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Investor's guide Poland

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Investor's guide
Poland

Warsaw 2004

Introduction

Well over a decade into the steady process of economic and political reform, Poland has secured its place among the largest and most stable economies of Central & Eastern Europe. A proven member of NATO, OECD, a newly admitted member of the European Union, Poland is also a reliable, ever attractive partner for the international business community.

The inflow of foreign capital, initiated at the outset of the 1990s, is maintaining its pace. Foreign investors – big and small – have already invested over USD 73 billion in the form of foreign direct investments, elevating Poland to the top of the Central & Eastern European region in terms of the cumulative value of committed foreign capital.

The pace of foreign investments remains a valuable, objective measure of our economic development. Knowing and appreciating the importance of foreign capital, the Polish government is continuing its systematic effort to liberalise and simplify the laws governing business activities in Poland. Today, our country offers would-be business partners a broad array of investment incentives, harmonised with the laws of the European Union.

Poland's attractiveness to foreign business was also confirmed in the latest (2003) opinion poll directed to international investors. Asked about their strongest motive to invest in Poland, they cited growth prospects, the cost of labour, size of the Polish market, high level of skills of local employees, the opportunity to reduce manufacturing costs, as well as favourable conditions created for foreign business.

Please take a moment to look through the latest, fourth edition of the Investors' Guide "Poland. How To Do Business", published jointly by the Polish Information and Foreign Investment Agency, Deloitte and lawyers from the Wardyński & Partners Law Office. It was prepared with a view to offering our foreign partners an overview of the terms and conditions of starting and conducting business activities in Poland. We hope that its content will generate interest in expanding into our country, thereby promoting Poland on the international arena as good place to do business.

Andrzej Zdebski
President
Polish Information
and Foreign Investment Agency

Michael Barrington
President
Deloitte

How to do business

I. Establishment of Business Activity Step – by – Step

Choice of legal form

for example:
- limited liability company (spółka z ograniczoną odpowiedzialnością),
- joint-stock company (spółka akcyjna)
- branch office (oddział)

see page 9

Signature of the company's articles of association or statute

(for limited liability company and joint-stock company)

see page 12, 13

Registration of the company in the National Court Register (Krajowy Rejestr Sądowy)

- at the District Court which has jurisdiction over the district in which the company is established and which will be its principal place of business;
- addresses of the Economic Divisions of the National Court Register and information on their territorial jurisdiction are available through the website of the Ministry of Justice www.ms.gov.pl

see page 10, 13, 14

Application to the Central Statistical Office (Główny Urząd Statystyczny – GUS) for a Statistical Identification Number (REGON)

see page 10, 14

Application to the Tax Office for a Taxpayer Identification Number (NIP)

(the nearest Tax Office to its place of business)
see page 14, 16, 29

Opening of an account at a Polish bank

(according to Polish law, every business entity must have an account at a Polish bank)
see page 14, 99

Notification of the Social Insurance Institution

(*Zakład Ubezpieczeń Społecznych, ZUS*)
see page 16, 43, 50

Notification of the National Labour Inspectorate

and others if necessary, for instance, the General Personal Data Protection Inspectorate
see page 15

Receipt of required permissions or licences

see page 6, 8, 9,16, 53, 56, 73, 100

Registration in the Tax Office as a VAT remitter

see page 16, 21, 36

II. Establishing & Doing Business in Poland

1. Starting up Business Activities in Poland

1.1. General Rules for Conducting Business Activities in Poland, Including Activities of Foreign Enterprises

The principal legal act governing business activities in Poland is the **Act of 2 July 2004 – Economic Freedom Act**. It regulates conducting, running and closing business activities in Poland, as well as the tasks of the public administration in this regard.

Foreign persons[1] from the European Union and the European Free Trade Agreement zones belonging to the European Economic Area (EEA) may establish and conduct business under the same rules as those that apply to Polish entrepreneurs.

The same rules also apply to foreigners living outside the EU and the EEA who:
- have received a permit to settle in Poland,
- have consent for tolerated stay or the status of a refugee granted in the Republic of Poland, or
- enjoy temporary protection on this territory.

Unless international agreements state otherwise, foreign persons other than those indicated above have the right to establish and conduct business activities only in the form of:
- a limited partnership,
- a limited joint-stock partnership,
- a limited liability company,
- a joint-stock company.

Such foreigners also have the right to enter into these types of partnerships or companies and acquire their shares. Furthermore, **foreign entrepreneurs**[2] may conduct business activities in the form of a **branch office**, or they may establish **representative offices** in Poland.

1.2. Types of Activities Requiring Licenses or Permits

In accordance with Polish law, the performance of certain types of activities is limited by the need to obtain decisions of state authorities regarding consent for conducting such activities. These activities may be divided into four groups, i.e.:

[1] Under the law, a foreign person is:
- a natural person residing abroad, without Polish citizenship,
- a legal person with its seat (registered office) abroad; an organisational unit with its registered office abroad, not being a legal person, but having legal capacity.

[2] According to the law, a foreign entrepreneur is a foreign person conducting business activities abroad.

1. activities which may be performed after obtaining a **concession**,
2. activities which may be performed upon entry into the **register of regulated activities**,
3. activities which may be performed after obtaining a **permit**,
4. activities which may be performed after obtaining a **license**.

1.2.1. Concessions

Polish law requires that concessions be obtained in order to conduct the activities listed below:

Table 1. Types of activity requiring a concession

Type of activity requiring a concession	Authority issuing the concession
Exploration, identification and excavation of minerals and mineral materials, both from deposits and from waste remaining after mining works and after the processes of enriching minerals; non-tank storage of substances in mounds and storage of waste in underground mines	Minister of the Environment (the approval of other authorities may be required in particular special circumstances)
Manufacturing and trading in explosives, weapons and ammunition, as well as in goods and technology for military or police use	Minister of Internal Affairs and Administration
Production, processing, storage, transmission, distribution and trade in fuels and energy	President of the Energy Regulatory Authority
Protection of people and property	Minister of Internal Affairs and Administration
Air transportation	Minister of Infrastructure
Broadcasting of radio and television programmes	National Broadcasting Council

Concessions are granted for a limited duration of no less than 5 years (unless otherwise requested by the entrepreneur) and no more than 50 years. Concessions are granted upon completion of administrative proceedings or, if the number of concessions is limited, following a public tender. The authority issuing the concession may monitor the activities of the entity that received a concession within the limits specified by the law.

1.2.2. Regulated activities

The performance of certain activities – as specified by Polish law - requires compliance with specific conditions that are contained in the provisions regulating such activities.

For instance, it may be specified that private investigation services (under the Act on detective services of 06/07/2001) and commercial trade in foreign currencies (regulated in the Act on foreign currencies of 27/07/2002) are such regulated activities.

Before starting such regulated activities, the entrepreneur should be registered in the register of regulated activities, which is held separately for each type of regulated activity. The authority holding the register should enter the entrepreneur wishing to conduct the regulated activities into the register on the basis of a written declaration of compliance with the rules and regulations of the provisions that apply to the specific type of regulated activity. Such registration should take place within 7 days of filing the motion. In the event the authority fails to make the relevant registration the entrepreneur may commence activities 14 days from the date of filing the motion, following a written notification to the registration authority (unless the proceedings are pending in such a way that the entrepreneur was called upon to supplement the motion).

1.2.3. Permits

Permits are required for activities such as the following:
- wholesale trade in alcoholic beverages;
- production of alcohol, tobacco and tobacco-related products;
- production and sale of toxic or poisonous substances;
- production and sale of intoxicants and psychotropics;
- production and sale of radioactive materials;
- sale of dual-purpose substances;
- management of airports;
- production and trade in pharmaceuticals, as well as operation of a pharmacy or pharmaceutical warehouse;
- certain postal and courier services;
- operation of casinos;
- operation of a bank;
- operation of an insurance company or brokerage agency;
- operation of commodities exchange;
- operation of brokerage houses;
- telecommunications services;
- road transport;
- GMO research laboratories;
- mains water supply and sewage disposal;
- waste management;
- production of registration number plates;
- establishment of an investment fund or a pension fund;
- operation of a customs agency;
- production and wholesale trade in pharmaceuticals for animals;
- trade in fertilisers and pesticides;

- real estate agency services;
- maritime fishing;
- conducting economic activities in special economic zones.

1.2.4. Licences

A licences is required under the regulations on specific types of activities (e.g. detective services, road transport or railway transport).

The import and sale of certain goods requires certificates, licenses or proof of standardisation. Such goods include cosmetics, goods designated for children (crayons, paints, etc.), goods that are to be in contact with drinking water, human remains, animals, meat, biological materials, plants and harvestable materials.

The import of certain goods is prohibited: (e.g. waste, asbestos and agents destroying the ozone layer). Other import limitations may be introduced temporarily in order to protect the Polish market.

Export restrictions apply to such items as certain monuments of Polish culture and national heritage. Other export restrictions, including export prohibition or the duty to obtain an export license, may also be imposed by the Polish authorities under regulations issued by the Minister of the Economy and Labour.

Some import restrictions arise from international regulations. These apply to endangered species of animals and plants, advanced technologies and goods being subject to international embargoes.

The use of the public service telephone network and public telecommunications network for radio and television broadcasting requires the permission of the Telecommunications and Post Regulation Office.
A permit is not required to operate:
- a public telephone network located within a single municipality;
- a public telecommunications network used for radio and television broadcasting within a single residential building;
- a fixed line telephony network using a numbering system, which is made available by a public operator under a separate agreement.

The same conditions as in the case of other business activities apply to the provision of telephony and other telecommunications services by foreign entities.

1.3. Possible Forms of Conducting Business Activities

1.3.1. Limited Liability Company

Such a company is established to conduct all activities permitted by law, by way of a notary deed of establishment.

The founders may be both natural and legal persons. A limited liability company may also be established by a single shareholder, but it may not be founded solely by another single-shareholder limited liability company.

A limited liability company has legal personality and is represented by its Management Board. The minimum initial capital of such a company is PLN 50,000. The minimum nominal value of the shares is PLN 50.

Contributions to a limited liability company may be made:
1. in cash,
2. in kind.

The limited liability company acquires legal personality once it is entered into the National Court Register.

1.3.2. Joint-Stock Company

The minimum initial capital is PLN 500,000 and the minimum value of the shares is PLN 0.01.

The company must be founded by at least one natural or legal person. A joint-stock company may also be founded by a single stockholder. However, a joint-stock company may not be founded by a limited liability company that is established by a single shareholder.

The founders are obliged to draw up a deed of establishment and by-laws, both in the form of notary deeds.

The company is managed by the Management Board and the Supervisory Board. Legal personality is acquired once it is entered into the National Court Register.

A joint-stock company differs from a limited liability company in its ability to issue shares which may be subject to public trading. Companies listed on the Warsaw Stock Exchange must be joint-stock companies.

Registration takes place at the division of the National Court Register at the District Court with jurisdiction over the district in which the company is established and which will be its principal place of business. The addresses of the Commercial Divisions of the National Court Register and information on their territorial jurisdiction are available through the website of the Ministry of Justice – www.ms.gov.pl. After registration, the company needs to apply to the Statistical Office for a statistical identification number (REGON) and to the Tax Office (with jurisdiction over its place of business) for a tax identification number (NIP).

Contributions to a joint-stock company may be made:
1. in cash,
2. in kind.

A contribution in kind to a joint-stock company will be subject to inspection by court-appointed experts.

If the company generates a profit, after its annual balance sheet has been approved and due taxes have been paid, a foreign shareholder is permitted to transfer the full amount of the profit due to him abroad.

1.3.3. Civil Partnership

A civil partnership may be established under the regulations of the Civil Code by at least two natural or legal entities. An important feature is the lack of legal personality and the inability to act in its own name in the economic exchange of goods and services. The partners are jointly and severally liable for the partnership's liabilities. The income of a civil partnership is subject to personal income tax. Partners in civil partnerships must be registered in the Business Activity Register. The civil partnership should be registered in the National Court Register as a registered partnership when its annual income in two consecutive financial years reaches a value that, according to accounting law, results in the duty to keep books of accounts. It should be registered by the close of the second financial year. After registration, the civil partnership becomes a registered partnership.

