated to EUR 1.3 billion which constitutes around 3% of total European market.

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 fundaments. According to most recent estimates the total domestic sales of home appliances increased by around 13% in 2013 and this trend will continue also in next years.

Leading multinationals and companies of Polish origin are present and competing on Polish home appliances market. It stimulated 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.

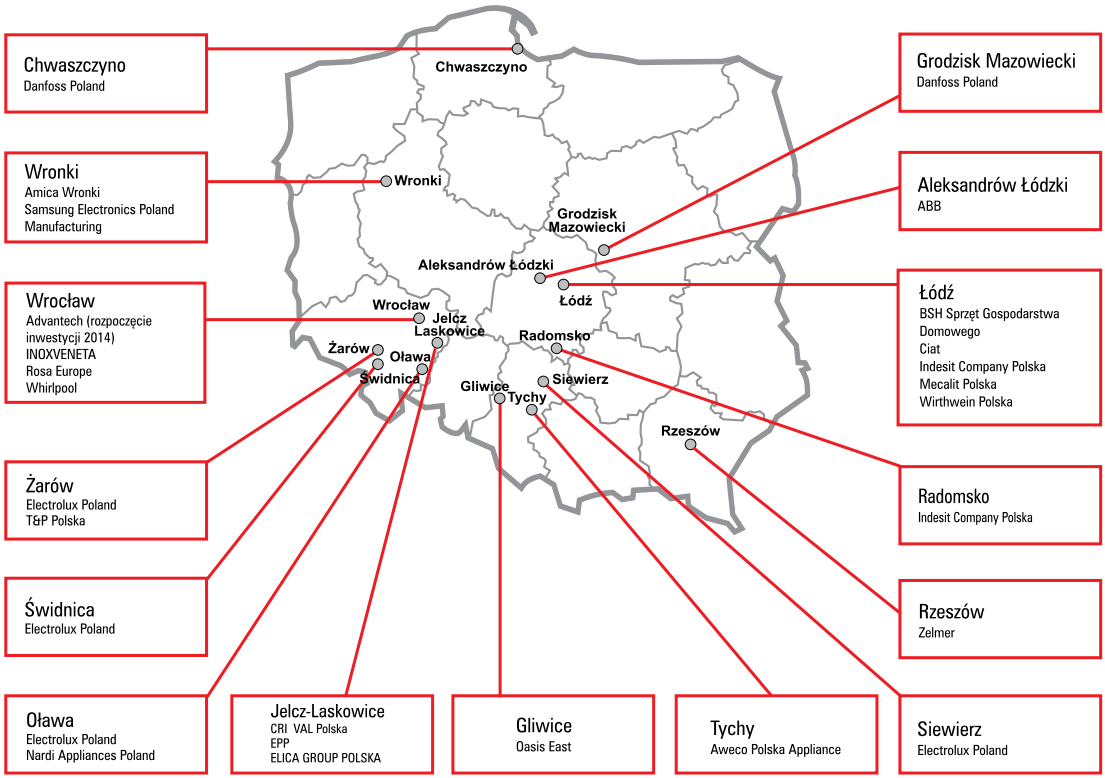
Similarly as in other sectors the development of households appliances manufacturing in Poland is also strongly supported by the labor market situation in country. Large number of students graduate each year and, as the competition for jobs is high, the wage levels are relatively low. Moderate wage levels 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 re-

frigerators in Wrocław, Whirlpool has its production facilities in Wrocław, Indesit near Łódź, Samsung near Poznań, BSH near Łódź and Philips in Białystok.

The biggest producers of household appliances of Polish origin are Amica in Wronki near Poznań and Zelmer in Rzeszów, however the latter has been recently acquired by German Bosch-Siemens.

The map of household appliances sector in Poland



Source: *PAIiIZ, 2014, (selected investments)*

Chapter 7.8. IT

According to PMR estimates, the revenue of information technology sector (consisting of three components – hardware, software and IT services) in Poland for the year 2012 amounted to 29.6 billion PLN. The vast majority of this amount comes from sales of computer equipment. However, it is IT services (through the booming outsourcing) and software distribution that shows pronounced growth.

Taking Computerworld TOP200 ranking into account, the cumulative revenue of the largest IT companies in Poland for the last year was 43.3 billion PLN. This difference is, among others, due to the inclusion of companies dealing in electronics, subcontractors and shared service centers which operate on Polish territory. On average, 8 out of 10 companies achieved approximately 27% of their revenues from export. The most popular distribution directions are Germany, USA, Czech Republic and France.

Despite the global economic slowdown, the Polish IT market, after a brief stoppage in 2009, will be growing at close to double digits. Relying on various sources, it can be estimated that Poland will witness a steady yearly growth oscillating in the range of 7-8% in the next few years. After the Computerworld, this rate is twice as fast as in Western Europe.

According to Pierre Audion Consultants, in 2015 the Polish software and IT services market will remain the second (after Russian) IT market in Central and Eastern Europe. The growth of industry in the area of software and IT services in 2011-2015 is predicted at 7.2% per annum. Similar forecasts are formulated for the third segment of IT sector – hardware.

Certainly, a strong advantage of the domestic market is human capital. Although labor costs in Poland (depending on location) are between 20% and 50% lower than in Western Europe, the main distinguishment is the highest quality of services provided by Polish specialists. The skills of young IT talents can be proven by results of international competitions, including: Imagine Cup, Facebook Hacker Cup, Google Code Jam or Central European Programming Contest (CEPC). The forecasts are positive since technical universities are increasingly popular among college graduates. In 2012 more than 70 000 people studied on IT programs. The average number of candidates per place on universities of technology equals 4, whereas it equals 3.5 on standard universities and universities of economics. Academic institutions are strengthening their cooperation with business which results in tailored made internships, attractive curriculum appropriate to market expectations and opportunity to start career in course of studies.

Investor interested in expanding their business in Poland may be on the horns of a dilemma when deciding on the final location of the project. The greatest interest of foreign companies is focused on major academic centers, but the vast number of projects is carried out in other large (over 300,000 inhabitants) urban centers.

A good example is the company Sii which provides IT services. The enterprise perfectly illustrates Polish growth potential and confirms the existence of many interesting locations. The company was founded in France in 1979 and established its first foreign subsidiary in 2006 in Warsaw. Currently, the Polish branch employs more than 1 200 professionals in the capital city, Gdańsk, Kraków, Wrocław, Poznań and Łódź. The list of other global companies in IT area with more than one branch in Poland includes: Google, Oracle, IBM, Tieto and Accenture.

Undoubtedly, positive situation of the sector is affected by available investment incentives. Businesses implementing new projects or expanding their acitivities can rely on various forms of regional aid. Support instruments include non-repayable grants: from the state budget and those co-financed with EU funds. There is an exemption from income tax in the Special Economic Zones and various local tax exemptions. It is also worth to mention about the National Centre for Research and Development offer, which is constantly updated and adjusted to the market needs, as well as CIT relief for acquisition of new technology, allowing a deduction from taxable income of expenditure incurred on the purchase of innovative software (not older than 5 years).

In the forthcoming years Polish IT sector should be driven by such factors as: public sector spendings, small and medium enterprises (SMEs) demand on modern technologies and development of IT services outsourcing.