1.3.4. Registered Partnership

A registered partnership is a personal partnership, established under the regulations of the Code of Commercial Companies to conduct business activities on a larger scale than a civil partnership. It is subject to registration in the Register of Entrepreneurs in the National Court Register. Despite the lack of legal personality, a registered partnership has the right to act in its own name in the economic exchange of goods and services. All partners have unlimited liability for the partnership's liabilities.

1.3.5. Limited Partnership

The main feature of a limited partnership is that at least one partner has unlimited liability for the partnership's liabilities, while the others are only liable up to the amount specified in the agreement.
A limited partnership has the right to act in its own name in the economic exchange of goods and services despite the lack of legal personality. A notary deed is required to establish a limited partnership.
The entity is also subject to registration in the National Court Register.

1.3.6. Professional Partnership

A professional partnership is a partnership established by partners for the purpose of performing a profession. A partner may be a barrister, a pharmacist, an architect, a civil engineer, a chartered accountant, an insurance broker, a tax adviser, an auditor, a doctor, a dentist, a veterinary surgeon, a notary, a nurse, a midwife, a legal adviser, a patent agent, a property expert or a sworn translator. A notary deed is required to establish a professional partnership, and the entity is subject to registration in the National Court Register.

1.3.7. Limited Joint-Stock Partnership (limited partnership issuing shares)

A limited joint-stock partnership is a partnership established by partners, acting in its own name in the economic exchange of goods and services. Its main feature is that at least one partner is fully responsible for the partnership's liabilities and at least one partner is a shareholder. The minimum share capital is PLN 50,000. A notary deed is required to establish a limited joint-stock partnership. Such a partnership is subject to registration in the National Court Register.

1.3.8. Sole Proprietorship

This type of enterprise is established for the purpose of operating a small business by a private individual. It is registered in the Business Activity Register held by the municipality alderman (wójt) or the mayor of a city. The sole proprietor is subject to personal income tax (PIT) (*see point 2.2.7.*).

1.3.9. Branch Office

By reciprocity, foreign investors are able to establish branches in Poland to conduct business activities. A branch is a part of a foreign company that does not have its own legal personality, but conducts business in Poland. The branch may conduct business activities upon being entered into the National Court Register.

1.3.10. Representative Office

Foreign entrepreneurs may also establish representative offices in Poland. The activities of these offices are limited to advertising and promotion of their foreign business. The representative office must be registered in the register of representative offices. The register is held by the Ministry of the Economy and Labour.

1.4. Establishing and Registering an Entity

(*Step-by-Step using the example of a Limited Liability Company and Joint-Stock Company*).

1.4.1. Establishing and Registering an Entity

A limited liability company can be established by one or more natural or legal persons.

A joint-stock company may also be founded by one or more legal or natural persons.

Banks must be established as joint-stock companies and may be founded by no fewer than three legal persons or ten natural persons (unless the founder is a Polish or foreign bank, an international financial institution or the State Treasury).

A company, both limited liability and joint-stock, is established under a founding deed, i.e. the Deed of Association in the case of a limited liability company and a statute in the case of a joint-stock company. The founding deed must be signed before a Notary Public in Poland. Upon signature of such a deed, the company being established receives the status of a company "in organisation". Such an entity may acquire rights in its own name, including real estate and other rights in rem, may enter into obligations, may sue and be sued.

The following actions should be taken after the founding deed is signed:

– in the case of a limited liability company:
- appointment of the members of the Management Board (and Supervisory Board – voluntary in the case of limited liability companies with fewer than 25 shareholders and share capital of less than PLN 500,000);
- payment of the entire initial capital or transfer of ownership of contributions in kind.

– in the case of a joint-stock company:
- appointment of the members of the Management Board and Supervisory Board;
- payment of at least 25% of the share capital or transfer of contributions in kind constituting 25% of the share capital.

The next step is registration at the appropriate Registration Court.
The following documents are required in the case of a limited liability company:
- an application – prepared on a special court form;
- attachments to the application, i.e.:
  - the founding deed;
  - a statement made by all the members of the Management Board that the financial contributions have been paid up or that the transfer of in-kind contributions has been guaranteed;
  - the list of shareholders;
  - a statement including the particulars of the Management Board members (names, addresses of domicile, confirmation that the Management Board members have not been found guilty of criminal offences);
  - a statement including the particulars of the sole shareholder;
  - notarised Specimen Signatures of the members of the Management Board.

The following documents are required in the case of a joint-stock company:
- an application – prepared on a special court form;
- attachments to the application, i.e.:
  - the statute;

– acts of formation of the company and the acquisition of shares;
– a statement by all the members of the Management Board that the financial contributions have been paid up and that the transfer of non-financial contributions is guaranteed;
– the particulars of the company's management, together with their personal details;
– notarised Specimen Signatures of the members of the Management Board.

The company can then apply to the Central Statistical Office (GUS) for a statistical identification number (REGON) and to the tax office for a taxpayer identification number (NIP). Such registrations may be made for the company in organisation. The particulars and documents in each register should be supplemented once the registration is finalised.

According to Polish law, every business entity must have an account at a Polish bank. The following documents should be provided to the bank in order to open such an account:
- the founding deed or deed of formation;
- specimen signatures;
- the registration document from the Registration Court;
- correspondence from the Central Statistical Office providing the REGON number;
- the company's taxpayer identification number (NIP).

Since the company's share capital must be paid up (in full for a limited liability company and at least 25% for a joint-stock company) before lodging the application with the registration court, banks open deposit accounts for companies in organisation for the purpose of such payment. These accounts are converted into regular bank accounts upon the registration of the company and the delivery of the registration documents to the bank.

The company receive its registration number upon registration in the National Court Register.

1.4.2. Property and Real Estate Permissions

Special permission from the Ministry of Internal Affairs and Administration is required if a foreign company (i.e. the company directly or indirectly controlled by a foreigner) wishes to purchase real estate in Poland.

1.4.3. Building Permission

The primary authority in the supervision of construction is the chief administration officer (e.g. the alderman, chief surveyor, etc.) for a given municipality. He is empowered to delegate decisions to the municipality. The municipalities or chief administration officers of municipalities should be approached for building permission.

The voivod [*marshal of a region or voivodship*] supervises special building projects (such as airports, hydro-technical constructions, military, defence and security constructions, etc.). He also serves as the instance of appeal against decisions of the lower administrative level.

The above bodies supervise and audit the compliance of projects with the construction law. In other words, these bodies ensure that the envisaged plans conform to the law before building permission or approval for a construction project is issued.

Construction formally begins at the time when the preparatory work at the construction site commences (i.e. geodesic delimitation, levelling the area, establishing the construction site, including construction of temporary buildings and connecting to the utility network for the needs of the construction site).

The investor is obliged to inform both the authority that granted the permission and the supervising architect of the date when construction for which the permission is required (not later than seven days before the start) is to begin. A written statement signed by the construction manager and the investor's inspector, who assumes responsibility for managing the building process, should be attached.

The people participating in the building process are:
- the investor;
- the investor's inspector;
- the architect;
- the construction manager.

The functions of the construction manager and the investor's inspector must be performed by separate individuals.

The investor is obliged to inform the appropriate authority in the event of a replacement of the construction manager, the investor's inspector or the chief architect, specifying the date of the change.

Construction supervisors may include a clause in the building permission stating that after completion of the building process, the investor must obtain building occupancy permission. In such a case, the investor is obliged to send the notification of completion of the construction works to the following authorities:
- Environmental Protection Inspection Office;
- Sanitary Inspection Office;
- State Fire Brigade;
- National Labour Inspectorate.

The above authorities are given 14 days to register any objections. If no response is received within that time, it is assumed that there are no objections.

Documents which need to be included in the notification of completion of the construction are:
- the original construction logbook;
- a statement by the construction manager on compliance of the construction designs with Polish standards, regulations and permissions, stating that the construction site is in a state of order (including the street and the neighbouring real estate, if used);

- a statement that bordering areas are properly managed, if the use of the building requires this;
- reports of examinations and checks;
- a post-construction geodesy list.

1.4.4. Tax Registration and Liabilities

Every company is obliged to register with a tax office as a remitter of VAT if its estimated annual turnover exceeds EUR 10,000. Companies must also apply for the taxpayer identification number (NIP-2) (*see point 2.2.1.*).

All documents (or their certified copies) which are required for the formation of a company, as mentioned in *points 1.3.* and *1.4.* above, are required in the registration process.

1.4.5. Employment Duties

A staff member must be registered with the Social Insurance Institution (*ZUS*) within seven days of the commencement of his employment.

1.4.6. Licenses

Establishing a company with a foreign shareholding does not usually require any special permission or license. The activities requiring a license have been described in detail in *point 1.2.1.* of this guide.

Special approval from the Office for Competition and Consumer Protection may be required in certain cases when acquiring shares in a new or existing company. This applies to both Polish and foreign entities.

1.5. Office Rental

Office rents are denominated in USD or EUR, but paid monthly or quarterly in Polish zlotys. With Poland's new EU status and strong exchange rates, landlords are encouraged to quote rents in EUR. Additionally, tenants are obliged to pay service charges, which average between EUR 3.5 and 5 per sq. m per month. They mainly include the following costs: water, electricity, heating, air-conditioning, maintenance, cleaning, etc. They are added to the net rents and are generally calculated according to the amount of floor space. A charge is also usually added to the net office space for common areas. The charge is calculated on the pro rata share of common areas used (lift lobby, reception, toilets, etc.). Tenants are obliged to pay 22% value added tax (VAT) on the rent and service charges. The level of the rent depends on location, quality of finish, size and the rental term.

The Polish office market is still a tenant's market. Various incentives are offered by landlords to attract new tenants that have a significant impact on the net effective rental values (a 10 – 15% reduction in rents). These include a fit-out allowance, rent-free periods (from 1 to 9 months) or free parking spaces.

Rental agreements are becoming more standardised, which in turn makes office premises more secure for investors. The level of rents is becoming closer to that of other European cities, such as Vienna, Berlin or Amsterdam.

Table 2. The Warsaw Office Market
Office Rents in Warsaw (USD/sq. m/month)

Year	2003	2004*
City centre		
Prime newly built	23–25	23–25
Secondary space	17–20	17–20
Outside the city centre		
Newly built	15–17	14–17
Secondary space	12–13	11–13

* It is estimated that rents may decline slightly over the coming two or three years, especially in office buildings located outside the city centre. Market forecasts predict that the overall vacancies in Warsaw will continue to decline and prime rents should remain stable, mainly because of positive economic forecasts, combined with higher-than-expected take-up and the relatively low supply of modern office stock.

1.6. Acquiring Real Estate

Real estate, as defined under Polish law, comprises land, buildings on plots of land and premises (apartments, office space, etc.). Real estate can be used under the following legal forms:

- ownership right;
- the right to a long-term lease (also known as perpetual usufruct), where ownership of the land rests with the State Treasury or a municipality. The leaseholder gains ownership rights over the buildings on the given plot of land and the right to use the land for a period of 40 – 99 years in return for an annual charge. The leaseholder may sell the right or use it to secure his loans;
- usufruct;
- lease or rental.

The main difference between lease and rental is that a leaseholder acquires the right to use the land and takes full financial advantage of the land's properties over the duration of the lease contract. The leaseholder pays a fee to the landlord for those rights. In the case of rental, only the right to use the rented item is acquired in exchange for the rental charges paid to the person letting the object, who is usually the owner or holder of a long-term lease.

All purchase or long-term lease contracts must be certified by a notary; otherwise, they may be deemed invalid.

A foreigner may purchase real estate only after receiving permission from the Ministry of Internal Affairs and Administration (after approval by the Ministry of Defence and, in the case of farmland, also after receipt of approval by the Minister of Agriculture).

Permission is also required in the case of acquisition or receipt of shares / holdings in a company by a foreigner, if this company owns or is in possession of the right to a long-term lease of real estate, if:
- through this transaction, the company becomes a controlled company (the shareholder has the majority of the votes at the General Meeting of Shareholders and has the right to appoint members of the Management Board, members of the Supervisory Board and others, as provided for in article 4 §1, item 4 of the Code of Commercial Companies);
- the company is a controlled company and the shares / holdings are acquired by an entity which was not a shareholder before the transaction.

This permission is not required when the shares of the company are traded on the stock exchange.

From the day of accession to the EU (1 May 2004), foreigners who are citizens or entrepreneurs of the EEC countries do not need permission to purchase real estate and to acquire or receive shares / holdings in a company, if this company owns or is in possession of the right to the long-term lease of real estate.

Exceptions to the above are:
- farmlands and woodlands – permission is required during the first 12 years from the date of Poland's accession to the EU. However, permission is not required if several conditions are fulfilled: if the person who wants to purchase real estate is a leaseholder over a defined period (7 years for western regions of Poland and 3 years for the remainder, starting from the official authentication of the leasehold contract) and if the leaseholder personally conducts agricultural activities and lives legally in Poland;
- "second house" – permission is required during the first 5 years from the date of Poland's accession to the EU (however, permission is not required if a foreigner lives legally and continuously in Poland for 4 years or if he purchases a "second house" in order to conduct business activities in tourism services).

The Ministry of Internal Affairs and Administration must issue the permit in question within:
- a maximum of 30 days in the case of real estate located in special economic zones;
- a maximum of two months in the case of other real estate.

The exception to the above rules is the case of companies that have acquired or are in the process of acquiring real estate with an area not exceeding 0.4 ha, on condition that the real estate is located in a developed area and is to be used for the company's statutory purposes.

Non-compliance with the above rules may result in the land purchase agreement being deemed invalid.

A foreigner intending to buy real estate in Poland may apply for a promise to receive the above permission. The promise is issued in accordance with the principles of issuing administrative decisions. It is valid for a period of six months from the date of issue and obliges the Minister of Internal Affairs and Administration to unconditionally grant permission for the purchase of real estate. Rejection can only occur in the event of a considerable change in circumstances. The promise may also be issued to a legal entity with its registered office in Poland that is considered a foreign entity under the Polish legal system.

A proprietary right (or rights) to a long-term lease owned by the state or a municipality may only be sold through an auction. In other cases, the sale of the lease can take place through private negotiations.

1.7. The Construction Process

According to the Construction Law, the construction process may be undertaken only upon obtaining building permission issued by the construction supervisory authorities (a municipality's alderman or a town's major). The permission must be in line with the local master plan.

Under the Zoning Law, local master plans specify the purpose of the land, the layout of public purpose investments and a specification of the methods and conditions of land development. If a master plan exists for the area planned for the investment, an application for building permission may be filed directly on the basis of this plan.

If there is no master plan, a decision on site development conditions (*decyzja o warunkach zabudowy, WZ*) must be obtained before land development methods can be determined. This decision is issued by the head of the municipality or the town's mayor and is binding on the authority that later issues the building permission. A decision on site development conditions may only be issued when all the following conditions are met (with certain exceptions regarding, for instance, production investments):

1) at least one neighbouring plot, accessible from the same public road, has been developed in a way that allows the requirements for the new land development to be determined, i.e. maintaining the same purpose, parameters, features and ratios affecting land development, including architectural outlines and structural forms, building line and degree of land use (the so-called "good neighbour's" principle);

2) the land has access to a public road;

3) the existing or planned infrastructure is sufficient for the investment;

4) no change of use consent is required for agricultural or forest land to be used for non-agricultural or non-forest purposes, or consent was obtained on the basis of local plans which are already invalid;

5) the decision is compliant with separate regulations (e.g. the Environmental Protection Act, the Act on the Protection of Forests and Agricultural Land, the Monuments Protection Act).

Proceedings regarding the determination of the development conditions may be suspended for up to 12 months from the date of filing the application for determining the development conditions.

In addition to the decision on site development, the application for the permission should also be accompanied by a construction design prepared by an authorised person in compliance with specific construction and technical provisions. The design may be submitted for approval even before applying for the permission. In such a situation, the application for the permission must be submitted during the validity period of the decision approving the design. This period is specified in the decision approving the design, but may not exceed one year. The law specifies all other conditions which should be met, as well as documents which should be attached to the application for the building permission.

The building permission expires if the construction is not commenced within 2 years of the date of obtaining the permission or if the construction is temporarily suspended for a period longer than 2 years. The use of the completed building or facility may commence upon notifying the construction supervisory authority 14 days before first use of the construction facility, and an obligatory inspection (some exceptions exist). Further details on permissions required for the use of a completed building are specified in *point 1.4.3.* of this Guide.

Recent amendments to the construction law have also extended the ways of legalising facilities erected without building permission or not in compliance with the building permission. However, such facilities may be legalised only if:

1) the documents presented by the investor show that the facility complies with the provisions specified above, including the site development regulations, and, in particular, with the requirements of applicable local master plan;

2) building plans are presented with all required details;

3) a fee for legalisation is paid.

The year 2003 brought changes in the Law on Spatial Development. Prior to these, any large-scale development required two separate decisions (*see above*):
- a decision on site development conditions (*decyzja o warunkach zabudowy*);
- building permission, based on the above decision.

The new Law on Spatial Development has the purpose of eliminating the need to obtain a decision on site development conditions. This will only apply, however, to the areas for which new detailed zoning plans have been adopted (in all other regions, the site development decision will still be required). The benefit to investors here is that such a site development decision can be legally transferred to third parties (which, under the former law, was only possible with regard to the building permission). This new opportunity could prove particularly valuable to those selling their investment properties together with valid and final development decisions.

Development of land must be consistent with the local master plan (if such a plan exists). Any decision on site development which does not comply with the plan is deemed invalid. If the previously issued decisions are not consistent with the new or revised plan, they expire unless the building permission has already been issued.

As of 1 May 2004, new VAT rules started to apply to taxation of land. Until 30 April 2004, land was exempt from VAT. After that date, the transfer of land is generally subject to VAT, with certain exemptions (including undeveloped land) other than the so-called construction areas.

1.7.1. Building Permission

Building permission has been discussed in detail in *point 1.4.3.* above.

1.8. Employment of Workers

1.8.1. Employment Offices

There are various methods of seeking work in Poland. However, it is recognised that an application (a CV and a cover letter) sent directly to an employer considerably increases the chances of employment. It is possible to seek job offers through state employment services, non-state employment agencies, press advertisements and through the Internet.

State employment services

There are links to the administrative district [*powiat*] labour offices on the websites of the regional [*województwo*] labour offices, which post job offers in the Internet. According to the Act on the Promotion of Employment and Labour Market Institutions, citizens of EU member states and citizens of countries with which the European Union has signed agreements on the free movement of persons have the right to use labour agency services offered by the district and regional labour offices. Using these services is conditional upon registration at an administrative district labour office as unemployed or seeking work. Anyone wishing to register as unemployed or seeking work at the local administrative district labour offices must provide the following: school certificates, work certificates and a personal identification document. Administrative district labour offices, as well as information and careers guidance centres, operating within the framework of the state employment services, have at their disposal computer terminals with Internet connections for their clients. Both local and national press is also available.

Non-state employment agencies

Non-state employment agencies have been operating on the Polish labour market for a number of years, conducting personnel search and selection for employers. This recruitment method is becoming increasingly popular, especially in large industrial cities (with populations over 100,000), such as Warsaw, Poznań, Cracow, etc. These agencies are keen to advertise their services in the Internet.

Employment agencies in Poland must be entered into the register of employment agencies, which is held by the Ministry for Economy and Labour. A certificate is issued as confirmation of such an entry.

A list of registered agencies may be obtained from regional and administrative district labour offices, as well as information and career guidance centres. It can also be found in the website of the labour office information service under the heading of employment agencies.

Press

The most popular national Polish daily newspapers with job offers are "*Gazeta Wyborcza*" – "*Jobs*" supplement [*Praca*] on Mondays, "*Rzeczpospolita*" – "*My Career*" supplement [*Moja Kariera*] on Wednesdays and "*Życie Warszawy*" – "*Work and Education*" supplement [*Praca i Nauka*] on Wednesdays. These supplements contain job advertisements for managers, directors, assistant managers, finance and banking experts, engineers, IT specialists, accountants, secretaries and clerks. Furthermore, job offers are published in all local daily newspapers. However, these are usually job advertisements within the respective region [*województwo*]. They contain job advertisements for manual workers, such as for carpenters, welders, drivers, construction workers, etc. Some newspapers that publish job advertisements, such as "*Gazeta Wyborcza"*, also post the information in their websites.

Internet

The Internet is the richest source of information for job advertisements in Poland. Here, it is possible to find many advisory services, employment agencies, job advertisements, press advertisements, discussion group pages and information on companies. This information may be searched for using various selection options, ranging from the preferred place of work to a type of job. It is worth remembering that the Internet is a constantly changing medium. Many new addresses appear regularly, but many also cease to exist.

1.8.2. Residence and Work Permits

1.8.2.1. The Right of Residence

Visas applicable to non-residents intending to stay in Poland can be of several types:

A temporary residence visa allows the holder to stay in Poland without being employed or running profit-oriented activities.

A temporary residence visa is issued for a limited period. The total time over which a foreigner is permitted to stay in Poland on such a visa cannot exceed six months within a 12-month period from the date of his first entry.

A visa with a work permit entitles the holder to be employed or be involved in profit-oriented activities. A visa with a work permit can be granted to a foreigner who has received a work permit from the voivod with jurisdiction over the territory where the employer's company has its registered office. The visa is issued for the duration specified in the work permit, but no longer than three months. The visa may be extended for three additional months. After that time, a foreigner who wishes to remain in Poland must apply for a temporary residence permit.

Visas are issued in the home country of the individuals by the Polish diplomatic agencies and consular offices. Visa extensions are issued in Poland by the voivodship authority with jurisdiction over the territory where the foreigner is staying or planning to stay.

A temporary residence permit can be granted when the foreigner proves the existence of justifying circumstances, which can be e.g. receipt of a work permit or conducting business activities in Poland.

Permission for permanent residence can be granted to a foreigner who satisfies the following conditions:
- he can prove his permanent family or economic relations with Poland;
- he has secured accommodation;
- he has stayed in Poland with permission for at least five years immediately before applying for permanent residence (or three years, based on a temporary residence permit issued for the purpose of reuniting with his family).

All residence permits are issued by the voivod with jurisdiction over the foreigner's place of residence in Poland.

1.8.2.2. Employment of Foreigners

The indispensable condition for a foreigner to be employed in Poland, with some exceptions that are provided for by law, is the receipt of a work permit.
This condition does not refer to foreigners who:
- have received a permit to settle in Poland, or
- have a refugee status, or
- are UK, Irish and Swedish nationals, or
- EU nationals who have worked in Poland on a work permit for at least the previous 12 months.

The procedure of issuing a work permit consists of the following three stages:
1. the employer who intends to hire a foreigner receives a promise that the work permit will be issued;
2. the foreigner receives a visa with a work permit or a temporary residence permit;
3. the work permit is granted to the foreigner.

Promises to grant a work permit and the work permits are issued by the voivod with jurisdiction over the territory in which the employer's company has its registered office.

The promise is granted for a limited period, to a defined person and employer, for a specified position or type of work. The permit is issued on the conditions specified in the promise, for a period that does not exceed the period of residence defined in the visa or the validity period of the temporary residence permit.

The voivod may extend the validity of the work permit granted to the foreigner upon the employer's application.

If the foreigner already holds a temporary residence permit on the date of submission of the application for the work permit, the voivod decides whether to issue the permit without being obliged to grant the promise.