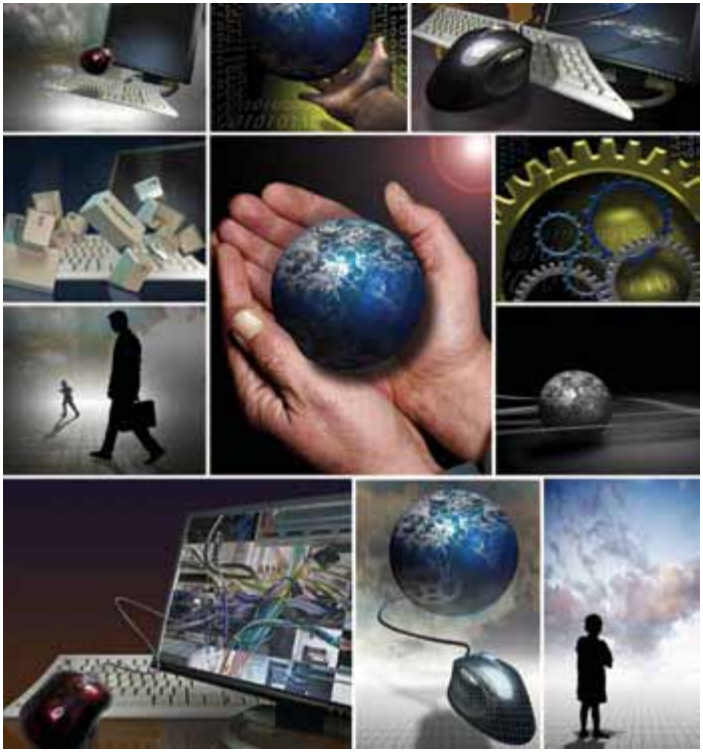
Financial aid based on the EU Multiannual Financial Framework 2014-2020 is perceived as potential source for further development of accessibility and information infrastructure quality. One of the State Programme on Integrated Informatization priorities is profound process of public administration modernization aimed to create broadly accessible and citizen-friendly offices. Poland, one of European leaders in terms of structural funds implementation, has already absorbed nearly 90% of allocation for 2007-2013 period. The measurable effect of implementation (according to Ministry of Regional Development, date for July 2013) are 5394 e-services and 41 197 kilometers of broadband digital network. Combination of UE financial assistance (total allocation of Cohesion Policy 2014-2020 for Poland – 72.9 billion EUR) and public administration determined approach should result in significant demand for hardware, software and IT services.

Small and medium enterprises also signals a growing demand on software, hardware and IT services. This is mainly due to importance of aiming to pursue competitive advantage and on the other hand threat of hostile takeover. Increasing demand for complex solutions like ERP (enterprise resource planning) is another interesting trend among SMEs.

The outsourcing of IT services, as well as the whole sector of modern business services, is one of the most dynamically developing segments of the Polish economy. Mainly thanks to the companies with foreign capital, the current

employment is about 45 000 with the growth perspective within the next two years up to 70 000 employees (according to TechNavio). The estimated growth will have its source inter allia in aiming at optimisation of activity and operational costs by financial-banking, telecommunication, energy and processing industry.

Additionally, signalized trends should positively effect market: significant increase of private as well as public sector participation in cloud computing, successive growth in number of broadband internet users and permanent necessity to be up-to-date with modern IT solutions or market requirement make up for delays (in particular on the side of public or privatized establishments).



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Chapter 7.9. R&D

Investments in R&D sector are the key factor of steady innovation-driven economy and growth of added value of products, processes and services. They contribute to the lasting economic development and creating new valuable workplaces.

The inflow of foreign capital with the aim of creating research and development centers proves that foreign investors appreciate economic potential of Poland. According to the latest analysis of UNCTAD, the foreign direct investments' inflow to Poland increased in 2011 by 46.7%, while the growth of FDI worldwide accounted for 17% (14.2 billion USD in 2011 and 9.7 billion USD in 2010). Peer comparison of Poland and the other EU countries shows great opportunities for an extension of R&D sector. The average expenditures on R&D in EU countries accounted for 2% of the GDP in 2012[1], while in Poland the figure was 0.9%.[2]

Positive experiences and great results of R&D centers are the reasons why companies decide to expand their research activities. Among those entrepreneurs are e.g. NSN, Motorola, Samsung, Kainos, or polish entities such as Transition Technologies or SMT Software. The two last companies chose Białystok and Lublin as the locations for software developing centers, what proves that also smaller academic centers are able to provide excellent labour force for such projects.