A foreigner may be employed in Poland without a work permit in the following cases:
- holding training, participation in internships or advisory programmes conducted within the framework of EU activities or other international support programmes,
- foreigners from countries with which Poland has signed international agreements allowing for employment without work permits,
- foreigners performing art-related services, individually or in teams, for up to 30 days in a calendar year,
- foreigners who have permanent residence abroad and are delegated to the territory of Poland by a foreign employer for a period of no longer than three months in order to:
  a) perform assembly or maintenance work, or repairs of technologically complete structures, machines or other equipment, if these are manufactured by this foreign employer;
  b) perform acceptance of machines or other equipment manufactured by a Polish company;
  c) train the employees of a Polish employer who is the recipient of the structures, machines or other equipment [referred to in point a] on the operation and maintenance of this equipment;
  d) assemble, disassemble and supervise exhibition stands, if the exhibitor is a foreign employer who delegates the foreigner.

A foreigner holding a post in a governing body of a legal entity in Poland requires a work permit, even if the foreigner is not employed under an employment contract and is not paid for this function. Foreigners holding posts in governing bodies of legal entities that conduct business activities, who maintain their permanent residency abroad and work in Poland for no longer than 30 days in a calendar year do not need a work permit.

"Toyota Motor Manufacturing Poland is proud to be a company that is involved in building Poland's new economy. Toyota will invest EUR 400 million in Wałbrzych and will employ 1,700 people by 2005. Our objective is to create an efficient and environmentally friendly factory producing transmission systems and engines that are capable of competing with the company's other divisions.

We are on the right track towards achieving this objective because of the involvement of our employees and good cooperation with the local authorities and the Polish government. We highly value the positive approach to Toyota's investments in Poland. In return, TMMP would like to be a good member of the local community."

Yutaka Miyamoto, President of Toyota Motor Manufacturing Poland Sp. z o. o.

"Several factors affected IKEA's decision to invest in Poland:
- *our long-term cooperation,*
- *a well-educated workforce and long traditions in the production of furniture,*
- *low labour costs,*
- *the market size and its considerable potential,*
- *the entrepreneurial spirit of the Poles and their willingness to learn, develop and raise their qualifications.*

Moreover, Poland has other advantages that are significant from IKEA's point of view:
- *the geographical location, facilitating both export of products and import of raw materials,*
- *a large domestic market.*

Poland's accession to the EU can bring benefits for the development of IKEA's operations in Poland because of:
- *an increased rate of economic growth,*
- *the easier and more efficient flow of goods and accurate supplies because of the lack of border control,*
- *the opportunity to implement the long-awaited infrastructure investments, which in turn can create new jobs and improve Poland's economic efficiency."*

Jan Musiolik, General Director of IKEA Polska Group

2. Conducting Business Activities – Basic Regulations

2.1. Accounting and Finance Regulations

2.1.1. Accounting Regulations

After the most recently introduced amendments and interpretations, Polish accounting standards do not differ significantly from international standards. Furthermore, in cases where no national accounting standard exists, the appropriate International Financial Reporting Standard(s) may be applied. From 1 January 2005, all companies listed on the Warsaw Stock Exchange will be obliged to prepare their financial statements in accordance with the International Financial Reporting Standards. Accounting may be managed by the business entity itself (at the company's registered office), or by another authorised entity providing external services. The tax office should be informed of the latter case in writing.

All accounting documentation, records and reports must be prepared in Polish and in the Polish currency (PLN). Only the source documents need not be translated into Polish, however, at the request of the fiscal audit authorities or an auditor, a reliable translation of the specified bookkeeping vouchers made out in a foreign language must be provided. All source documents, records and reports for the last five years of activity (including tax returns) must be held by the company. The approved annual financial statements must be retained permanently.

Entities must apply the accounting principles specified in the Accounting Act to ensure a true and fair presentation of their economic and financial position, as well as their financial results.

Events (including business transactions) must be entered into accounting ledgers and disclosed in the financial statements according to their business nature. An entity may adopt certain simplifications in the application of the accounting rules, on condition that these do not significantly affect the attainment of the above objectives.

The manager of the entity is responsible for the fulfilment of the accounting duties.

The accounting year (which must overlap the tax year) covers 12 sequential months. Should it not coincide with the calendar year, the appropriate tax office should be informed.

Accounting records, financial statements and accounting vouchers should be stored for the periods specified in section 8 of the Accounting Act.

2.1.2. Financial Statements

The annual financial statements consist of a balance sheet, profit and loss account, additional information (including an introduction to the financial statements), as well as supplementary information and explanations. Entities audited in the given year must also present a cash flow statement and a statement of changes in the entity's share capital.

Together with annual financial statements, the management must prepare a report on the entity's activities, which, in particular, contains information on major events that are material to the entity's activities, the entity's expected development and major achievements in the area of R&D, as well as the entity's present financial condition and projections.

2.1.3. Audits

Annual consolidated financial statements of capital groups and annual financial statements of joint-stock companies, banks, insurers and investment and pension funds must be audited.

Other entities must be audited if two of the following three conditions were met in the preceding financial year:
- average annual employment amounted to at least 50 people;
- the total of net turnover and financial income amounted to at least EUR 5 million;
- the total balance sheet assets as at the end of the accounting year amounted at least EUR 2.5 million.

The euro/zloty exchange rate announced by the NBP on the last day of the fiscal year is used for the calculation.

Audits must be conducted by an independent entity with a license to perform audits before the financial statements are accepted by the Annual General Meeting.

All entities that are obliged to prepare annual audits must publish (in the *Monitor Polski B*) their balance sheet, profit and loss account, statement of changes in the share capital and the cash flow statement, the introduction to the financial statements, together with the auditor's opinion, the statement of discharge granted by the Annual General Meeting and the decision on profit distribution.

The manager of the entity must submit all the above documents to the appropriate Court Register for publication within 15 days from the date on which the annual financial statements were approved.

2.2. Taxes

2.2.1. Taxes in Poland

The taxation system is uniform across the Republic of Poland, and only small differences may appear in local taxes. In general, foreign companies and individuals pay the same taxes as Polish legal entities or private individuals. The exceptions to this rule are businesses where taxation is regulated by international treaties signed by Poland (Agreements on the Avoidance of Double Taxation).

The main taxes in Poland are:
- corporate income tax (CIT);
- personal income tax (PIT);
- tax on goods and services (VAT);
- excise tax;
- stamp duty / tax on civil law transactions.

See point 1.4.4.

All companies intending to conduct business activities are given a taxpayer identification number (NIP) after registration with the appropriate local tax office. Taxpayers are obliged by law to keep their accounts and calculate tax independently.

2.2.2. Tax System and Regulations

All taxes in Poland are imposed by the government in taxation acts which set the rules for imposing taxes, their rates and duties as well as the responsibilities of taxpayers. The Minister of Finance may be authorised by an act to decree regulations. All legislation is published in official publications [Journal of Laws (*Dziennik Ustaw – Dz. U.*) and the Official Journal of the Republic of Poland (*Monitor Polski – M.P.*)].

The Tax Ordinance is the most general tax regulation which defines:
- the tax administration structure;
- general taxation regulations, e.g. payment deadlines and tax arrears;
- tax liabilities of third parties;
- tax information;
- tax proceedings;
- fiscal confidentiality.

Taxes in Poland are administered by:
- tax offices - units supervising the collection of taxes in their territories. They also issue individual administrative decisions in taxation cases. Fiscal audit offices also exist, which perform taxation and procedural audits of fiscal accounting;
- tax chambers - supervise the tax offices and are empowered to review the administrative decisions of tax offices and fiscal audit offices;
- the Minister of Finance - is responsible for the Polish budgetary policy and supervises the entire taxation system.

Taxpayers may appeal to the tax chamber against decisions of the local tax office or fiscal audit office. An appeal against a decision of the tax chamber may be directed to the Regional Administrative Court. As of 1 January 2004, taxpayers are also entitled to resort to the Supreme Administrative Court to review judgements of the Regional Administrative Courts.

Taxpayers are not formally able to receive advance rulings. The Minister of Finance is entitled to interpret the tax law *ex officio*.

On the request of taxpayers, tax offices are obliged to provide written information about the application of the tax law to their individual cases in which tax proceedings or tax audit proceedings have not yet commenced. Such information, however, does not constitute a binding ruling and cannot necessarily be relied upon by the taxpayer. Even so, should the taxpayer act on the information received from the tax office, this should help avoid certain negative consequences. In particular, the taxpayer would not be subject to penal-fiscal liability and would not be liable for penalty interest on tax arrears in the event that the tax authorities take a different view on a matter previously defined in this information.

As of 1 January 2005, new legislation will be introduced which will allow taxpayers to apply for binding rulings. The main difference between the current and the new legislation is that during the tax audit, the tax authorities can currently impose an interpretation of the law that differs from that expressed in a previously obtained ruling. As a result, the taxpayer may find himself with tax arrears. The new legislation requires that the tax authorities respect a ruling even if it ultimately turns out to be wrong.

2.2.3. Corporate Income Tax (CIT)

Companies and organisational units (with the exception of partnerships) are subject to corporate income tax. Taxpayers that have their registered office or their Management Board in Poland are liable for CIT on their global income. If a corporate taxpayer does not have its registered office or Management Board in Poland, the tax is levied only on the income derived in Poland, unless double taxation treaties state otherwise. Having satisfied several conditions, companies may establish a "fiscal unity" – a group of companies treated as a single CIT taxpayer (the concept of a "fiscal unity" is discussed in more detail in *point 2.2.3.5* of this Guide).

2.2.3.1. Taxable Income and Tax Rates

Taxable income is the aggregate of all revenues earned in a tax year - both financial and operational (with exceptions), net of deductible expenses. Income less additional specific expenses (e.g. deductible donations) constitutes the basis for the calculation of taxation.

Tax-deductible costs are generally the costs that are borne with the intention to generate taxable revenue. Some expenditures, however, are not tax-deductible (e.g. certain advertising and representation costs, some kinds of penalties or interest).

Fixed assets and intangibles are subject to depreciation/amortisation write-offs. Where their value is less than PLN 3,500, they can be deducted with a single write-off in the month in which they are brought into use or in the following month. Certain assets, such as land and works of art, cannot be depreciated.

Income (tax base) that is calculated in accordance with the tax provisions is subject to CIT at a rate of 19%, which ranks among the lowest in Europe.

Revenues / deductible costs generated by a partnership are added to each partner's revenues / deductible costs in proportion to their shares in the partnership; thus, the income is effectively taxed at the level of each partner.

The calendar year is generally the tax year. Taxpayers may, however, select a different tax year covering 12 consecutive calendar months.

2.2.3.2. Taxation of Dividends

Revenue (income) from profit distribution of a corporate entity with its registered office in Poland, including dividend income (as well as redemption of shares, liquidation proceeds, income / supplementary capital allocated to the share capital, etc.), is taxed at a rate of 19%. This tax is withheld and remitted by the company paying the dividends.

The exemption from withholding tax on revenue (income) from profit sharing in a corporate entity earned by EU companies has been applicable since 1 May 2004. In order to benefit from the above exemption, the recipient of the dividend needs to satisfy the following conditions:
- it does not have its registered office in Poland and its Management Board is not located in Poland;
- it is subject to unlimited tax liability in an EU member state (i.e. is subject to corporate income tax on its worldwide income);
- it holds at least 10 % of the shares in a Polish company paying dividends for an uninterrupted period of at least two years.

The amendment to the CIT Law of 18 November 2004 provides that the 10% shareholding threshold is subject to the transition period ending 1 January 2009, during which it will be gradually reduced. The transition period is as follows:
- from 1 January 2005 until 31 December 2006 the required shareholding in a Polish company paying dividends is at least 20%;
- from 1 January 2007 until 31 December 2008 the required shareholding in a Polish company paying dividends is at least 15%;
- from 1 January 2009 the required shareholding in a Polish company paying dividends is at least 10%.

In addition, if the requirement to hold shares in a Polish company for 2 years is not satisfied at the time of the distribution of the dividend, the exemption is still available for the recipient of the dividend. However, if the shares are alienated before the 2-year period lapses, the exemption expires and the company paying the dividends is required to pay the dividend withholding tax according to a relevant Double Taxation Treaty, together with penalty interest.

The withholding tax rate on dividends payable to foreign entities may be reduced under the applicable double taxation treaties. In order to benefit from the reduced Treaty rates, the foreign recipient of income should provide the Polish remitter of the dividend with a certificate of tax residency issued by the tax authorities in its home country.

Where a dividend is paid to a legal person being a taxpayer with residency in Poland, the withheld tax can be credited against its CIT liability. If the tax credit cannot be used in a given tax year, it may be carried forward.

Dividends received by Polish tax residents from foreign companies are aggregated with other taxable revenues subject to CIT at a rate of 19%. However, the withholding tax payable abroad may be credited against the CIT liability in Poland (although the credit may not exceed the CIT attributable to the dividend-type income).

Furthermore, underlying tax related to dividends received by a Polish company from an entity being resident of a non-EU state with which Poland has concluded a Double Taxation Avoidance Treaty may be credited against CIT, provided that: (i) the Polish company holds at least a 75% stake in the dividend payer, and (ii) the Polish company has held the shares for at least two years before the distribution of the dividend.

Underlying tax related to dividends received by Polish taxpayers from an entity that is domiciled in an EU member state may be credited against CIT, provided that: (i) the Polish company holds at least a 10% stake in the dividend payer, and (ii) the Polish company has held the stake for at least two years preceding the distribution of the dividend.

However, the 10% shareholding threshold is subject to the same transition periods as specified above for the exemption from dividend withholding tax paid to an EU company.

Taxpayers are not entitled to the underlying tax credit in the event of receiving liquidation proceeds.

2.2.3.3. Taxation of Interest, Royalties and Intangible Services

The general rule is that interest is recognised for CIT purposes on a cash basis (both as revenue and as a deductible expense), i.e. interest constitutes a tax-deductible expense to the debtor and taxable income for a creditor when it is paid or compounded.

Interest paid to an entity without residence or without a registered office in Poland is subject to withholding tax at a rate of 20%, unless a relevant Double Taxation Treaty provides for a reduced tax rate.

Similarly, the 20% withholding tax applies to royalties and certain intangible services (such as consulting, accounting, market research, legal services, advertising, management and control, data processing, human resources, guarantees and other services of a similar nature), unless a relevant Double Taxation Treaty provides otherwise. In general, payments for intangible services are classified under double taxation treaties as business profits that are not subject to withholding tax in the source country.

The amendment to the CIT Law of 18 November 2004 provides that the withholding tax rates applicable to the interest and royalties will be subject to a gradual reduction according to the following timetable:
- from 1 July 2005 until 30 June 2009 – the applicable rate is 10%;

- from 1 July 2009 until 30 June 2013 – the applicable rate is 5%;
- as of 1 July 2013 – the exemption applies.

In principle, in order to benefit from the above reduction in the tax rates, the recipient of the interest (royalties) needs to satisfy the following conditions:
- it does not have its registered office in Poland and its Management Board is not located in Poland;
- it is subject to unlimited tax liability in an EU member state (i.e. is subject to corporate income tax on its worldwide income);
- it holds at least 25% of the shares in a Polish company paying the interest (royalties) for an uninterrupted period of at least two years.

A reduction of the tax rates applicable to the interest (royalties) is also possible if the Polish company holds at least 25% of the shares in a company receiving the interest (royalties) for at least two years. This benefit is also available when the recipient of the interest (royalties) is a sister company of a Polish company paying the interest (royalties), provided that the parent company directly holds at least 25% of shares in both sister companies for at least 2 years.

If the requirement to hold the shares for 2 years is not satisfied at the time of the payment of the interest (royalties), benefit can still be gained from the reduction (the exemption). However, if the shares are alienated before the 2-year period lapses, the exemption expires and the company paying the interest (royalties) is required to pay the withholding tax according to a relevant Double Taxation Treaty and, as the case may be, it may be also obliged to pay penalty interest.

The entity paying interest or royalties withholds and remits the tax. A certificate of residency is needed in order to apply a reduced tax rate or to refrain from withholding the tax in accordance with a Double Taxation Treaty.

2.2.3.4. Carrying Losses Forward

The CIT regulations allow taxpayers to carry losses forward to future years. It is not possible to carry losses back and offset them against income in prior years. Losses may be offset against the income generated in the following five tax years. The maximum amount of a given year's loss used in any single tax year may not exceed 50% of the total loss.

The right to carry losses forward is always linked to the entity that incurred the losses, rather than to the entity's specific assets. This means that the tax losses are not transferable with assets or the business (e.g. if the whole of a given taxpayer's operations are transferred to another entity). Furthermore, only in the case of mergers can the tax losses of the remaining companies still be utilised, whereas the tax losses of the acquired companies are forfeited. If the merger results in the establishment of a new company, the tax losses of the merging companies cannot be utilised.

2.2.3.5. Group Company Regulations

The CIT Act allows for the creation of a "fiscal unity" (or tax consolidated group), under which companies in a capital group are treated as a single taxpayer of CIT.

The basic requirements for obtaining the status of a tax consolidated group are the following:
- the capital group may be established only by limited liability companies or joint-stock companies with registered offices in Poland;
- the average share capital of each member company should amount to at least PLN 1,000,000;
- the holding company should hold at least 95% of the shares in the remaining group companies;
- subsidiary companies cannot be shareholders in the holding company or other subsidiary companies in the group;
- none of the members of the group can have tax arrears (this condition is deemed to be satisfied if the member of the group pays the tax arrears together with penalty interest within 14 days of correction of the tax return / receipt of the tax decision);
- the holding company and the subsidiaries have agreed to establish the capital group for a period of at least three years by means of a notary deed; the agreement must also be filed with the tax office which issues an administrative decision and registers the capital group if all the conditions are met.

After the creation of the tax consolidated group, the companies forming this group should additionally satisfy the following requirements:
- none of the companies included in the group can singularly benefit from tax exemptions (excluding VAT exemptions);
- the annual level of profitability of the group cannot be less than 3%;
- companies from the group cannot maintain relations with entities from outside the group resulting in a violation of the transfer pricing restrictions.

The fiscal unity formed and registered with the relevant tax authorities is treated as a separate entity for CIT purposes, which results in particular in the following advantages:
- the losses of some of the members of the tax consolidated group can be offset against the taxable income of its other members;
- the regulations on transfer pricing do not apply to transactions between companies within the group;
- donations between companies within the group are deemed to be a tax-deductible expense for the donor;
- the simplification of tax formalities, as only one company in the group prepares a tax return;
- dividends paid to the holding company are exempt from withholding tax.

2.2.3.6. Thin Capitalisation

The Polish CIT Act contains provisions on thin capitalisation, restricting the debt / equity ratio to 3:1. Interest paid on loans in excess of this ratio is not tax-deductible. These regulations apply when loans are granted to a company by:

a) a shareholder owning at least 25% of the voting shares;

b) shareholders jointly owning at least 25% of the voting shares;
c) another company, if the same shareholder owns at least 25% of the voting shares in each of the companies.

The term "loans" also includes debt securities, deposits and irregular deposits. As of 1 January 2005, the thin capitalisation restrictions will also cover loans granted by Polish tax residents for CIT purposes.

2.2.3.7. Transfer Pricing (documenting transactions with related parties)

In principle, Polish transfer pricing rules are based on the OECD Transfer Pricing Guidelines. The rules are based on the concept of the "arm's length" level of transfer prices. If related parties (e.g. those with a common shareholder) conclude transactions on terms that differ from market practice and, in consequence, the Polish entity discloses a lower taxable income than it would otherwise have disclosed, the taxable income of the entity will be adjusted in accordance with this principle.

Moreover, if intangibles or services are the subject of such a transaction, and the benefits rationally expected from the transaction are obviously lower than the expenses incurred, then such expenses are not deductible for tax purposes.

Tax information

Taxpayers conducting transactions with foreign related parties are subject to certain notification requirements. These rules are additional to the transfer pricing rules and apply to all transactions between Polish entities, as well as Polish and foreign legal persons.
The requirements are as follows:
- where a taxpayer and a related foreign party engage in transactions exceeding EUR 300,000 in the tax year, the tax authorities must be informed of the transaction within three months of the year end;
- where the foreign entity has also a representative office or permanent establishment in Poland, the tax authorities must be informed if the value of transactions exceeds EUR 5,000.

Documenting transactions with related parties

A law was introduced on 1 January 2001 on the documentation of transactions with related parties and with entities having their registered offices in tax havens. According to this law, the duty arises to prepare documentation for a transaction (or transactions) concluded between related parties, where the total amount arising from the contract or the amount due (and actually paid) in the tax year exceeds:
1. EUR 100,000 – if the value of the transaction does not exceed 20% of the share capital defined in accordance with the regulations on thin capitalisation; or
2. EUR 30,000 – with respect to services, sales or use of intangibles; or
3. EUR 50,000 – in all other cases.

The duty to prepare documentation also relates to transactions concluded with entities with a registered office in a tax haven, if the total amount arising from the contract or the amount due (and actually paid) in the tax year exceeds EUR 20,000.

Taxpayers must present the documentation within 7 days of the request of the tax authorities. If the authorities establish that the taxpayer's profit is higher (or the loss is lower) than the amount declared by the taxpayer, and the taxpayer does not provide the authorities with the required documentation, the difference between the profit declared by the taxpayer and the profit defined by the authorities may be subject to 50% taxation.

2.2.3.8. Branches of Foreign Companies

Foreign entities have been able to establish branches in Poland since 1 January 2000. The range of activities of these branches is limited to the scope of activities of the foreign entity. The establishment of a branch requires registration in the National Court Register. Such branches are subject to similar tax rules as those imposed on limited liability and joint-stock companies.

Foreign entities may also operate in Poland in the form of representative offices. The range of activities of representative offices is limited to representation and advertising.

2.2.4. VAT – Rates and Regulations

The VAT regulations were subject to significant changes in 2004 because of Poland's accession to the EU. Polish regulations are currently based on EU directives. In brief, after 1 May 2004, the scope of VAT taxation has been vastly extended, exports and imports to and from EU member states were replaced with intra-community supply and acquisition, and the rules for VAT recovery were changed. The new VAT law introduced new rules on the place of taxable supply of goods and services. The general principles of the new system are presented below.

Tax on goods and services (VAT) is a broad-based tax levied on the sale of goods and services in Poland. An entity is required to register for VAT once its annual turnover on transactions subject to VAT exceeds EUR 10,000. VAT is imposed on every supply of goods and services at the base or reduced VAT rate, unless the transaction is exempt.

The base rate of VAT is 22% and is charged on most goods and services.

A reduced VAT rate of 7% is imposed on the sale of such products as:
- certain foodstuffs;
- medicines and goods used in health care;
- certain children's goods;
- hotel and catering services (up to 31 December 2007);
- construction and repair services related to housing (up to 31 December 2007);

- some transport services;
- municipal services (e.g. mains water supply, sewage treatment, street maintenance, etc.);
- fertilisers.

A reduced 0% VAT rate is levied on the intra-community supply of goods, exports of goods, as well as some international transport services and services related to international transportation.

A reduced 0% VAT rate may be applied to the sale of books and certain magazines (up to 31 December 2007) and some domestic supplies, e.g. equipment for ships and airplanes.

A reduced 3% VAT rate is applied to raw materials produced by the agricultural industry (up to 30 April 2008).

Some financial and insurance services, cultural services, research and development services, etc., are exempt from VAT, which prevents the taxpayer from recovering input VAT incurred in relation to such services.

The tax due to the tax office is calculated as the surplus of output VAT over recoverable input VAT stated on purchase invoices.

Transactions between VAT taxpayers must be documented with a VAT invoice. Sales to individuals who do not conduct business activities must be registered by a fiscal cash register if the turnover with individuals exceeds a specific threshold. This threshold generally amounts to PLN 20,000 (approx. EUR 5,000).