Recently, an increasing interest in opening new R&D centers could be observed, both in industry sector (e.g. Delphi in Krakow or Rockwell Automation in Katowice) and also in strongly developing business services sector, wherein according to PAIiIZ data, more than 33,000 people are employed in approximately 182 existing R&D centers, so far. Among all EU countries, Poland records one of the most significant increases in the number of young employees in R&D sector (in group between 25 and 34 years old). The number of Polish employees in this sector exceeds the EU average.

There are currently 450 colleges in Poland, 132 of them are state institutions (25 of them are technical universities) and 328 private institutions. The number of students in Poland equals almost 1.8 million. Students can chose one of 200 faculties, most of them prefer economic and management faculties – 23%, social sciences – 13.9%, education – 12%, humanistic faculties – 8.8%, engineering and technical studies – 6.8%, medical faculties – 5.8%, IT – 4.9%, personal services – 3.7%, law – 3.1%, environmental protection – 1.4%, other faculties – 16.4%.[3] Recently, an upward trend in interest in technical faculties, among high school and college students can be observed.

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[1] http://www.cso.ie/en/newsandevents/pressreleases/2013pressreleases/pressreleasebusinessexpenditureonresearchanddevelopment20112012/

[2] Główny Urząd Statystyczny, Nauka i Technika w Polsce w 2012

[3] http://www.nauka.gov.pl/szkolnictwo-wyzsze/dane-statystyczne-o-szkolnictwie-wyzszym/

Overall there are more than 170,000 college employees, 84,000 of them in state institutions, 16,000 in private colleges.[4] There are also 200 R&D centers in Poland (with 98,000 scientists) and to them belong Polish Academy of Science, specialized and autonomous Research and Development Units and other supporting institutions. According to Central Statistical Office, in 2012 there were 2 733 R&D units, 1,101 of them were companies (23.1% increase comparing to previous year). Similar growth has been registered in R&D expenditures in the amount of 14.4 billion PLN. In R&D sector, there was 139.7 thousand people employed in the end of 2012 (slight increase compared with 2011), more than 432.4 thousand of them in enterprise sector, 26.9 thousand in public sector and 80.1 thousand in science sector.

Number of people employed in R&D sector in Poland in 2011 compared to the previous year increased by 4.759 people (3.7%), reaching a level of 134.551 people. Research and development activities in 2011 were funded primarily by the government (6.5 billion PLN) which financed 55.8% of expenditures of all entities. Public expenditure on R&D equals 71% of the EU27 average. Sector of Polish companies investing in research and development in 2011 included 795 firms. In comparison with the previous period, the number of companies increased by 18.48% (671 firms in 2010). In the four-year period of 2008-2011 studied sector grew on average by 10.36%.

The most innovative production companies in Poland are the pharmaceutical companies producing coke, refining oil and producing chemicals and chemical products. In the services sector, the most innovative are insurance and reinsurance companies, financial services firms, and companies operating in the field of information services. Innovative enterprises accounted for 16.1% of industrial companies and 11.6% of service companies.

The companies that invest the most in research and development in Poland are: Fiat Auto Poland, Polish Defence Holding (former Bumar), IT companies Asseco Poland and Oracle and pharmaceutical manufacturer Polpharma. Number of listed companies incurring expenditure on research and development in 2011 amounted 139 companies. Their number grew on average by 16.9% and was higher than the growth of companies outside Warsaw Stock Exchange. Most patents granted in the category of chemistry and metallurgy, various industrial processes and transport, and basic human necessities. In 2009 the percentage of high-tech applications to the European Patent Office equaled 14.5% in Poland, compared to 17.1% in the EU. The number of patents that were granted in the Polish Patent Office in 2012 was 556, a year to year increase of 29.3%, and compared to 2010 – increase of more than twofold. The leader of the list of patenting companies in 2012 was a company of Bumar Group (now renamed as Polish Defence Holding) – Bumar Electronics. The company had a total of 12 patents in the Polish Patent Office. The second place with 11 patents was taken by Lerg, leading manufacturer and exporter of synthetic resins. The third

[4] http://www.nauka.gov.pl/szkolnictwo-wyzsze/dane-statystyczne-o-szkolnictwie-wyzszym/

company in the ranking with 9 patents was taken by International Tobacco Machinery Poland, a company engaged in the design, manufacture, installation and servicing of machines and complex production lines mainly for the tobacco industry. In the long term, covering the period of 2007-2011, the most active patenting company was ABB. The other leaders were the Sigma, Pulawy, KGHM Cuprum and Polin.

International concerns often perceive Poland as an attractive location for investments requiring specialized human capital. The number of R&D investments in comparison to business services centers is still quite small. Nowadays, there are 77 operating R&D centers which employ several thousand polish scientists and specialists. Most of them work in ICT, software development, automotive, chemical, aviation or food processing. Those centers are located mostly in big cities with complex academic background, developed infrastructure, which are able to provide attractive living conditions for employees. Smaller academic hubs, mentioned above, have also a wide appeal.

In Poland, there are numerous R&D centers which operate as subsidiaries of global corporations. These include: Oracle, Samsung, Faurecia, GlaxoSmithKline, Microsoft, Volvo, Capgemini, IBM, ABB, Lurgi, Google, Bosch and Siemens. In the IT and aviation industries, R&D laboratories co-operate with Polish universities and public R&D units: Intel with Gdansk University of Technology, United Technologies with Rzeszow University of Technology, Lockheed Martin and GE Aircraft Engines with Warsaw Institute of Aviation.

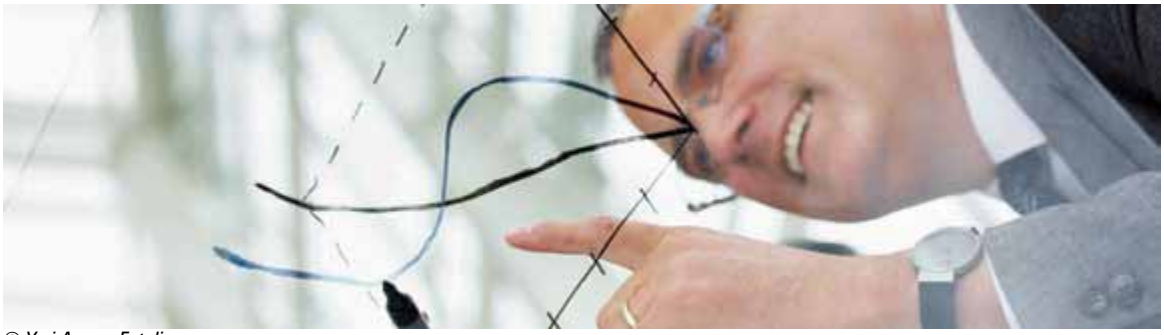
As a result of developing strategy of improving competitiveness of Polish economy, we consistently strive for a knowledge economy. The proof of Poland's development is the improvement of Poland position in The Global Innovation Index report. In 2011 Poland improved 4 places up to 43rd and 13 places since 2009. The acknowledgement of our economy in innovation rankings is caused not only by increasing number of R&D centers, obtained patents or companies' expenditures on R&D, but also by social and cultural conditions in innovation and business environment.[5]

According to Global Competitiveness Index 2012–2013 published by the World Economic Forum, Poland occupies 41st position among 144 analyzed world developing economies and improves 2 places up, also in economy's innovation (Hungary – 60th place, Slovakia – 71st place).[6] In accordance with IMD World Competitiveness Yearbook 2013 report, published by International Institute for Management Development (IMD), Polish economy competitiveness among 60 economies, occupies 33th position. In 1997 Poland was ranked 47th.[7] The competitiveness report was conducted based on 327 economic, political and social indicators. Polish national economy, administration's

[5] http://www.ipeg.eu/wp-content/uploads/Insead-The-Global-Innovation-Index-2011.pdf

[6] http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

[7] http://www.imd.org/news/World-Competitiveness-2013.cfm



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condition, business competitiveness, infrastructure, education and academic background – those are the fields which improved.