Registered VAT taxpayers are obliged to submit monthly VAT returns (or quarterly VAT returns in the case of sole proprietors) to the appropriate tax office and keep registers of purchases and sales subject to VAT. In addition to monthly VAT returns, EC Sales and Purchase Lists, as well as Intrastat declarations must be submitted by the taxpayer with respect to its intra-EU transactions.

VAT that is due must be paid by the 25th day of the month following the month (quarter) in which the VAT obligation arises.

Based on certain rules defined in the decree of the Ministry of Finance, foreign business entities not registered for VAT in Poland may apply for a refund of input VAT incurred on purchases in Poland, on a reciprocity basis.

2.2.5. Excise Duty

Based on the new Excise Duty Act, which largely became effective on 1 May 2004, goods on which excise duty is imposed can be divided into two groups:

Harmonised excise duty goods:
- engine fuel and its components,

- alcohol and beverages,
- tobacco products.

Non-harmonised excise duty goods:
- cars;
- perfumes and cosmetics;
- electricity.

Excise duty is levied on:
- the production of harmonised excise goods;
- the movement of harmonised excise goods from a bonded warehouse;
- the sale of excise goods in Poland;
- exports and imports of excise goods;
- intra-community supply and intra-community acquisition.

Harmonised excise duty goods are subject to excise duty that is covered by special rules which are stipulated in Polish legislation on the basis of EU Directives. In particular, they may only be stored in bonded warehouses and excise duty is due when they are moved out of the bonded warehouse (unless they are moved under the excise duty suspension procedure).

Excise duty is calculated either as a percentage of the value of goods produced (or the customs value of the commodities) or on a volume basis (fixed rate per unit).

The Minister of Finance may amend the excise rates within given limits during the year. The law also provides for certain exemptions that may be made in relation to certain goods, based e.g. on their use or in the event of exporting excise goods.

2.2.6. Tax on Income Derived From Capital (Natural Persons)

As a rule, from 1 January 2004 capital gains derived in Poland are subject to a 19% linear rate tax. From 1 January 2005, capital gains also realised outside Poland will be subject to a 19% linear rate tax.

Since 1 January 2004, there has been no requirement to pay tax advances on capital gains derived from the sale of shares in Polish entities. Income derived from the sale of shares in Polish entities, with some exceptions, is subject to a 19% linear rate tax at the time that the individual files his annual tax return disclosing the capital gains realised during the given tax year. From 1 January 2005, income derived from abroad from the sale of shares in foreign entities will also be subject to a 19% linear rate tax.

Income from the following is also subject to a 19% linear rate tax:
- interest derived from Poland – 19%;
- interest derived from abroad – 19% (from 2005);
- dividends derived from Poland – 19%;
- dividends derived from abroad – 19% (from 2005).

2.2.7. Personal Income Tax (PIT)

Under the Polish PIT Law, individuals may be subject either to limited or unlimited tax liability in Poland. The tax status of a given individual depends solely on whether he has his place of permanent residence in Poland. Given that the term "place of residence" is not defined under the PIT Law, it became common practice to turn to its Civil Code definition, which stipulates that the "place of residence" is a place in which the given individual stays with the intention to stay permanently.

Individuals not having their place of residence in Poland will be viewed as Polish tax non-residents subject to limited tax liability in Poland, whereas those having their place of residence in Poland will be regarded as tax residents in Poland subject to unlimited tax liability in Poland.

The status of a Polish tax resident implies that the total world-wide income received by an individual is subject to taxation in Poland. An individual enjoying Polish tax non-resident status is, however, taxable in Poland only on his Polish source income.

The tax year for individuals is the calendar year.

In general, all income and benefits put at the individual's disposal constitute his taxable income, unless particular income is tax exempt in Poland according to Polish domestic law and/or the appropriate Double Taxation Treaty.

Examples of income exempt from taxation in Poland:
- amounts due to the individual while on a business trip (per diems, travel and accommodation expenses), up to the limits defined in the provisions of other Polish laws;
- amounts paid by the employer for education and raising the professional qualifications of employees (e.g. the value of courses and training financed by the employer).

Possible deductions from income:
- donations granted (except for donations to natural person), up to the value of PLN 350 in 2004 and 6% of the individual’s income starting from 2005;
- contributions paid to the Polish social insurance system;
- expenses incurred by an individual for using internet in the place where the individual lives, up to the value of PLN 760 per year from 2005.

Possible tax deductions:
- 7.75% of the basis for the calculation of healthcare contributions paid by an individual in a given calendar year for his national healthcare insurance in Poland;
- payments to a charity, up to a level of 1% of final tax arising from the individual's annual tax return.

The personal income tax rates for 2005 are as follows:

Table 3. Personal Income Tax Rates for 2005

Taxable income	Personal Income Tax
up to PLN 37,024 (USD 10,889)*	19% minus PLN 530.08 (19% minus USD 156)
PLN 37,024 – PLN 74,048 (USD 10,889 – USD 21,779)	PLN 6,504.48 + 30% of taxable income over PLN 37,024 (USD 1,913 + 30% of taxable income over USD 10,889)
PLN 74,048 – PLN 600,000	PLN 17,611.68 + 40% of taxable income over PLN 74,048 (USD 5,180 + 40% of taxable income over USD 21,779)

*currency translations based on the rate of USD 1 = approx. PLN 3.40

As a rule, the PIT rates indicated in the above table are applicable to an individual's total income. Notwithstanding the above, the Polish PIT Law provides for linear taxation on certain sources of income (which applies instead of progressive taxation).
The following items are subject to a linear tax rate:
- capital gains (*see point 2.2.6*);
- income from the sale of real estate, provided that it is non business-related (if the sale of the real estate takes place after five full calendar years from the date of purchase, no tax is levied, otherwise) – 10%;
- Polish source income derived by non-residents from independent artistic, literary, scientific, educational and journalistic activities, copyrights and inventions, as well as from personal service contracts, specific task contracts, managerial contracts or similar contracts and from board member fees – 20%;
- income derived from conducting business activities in Poland (unless the entrepreneur declares otherwise and chooses progressive taxation on his business activity income) – 19%.

Apart from the above, according to the provisions of the Act on lump-sum taxation of certain revenues earned by private individuals, the taxpayer may enjoy flat rate taxation (lump-sum taxation) on certain sources of income if he chooses to apply this taxation system instead of applying the progressive taxation governed by the provisions of PIT Law. Lump-sum taxation is applicable, to such income as:
- revenues derived from renting real estate – 8.5% up to a level of revenues of EUR 4,000 and 20% thereafter;
- revenues derived from managing certain types of business activity;
- revenues derived from performing independent services of certain types.

Tax is generally due on a monthly basis. Polish employers are obliged to calculate, withhold and pay the tax advances due on the remuneration of their employees to the appropriate tax office for the employer's registered address.

Individuals who receive income from abroad or who perform independent services are personally responsible for disclosing the income on a monthly basis and for the payment of taxes.

As a rule, every taxpayer is obliged to file an annual tax return disclosing his aggregated annual income at the end of the tax year. The deadline for filing the tax return and paying the annual tax liability is 30 April of the year following the tax year for which the return is filed.

Taxpayers may file the annual tax return jointly with their spouses if the following conditions are met simultaneously:
- the spouses remain married throughout the entire tax year in question;
- both spouses are subject to "unlimited tax liability" in Poland for the tax year in question;
- there is marital co-ownership between the spouses;
- neither of the spouses receives income subject to the provisions of the Act of 20 November 1998 on lump-sum income tax on certain revenues earned by private individuals or chooses a 19% linear taxation rate on business activity income.

From 2005, the taxpayer may also file a joint spousal annual tax return in the event of the death of his spouse if this occurred during the tax year or at its end but before filing the annual tax return.

2.2.8. Double Taxation Avoidance Treaties

The personal income tax and corporate income tax regulations provide that the credit method is used to avoid double taxation, unless double taxation treaties specify otherwise. Poland has signed Double Taxation Avoidance Treaties with over 70 countries. Most of the treaties signed by Poland are based on the 1977 OECD Model Convention, although some exceptions appear in several treaties.

2.2.9. Local Taxes and Charges

Local taxes include:
- real estate tax;
- road vehicle tax (imposed only on trucks and buses);
- inheritance and donations tax;
- agricultural tax;
- forestry tax;
- dog ownership tax.

Local communities are entitled to establish rates for certain taxes. However, these cannot exceed the maximum limits set by the Parliament or decrees of the Minister of Finance.

2.2.10. Stamp Duty

Stamp duty is payable on certain submissions and administration acts, including:
- official applications;

- official acts;
- certificates;
- permits;
- other documents, e.g. confirmations of authorisation and bills of exchange.

2.2.11. Tax on Civil Law Transactions

The following acts are subject to tax on civil law transactions:
a) sales agreements and agreements on the exchange of goods and property rights;
b) loan agreements;
c) donation agreements – to the extent regarding the acquisition of debts and encumbrances by the recipient or the donor's liabilities;
d) annuity agreements and agreements for the establishment of a pension in return for consideration;
e) agreements on division of inheritance and agreements on the dissolution of co-ownership – to the extent regarding repayments or additional payments;
f) property agreements between spouses;
g) establishment of mortgages;
h) establishment of usufruct for consideration, including improper usufruct and servitude, for consideration;
i) irregular deposit agreements;
j) company deeds (articles of association).

In principle, the tax liability arises at the time when the transaction takes place. Payment should be made within 14 days, together with submission of the PCC declaration form (tax return on civil law transactions).

The tax rates are as follows:
1) On sales agreements:
   a) real estate and chattels – 2%;
   b) other property rights – 1%.
2) On loan agreements – 2%.
3) On the establishment of mortgages:
   a) to secure an existing liability – 0.1% of the amount of the secured liability;
   b) to secure a liability of an unfixed amount – PLN 19.
4) On company deeds:
   a) 0.5% of the value of the contribution to the partnership or 0.5% of the company's share capital;
   b) 0.5% of the increase in the contribution or 0.5% of the increase in the share capital;
   c) on additional payments – 0.5% of the amount of the additional payment;
   d) on the usufruct of objects or property rights vested in the company without consideration – 0.5%.

The taxpayer is obliged to calculate and pay the tax within 14 days from the day when the tax liability arises.

The remitters of PCC tax are:
1) notaries – on civil law transactions effected in the form of notary deeds;

2) purchasers of items - under sales agreements, if the purchaser buys the items for the purpose of processing or resale.

The taxpayer is obliged to submit a tax return (PCC-1) together with the payment. All parties involved in the transaction must sign this tax return. It is therefore advisable to obtain the signatures at the time of execution of the transaction.

2.3. Insurance Regulations

Poland has the most modern insurance system in Central and Eastern Europe. There are currently 35 life assurance companies and 37 non-life insurance companies in Poland, which jointly earned almost PLN 25 billion in premiums in the last year. In the last financial year, insurers paid nearly PLN 13 billion in claims, the value of their assets reached almost PLN 66 billion and the profits of these insurance companies exceeded PLN 2 billion.

Polish legislation establishes a division of the insurance industry by sector, group and type of risk. Insurance products fall into the following sectors and groups:
- Sector I – Life Assurance

Division of risks in the life assurance sector:
1. life assurance,
2. dowry insurance,
3. life assurance linked to investment funds,
4. annuity insurance,
5. accident and sickness insurance, if supplemental to the insurance referred to in classes 1–4.

- Sector II – Other insurance and non-life insurance, consisting of 18 branches:

1. accident insurance, including industrial injury and occupational diseases,
2. sickness insurance,
3. "Casco" [fully comprehensive] insurance of land-based vehicles other than railway rolling stock,
4. "Casco" insurance of railway rolling stock,
5. "Casco" insurance of aircraft,
6. insurance of marine and inland navigation vessels,
7. goods-in-transit insurance,
8. insurance against fire and natural forces, covering damage to property not included in classes 3–7,
9. insurance against other damage to or loss of property (other than property included in classes 3, 4, 5, 6 or 7 due to hail or frost and any event, such as theft, other than those included in class 8,
10. motor vehicle liability – all liability arising from the use or the possession and use of self-propelled land vehicles, including carrier's liability,
11. aircraft liability – all liability arising from the possession and use of aircraft, including carrier's liability,
12. liability for marine and inland navigation vessels, arising from the possession and use of marine and inland navigation vessels, including carrier's liability,
13. general liability – liability other than the forms included in classes 10–12,
14. credit insurance, including general insolvency, export credit, repayment of instalments, mortgages and agricultural credit,

15. suretyship,
16. insurance of various financial risks, including employment risks, insufficiency of income, bad weather, loss of profit, fixed general expenses, unforeseen trading expenses, loss of market value, loss of a regular source of income, indirect trading losses other than those mentioned above and other financial losses,
17. insurance of legal expenses,
18. insurance of assistance and benefits to persons encountering difficulties while travelling or when away from their place of residence.

Following the introduction of the new regulations related to insurance operations, adjusting the Polish law to the European Union "*Acquis Communautaire*" standards, all insurance companies are required to fully comply with the regulations of those laws.
The following Acts regulate insurance operations:
- the Act of 22 May 2003 On Insurance Activities (Insurance Act: Journal of Laws No. 124, item 1151, as amended);
- the Act of 22 May 2003 On Compulsory Insurance, the Insurance Guarantee Fund and Polish Motor Insurers' Bureau (Insurance Act: Journal of Laws No. 124, item 1152, as amended);
- the Act of 22 May 2003 On Insurance and Pension Funds Supervision and On The Insurance Ombudsman (Insurance Act: Journal of Laws No. 124, item 1153, as amended);
- the Act of 22 May 2003 On Insurance Intermediation (Insurance Act: Journal of Laws No. 124, item 1154, as amended).

Four institutions – the Insurance and Pension Funds Supervisory Commission, the Insurance Guarantee Fund, the Insurance Ombudsman and the Polish Insurance Chamber were established to protect the interests of policyholders by monitoring the funding and financial position of insurance funds.

The insurance market is monitored by the Insurance and Pension Funds Supervisory Commission. The Commission's main objectives include the protection of consumers and prevention of the occurrence of instances when insurance companies become unable to meet outstanding insurance portfolio claims. The Commission also issues licenses to insurance agents and brokers and screens the activities of all branches of existing insurance companies.

From 2003, permits to conduct insurance activities are granted by the Insurance and Pension Funds Supervisory Commission. A single company may not offer both life assurance and other types of insurance.

The following insurance is obligatory under Polish law:
- third party liability insurance ("OC") of motor vehicle owners against any damage resulting from these vehicles being driven;
- third party liability insurance of farmers being owners of a farm;
- compulsory insurance of farm buildings against fire and other fortuitous events;
- other kinds of insurance provided for by the provisions of other acts or international agreements ratified by the Republic of Poland, obliging the relevant subjects to conclude the respective insurance contracts.

An insurance business in Poland can be operated by a joint-stock company, a mutual insurance society or a "primary branch" of a foreign insurance company (based on the reciprocity rule).

The minimum amount of the guarantee fund for a life assurance company operating as a joint-stock company is EUR 3,000,000, whereas for a mutual insurance society it is EUR 2,250,000 (75% * 3,000,000).

The minimum guarantee fund for a non-life insurance company operating as a joint-stock company is EUR 2,000,000 or EUR 3,000,000 depending on the type of insurance offered. The levels for a mutual insurance society are set at EUR 1,500,000 (insurance classes 1–9 and 16–18) and EUR 2,250,000 (75% * 2,000,000 and 75% * 3,000,000, insurance classes 10–15), depending on the type of insurance.

Foreign insurance enterprises from EU member states may conduct their activities in Poland through main branches, after the supervisory authority receives the relevant information on the foreign insurance enterprise from an appropriate authority of the state in which that insurance enterprise has its registered office. The supervisory authority must also receive information on the conditions under which these activities are to be conducted in Poland.

Foreign insurance enterprises from EU member states may conduct activities in Poland in ways other than through branches, within the freedom to provide services, after the supervisory authority receives the following from the relevant authorities of the EU member state in which the insurance enterprise in question has its registered office:
- a certificate confirming that the insurance enterprise has the funds to cover the solvency margin;
- information on the classes of insurance for which the insurance enterprise has a license;
- information on the types of risks which this insurance enterprise intends to insure in Poland.

Every foreign insurance enterprise from an EU member state, conducting activities in Poland covered by sector II, class 10 of the Annex to the Insurance Act, with the exception of third party carrier liability, within the freedom to provide services, shall be obliged to provide the supervisory authority with the personal details of that insurance enterprise's representatives who are authorised to represent it to the extent required for assuming and settling claims lodged by authorised persons and assuring legal representation of that enterprise in disputes before Polish courts of law, through the relevant authority of the state where that insurance enterprise is domiciled. For further information, see Chapter 7 on the freedom to provide insurance services under the Insurance Act of 22 May 2003.

2.4. Labour Law

The objective of the Polish labour law is to regulate the contractual conditions of employment with special protection of employee rights. This role is fulfilled by the Labour Code – the most important legal act governing labour in Poland. Every employment contract should comply with the provisions of the Code. In cases where the provisions set out in the contract are less favourable to the employee than those of the Code, such provisions are deemed invalid and are automatically replaced by the relevant provisions of the Code.

2.4.1. Employment Contracts

Employment contracts may take various forms:

- Temporary contract for a probationary period, no longer than three months. The contractual conditions may be renegotiated in the transition to permanent employment, or they may remain unchanged. If the parties do not reach an agreement as to the future contractual conditions, the contract expires at the end of the probationary period.
- Unlimited duration contract – a permanent employment contract.
- Fixed-term contracts.
- Personal service contract (*umowa zlecenie*) – concluded for the performance of a specified activity (and not necessarily for a specified period), with remuneration related to the performance of the activity that constitutes the substance of the contract.
- Specific task contract (*umowa o dzieło*) - concluded for the performance of a commissioned activity, leading to the achievement of specified results, with the remuneration related to the results of the work. This type of contract is regulated by the provisions of the Civil Code and therefore the issue of protection of employee rights does not arise.

A contract of employment should be drawn up in writing and should include all the most important employment conditions, such as the parties, the type and the date of the contract, the place and nature of the work performed, the remuneration corresponding to the nature of the work performed with an indication of the elements of the remuneration, work time and the start date.

Since 2003, labour law ("Temporary Employment Act") has allowed for the employment of workers by temporary employment agencies based on two contracts: an employment contract between the agency and the employee and a service contract between the agency and an employer-user (for whom the work is performed). The latter should specify the nature of the work, the required qualifications, the place of work, as well as the period of work and the working hours.

An employee is obliged to perform his work with due diligence in the hours specified in the contract, to carry out the instructions of his supervisors and act solely in the interest of the employer. Employees can be held accountable for damages caused to the employer up to an amount equivalent to three months' salary, unless the damages relate to an item entrusted to the employee (e.g. cash) or the cause of the damage was intentional.

2.4.2. Dismissals

Employment contracts expire automatically at the end of the term for which the contract was concluded (in the case of fixed-term contracts), or when a given activity or task has been completed (in the case of personal service contracts and specific task contracts), or upon mutual consent of the parties to the contract.

An employment contract can also be terminated upon a declaration by one of the parties. In general, the minimum notice period required when dismissing an employee depends on the length of service with the employer (exceptions to the prescribed notice period include a change in ownership or transformation of the company). Standard notice periods of an unlimited duration contract are:
- 2 weeks – for a duration of employment of up to six months;
- 1 month – for a duration of employment of between six months and three years;
- 3 months – for a duration of employment of over three years.

Other notice periods are stipulated for probationary period contracts and for fixed-term contracts.

The following groups of employees are legally protected against dismissal: people within two years of retirement age, pregnant women, women on maternity leave, people on annual leave or sick leave or those who are absent from the workplace at the request of the employer.

Notice should be provided in writing and, in the case of a permanent employment contract, it should also state the reasons for the dismissal.

Dismissal without notice through the employee's fault is possible if the employee:
1) seriously violates his basic employment duties;
2) commits an offence, making his employment at the present post impossible, if the offence is confirmed by a legally binding court verdict;
3) loses the licence required for performing the duties connected with his post.

Dismissal without notice is also possible:
1) if the employee is unfit to work because of sickness:
   a) for longer than three months, if the employee has been employed by a given employer for less than six months;
   b) for longer than the period in which he receives social insurance benefits, if the employee had been employed by a given employer for at least six months or, if he has become unfit to work due to an accident at work or through sickness;
2) in the case of the employee's justified absence from work for reasons other than those mentioned above for a period of more than one month.

Irrespective of the way in which the employment contract is terminated, the employer is obliged to present the employee with his work certificate (containing information used as a reference by his next employer, e.g. regarding holidays, sick leave, etc.). The certificate may also include information on remuneration at the employee's request. The employee is entitled to demand that amendments be made to this certificate if he disagrees with its content.

All litigation between the employer and employee is settled by the Labour Court. In general, proceedings in cases related to the employee's claims under an employment relationship are exempt from court fees.

Collective dismissals are possible in Poland (under the so-called "Collective Dismissals Act"), but they must generally (with some exceptions) be agreed with the trade unions and require the implementation of official procedures, as well as the payment of severance pay.

Employees of a recently acquired company usually receive a guarantee of employment for a specified period from the investor (as a result of negotiations of a social package with the new owner). If applicable, the severance pay should also be set during the negotiation process.

2.4.3. Remuneration

Salaries should be negotiated individually with every employee, unless they are subject to a collective agreement.

The minimum salary in Poland is negotiated periodically by the Tripartite Commission (comprising representatives of employees, employers and the government). The minimum monthly salary in Poland set for 2004 is PLN 824.

Basic salaries must be paid at least once a month in cash, in accordance with the rules and regulations that apply at the given workplace.

Salaries (with a few exceptions) must be calculated and paid in PLN. Foreigners may transfer their remuneration abroad once all the relevant taxes have been paid.

Salaries should also be paid during the periods when the employee is not able to work for reasons that are beyond his control, as well as for a period of sick leave of up to 33 days in a given calendar year (remuneration is then paid at a level of 80% of the amount of the salary). If the incapacity to work due to sickness exceeds 33 days in a given calendar year, the employee receives sickness benefit from the Social Insurance Institution (*ZUS*).

In the event of an employee's death, his family has the right to severance pay.

2.4.4. Work Time

In general, working hours should not exceed an average of 8 hours per day and 40 hours per week in an average 5-day working week, over any settlement period of no longer than 4 months. However, the Labour Code provides for several exceptions to this rule.

Overtime (i.e. work performed outside the hours specified in the contract) is permissible only under the following conditions:
- rescue operations saving the lives of people or protecting property, or
- extraordinary requirements of the company,

and the overtime performed cannot exceed four hours per day and 150 hours in a calendar year.

Weekly work time, including overtime, may not exceed an average of 48 hours in a given settlement period (given that employees are allowed to have 11 hours of rest during every 24 hours and that an average working day is no longer than 8 hours, in practice overtime is a maximum of 5 hours per day).

An employee working overtime is entitled to an additional:
- +50% of basic pay for overtime work;
- +100% of basic pay for overtime hours on Sundays and holidays, which were not designated as working days for this employee, as well as for night-time work (i.e. between 9:00 p.m. and 7:00 a.m.).

Employees in managerial positions are not entitled to extra remuneration for working overtime. However, if they work on Sundays or on public holidays at the employer's request, they are entitled to a day's leave in lieu (if they do not benefit from financial compensation).

Work is permissible on Sundays and holidays in rescue operations, in industries that have a continuous production cycle, in work performed in a "continuous operation system" and in work performed exclusively on Fridays, Saturdays and Sundays, as well as in the public utility sectors.

Paid leave cannot be renounced or financially compensated. Employees in their first job are eligible to take their first annual leave after one month of employment, to a level of 1/12 of their annual leave. In each subsequent year of employment, the employee is entitled to the full amount of the annual leave.

The number of days allowed as paid leave depends on the employee's employment history:
- 20 days – up to 10 years of employment;
- 26 days – after 10 years of employment.