Main key factors for R&D activity in Poland:

- steady growth of the Polish economy and safety research,
- relatively low cost of conducting research,
- highly qualified staff,
- intellectual potential,
- universities,
- research institutes, opening onto creating clusters in the framework of national and international cooperation
- strategic location,
- availability of investment incentives for R&D projects within the "Programme of support of investments of considerable importance for Polish economy for years 2011 – 2020" provided by Polish Information and Foreign Investment Agency and various programs provided by The National Centre for Research and Development,
- the quality and productivity of Polish workforce
- regional development strategies/regional innovation strategies,
- cooperation between universities and business,
- scientific achievements of researchers and students,
- presence of R&D centers of companies such as: Roche, GlaxoSmithKline, ABB, Google.

Chapter 7.10. Renewable energy sector

The attractiveness of the Polish renewable 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 88% (2013 data) 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 the International Energy Agency Poland will have to invest till 2030 over EUR 195 bn in its energy sector (EUR 134 bn – new power and CHP plants, EUR 61 bn – distribution and transmission grid).

According to the last available EUROSTAT data the share of renewable sources in total energy consumption has been constantly increasing over the last years reaching 11% in 2012. This process has to be continued as Poland 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 2020 the share of renewable energy in total production should already reach at least 16%.

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At present, most of the investments into renewable energy generation are in the area of wind farms. According to the data from URE only in 2013 the total capacity of wind farms and other renewable energy power plants increased by over 18% and if one excludes the hydro power plants the growth rate was above 40%. The investments have been also continued in 2014 – according to URE data the total power installed of all renewable sources at the end of 3Q 2014 was around 5.8 GW. It is worth mentioning that according to EurObserv'ER Poland is ranked 5th in the EU in terms of production of primary energy from solid biomass. Poland is also a leader among the new EU member states in terms of total installed capacity of wind farms.

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. So far, the following foreign firms are among those which have invested in the renewable energy sector in Poland:

- RWE,
- E.ON,
- EDP Renewables,
- Dalkia,
- EDF,
- GDF Suez,
- Axzon.

Last but not least Poland is gradually becoming an attractive destination for investments in manufacturing of devices used in energy generation. There are estimated to be more than 200 production companies working for the renewable energy sector (Institute for Renewable Energy data).

There is no doubt that the renewable energy sector in Poland has a huge potential to explore by both Polish and foreign investors.

Chapter 8. About Polish Information and Foreign Investment Agency

Invest in Poland

POLISH INFORMATION AND FOREIGN INVESTMENT AGENCY

Polish Information and Foreign Investment Agency (PAIiIZ) 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. PAIiIZ 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.

PAIiIZ provides free of charge professional advisory services for investors, including:

- investment site selection in Poland,
- tailor-made investors visits to Poland,
- information on legal and economic environment,
- information on available investment incentives,
- facilitating contacts with central and local authorities,
- identification of suppliers and contractors,
- care of existing investors (support of reinvestments in Poland).

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

Besides the **OECD National Contact Point**, PAIiIZ 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.

Since 2011 **China – Poland Economic Cooperation Centre** operates in PAIiIZ as a "one-stop shop" providing comprehensive 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, Go China Project. More information you can find on: **www.gochina.gov.pl**

Also since 2013 PAIiIZ is implementing the “Go Africa” programme. Its aim is to encourage Polish entrepreneurs to enter the African markets and promote Poland in Africa. Therefore PAIiIZ has organized: fact finding missions to African countries, participation of Polish entrepreneurs in fairs, conferences, seminars and workshops both in Poland and in Africa. Furthermore the Agency has prepared publications on African markets. More information you can find on: **www.goafrica.gov.pl**

The services provided by PAIiIZ, according to its mission, 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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