Time spent on education is also included in the calculation of the period of employment, depending on the level of education completed. Detailed regulations for these calculations are specified in the Labour Code (after completion of secondary education – four years, after completion of tertiary education – eight years).

Employees are eligible to 16 weeks of maternity leave at the first birth, 18 weeks for subsequent births or 26 weeks in the case of a multiple birth. At least two weeks of this leave may be taken before the expected delivery date.

The Labour Code contains additional provisions for periods of sick leave and one or two days are allowed for extraordinary events such as childbirth, weddings, funerals, etc.

2.4.5. Trade Unions

According to Polish law, employees, as well as employers, have the right to form organisations in order to represent and defend their interests.

All employees have the right to form and join trade unions. This right is guaranteed by the Polish Constitution, the Labour Code and Trade Unions Act.

An employee may not suffer adverse consequences because of membership or refusal to join a trade union. It is forbidden to condition employment or promotion upon membership in a trade union. Officers of trade unions enjoy special protection against dismissal.

A trade union may be formed by at least 10 employees.

The Trade Unions Act provides for consultation with trade unions in several cases. According to the Labour Code, an employer is obliged to consult a trade union in the event of a dismissal of an employee on an unlimited duration contract. According to the Collective Dismissal Act, consultation with trade unions is also necessary in the event of mass redundancies.

If no trade union exists in a work establishment, representatives of the employees should be consulted in the above situations.

2.5. Social Insurance System

Social insurance in Poland consists of pension, disability, accident and sickness insurance. Contributions to the pension and disability insurance are payable until the given individual's gross cumulative annual remuneration exceeds the cap amount (PLN 68,700 in 2004, PLN 72,690 in 2005). Sickness and accident insurance contributions are paid at the full amount. The obligatory social insurance ("*ZUS*") contributions are payable on a monthly basis. The employer contributes between 19.83% and 22.72% of the employee's gross salary, and the employee contributes 18.71%, up to the level of employee's cumulative earnings of PLN 68,700 in 2004 (PLN 72,690 in 2005) and thereafter, the employer contributes 3.57% – 6.46%, while the employee contributes 2.45%. The amounts of contributions payable by the employer and the employee to each kind of insurance are presented in Table 4 below.

Under the current social insurance regulations, the Polish social insurance system consists of three pillars:

⇨ Pillar I – each individual or employee has a separate account at the ZUS office, to which pension contributions are paid. The level of the pension insurance contribution to be retained in pillar I depends on whether the individual is eligible/obliged to participate in pillar II. Participation in pillar I is obligatory for everyone covered by social insurance. If the individual is not eligible to participate in pillar II the total of his pension contribution transferred, both by him and his employer is retained by the ZUS office.
If, on the other hand, the individual participates in pillar II, part of employee's contribution (as illustrated in Table 4) is transferred by the ZUS office to an Open-Ended Pension Fund chosen by the individual.

⇨ Pillar II consists of Open-Ended Pension Funds. Participation in pillar II is obligatory for everyone born after 31 December 1968 and optional for people born between 31 December 1948 and 1 January 1969. People born before 31 December 1948 may only participate in pillar I. As indicated above, a part of the pension contribution of individuals participating in pillar II is transferred from their ZUS accounts to the Open-Ended Pension Fund of their choice. Table 4 presents the split of pension contributions between the first and the second pillars.

⇨ Participation in pillar III is voluntary. In this pillar, contributions are paid either by the employee himself or by his employer (employee pension funds) into life assurance, to an investment fund or for additional insurance in a pension fund.

Employees born before 31 December 1948 are not subject to the new social insurance regulations. They remain within the old social insurance system, where all social insurance contributions are paid to the ZUS office and their pension will be calculated and paid according to the rules that applied before 1 January 1999.

Table 4. Obligatory social insurance contributions paid by the employee and the employer

Category of insurance	% contributed	Contribution split	
		Employer	Employee
Pension	19.52% of the salary including: – 12.22% of the salary to Pillar I – 7.3% of the salary to Pillar II	9.76% of the salary split into: – Pillar I – 9.76% of the salary – Pillar II – no contribution	9.76% of the salary split into: – Pillar I – 2.46% of the salary – Pillar II – 7.3% of the salary
Disability	13% of the salary	6.5%	6.5%
Accident	– employers employing up to nine workers: 1.93% of the salary – employers employing 10 workers and more: the contribution is between 0.97% and 3.86% of the salary, depending on the level of occupational hazard in a given trade	0.97% – 3.86%	– –
Sickness	2.45% of the salary	–	2.45%
Additional contributions:			
Labour Fund	2.45% of the salary	2.45%	–
Employee Benefit Guarantee Fund	0.15% of the salary	0.15%	–

Since 27 September 2001, foreign nationals working in Poland under an employment contract or a personal service contract concluded with a Polish entity have been required to pay obligatory health insurance contributions. The health insurance contribution amounts to 8.25% in 2004 (8.5% in 2005) of the basis for the assessment of the health insurance contributions. The basis for calculating health insurance is equal to the gross remuneration less the amount of social insurance contributions paid or withheld from the individual's gross remuneration. The contributions to health insurance are deducted from the amount of the individual's tax liability, however, such a deduction cannot exceed 7.75% of the basis described above.

2.6. Polish Trade Regulations

One of the most important implications of Poland's accession to the European Union is membership in the customs union encompassing all 25 member states. For customs purposes, the whole territory of the Community is recognised as a single customs zone, which implies that as of 1 May 2004, no customs duties are imposed in trade between Poland and other EU member states (free movement of goods).

Another consequence of accession is the unification of the customs regulations between Poland and other EU countries. Consequently, the Polish Customs Code and most of the national customs regulations, including the Polish Customs Tariff, have been replaced by the Community law, in particular by the Community Customs Code and Common Customs Tariff, which currently apply to trade between Poland and third (non-EU) countries.

2.6.1. Import/Export Licensing Requirements

All business entities operating in Poland (including foreign companies) have equal access to international trade. However, this access is subject to the trade policy measures introduced by the EU, which Poland is currently obliged to observe. Licensing is a form of trade restriction imposed by the European Union with respect to certain goods and countries. Importing into Poland is currently subject to the same licensing requirements as importing into all other EU countries. The licensing system is operated by the European Commission in cooperation with the authorities of the member states.

Trading in certain goods or in certain cases may be restricted by the European Union by value or volume by introducing quantitative import or export quotas. The import of goods covered by an import quota is prohibited outside the quota system. Quotas are allocated among the entities applying for the license. Licenses are valid in all member states except for situations when the quota is limited to one or more regions of the EU. When the quota is entirely exhausted, imports (exports) are not possible until a new quota is opened.

The system of quantitative import quotas is widely applied to the import of steel products and textiles. Imports of textiles, for instance, are subject to a presentation of the import license issued by the relevant authorities of one of the EU member states. An import license may be issued upon the presentation of a valid export license issued in the exporting country. Other goods that are currently covered by the quota system include the following Chinese products: certain footwear, porcelain tableware or kitchenware and tableware or kitchenware other than from porcelain.

Moreover, there are certain restrictions which are not related to commercial policy and which introduce licensing requirements in trading in dual-use (i.e. both civil and military use) goods and technologies, certain chemicals, in particular narcotic drugs and psychotropics or cultural goods.

Separate arrangements are applied to imports and exports of certain agricultural products under the Common Agricultural Policy (CAP), including import/export licensing, quantitative restrictions, export refunds or preferential tariff arrangements.

Licenses and permits for trading in goods that require such licenses or permits are issued by the Minister of the Economy and Labour or by the Agricultural Market Agency, which cooperate with the European Commission.

2.6.2. Customs Tariffs and Tariff Quotas

As mentioned above, the Common Customs Tariff is applied in trade between Poland and non-EU countries. The basic rates included in the Tariff, i.e. "conventional duty rates", apply generally to the import of goods originating in WTO countries or countries benefiting from "most favoured nation" treatment granted by the EU (e.g. to Russia). If autonomous customs duty rates established by the EU are lower than conventional rates, autonomous rates are applied.

Preferential rates are applied for countries benefiting from tariff preferences established either unilaterally by the EU, e.g. within the framework of the Generalised System of Preferences (mainly developing countries) or on the basis of bilateral agreements concluded by the EU with certain countries, e.g. the agreement establishing the European Economic Area (EU, Norway, Iceland and Liechtenstein).

The European Union may also establish tariff quotas, tariff ceilings and tariff suspensions. Tariff suspensions and quotas permit the total or partial waiver of the normal duties applicable to imported goods for an unlimited quantity (suspensions) or a limited quantity (quota), normally for an unlimited period of validity. They are exceptions to the general rule represented by the Common Customs Tariff. Imports outside the tariff quota are possible, but at the regular (higher) duty rate defined in the Common Customs Tariff. Most tariff quotas are managed on a "first-come, first-served" basis, irrespective of where the goods are imported into the EU. Other tariff quotas are managed through a system of import licenses.

The European Union may also introduce additional customs duties in the case of dumped or subsidised imports of certain goods from certain countries. Anti-dumping, anti-subsidy and other safeguard measures are applied after the conclusion of formal procedures by the European Commission.

2.6.3. Customs Procedures

The following customs procedures regulated in the Community Customs Code may be operated in Poland:

1) release for free circulation,

2) transit,
3) inward processing,
4) outward processing,
5) temporary importation,
6) processing under customs control,
7) customs warehousing,
8) exportation.

The procedures mentioned in points 3–7 are called "customs procedures with economic impact". An authorisation issued by the customs authorities is required in order to be able to take advantage of these procedures. An importer does not need to pay customs duty and VAT, but all duties must be secured e.g. in the form of a bank guarantee presented to the customs office.

The procedure of release for free circulation will be granted upon satisfying all conditions of the customs law, in particular the provisions on the payment of customs duties and on granting the customs status of "Community goods" to foreign goods.

The transit procedure allows for the transportation of non-Community goods (i.e. not released for free circulation on the territory of the EU) from one point to another within the EU. This is called an "external" transit. Collateral, which is equivalent to the amount of the customs duties that would be due (as well as, possibly, other charges), is required on transit shipments. In some cases, it is possible to waive this obligation.

Modification of the above scheme is an "internal" transit procedure, which allows for the transport of Community goods (i.e. released for free circulation) from one point to another within the EU through the territory of a non-EU country without losing their Community status. The advantage of internal transit is that no customs duties or trade policy measures are applied with respect to the goods that are re-imported into the EU under this procedure.

Customs warehousing allows companies to store the following goods in a public or private customs (bonded) warehouse:
- non-Community goods, which at the time are not subject to any customs duties or any special restrictions or prohibitions resulting from Community regulations;
- Community goods, which on their placement in the customs warehouse would attract the application of the measures normally applicable on their exportation, i.e. export refunds granted within the framework of the Common Agricultural Policy.

There is usually no time limit on warehousing, however, in some cases the customs office may restrict the time or revoke the permit to stock the goods.

The inward processing procedure allows for the performance of one or more value-adding processes on the territory of the EU with respect to:
- non-Community goods intended for re-export from the Community customs zone in the form

of compensating products, without such goods being subject to import duties or commercial policy measures;
- goods released for free circulation with repayment or remission of the import duties chargeable on such goods, if they are exported from the Community customs zone in the form of compensating products.

Inward processing is:
- processing of goods, including assembly or installation in other goods;
- renovation of goods, including restoration and segregation;
- utilisation of some goods that are not part of the compensation products, but enable or facilitate their production (if those goods are fully or partially used in the process), excluding tools, equipment and fittings.

Processing under customs control allows for the use of non-domestic products on the territory of the EU in processes that alter their form or substance (without applying customs duties or trade policy measures) as well as for the release of processed products for free circulation by applying the appropriate customs charges. This procedure is applied if the rate of duty levied on processed goods is lower than the rate levied on imported materials.

An authorisation for processing under customs control may be issued for Community entities when the following conditions are satisfied:
- it is possible to confirm that the incoming goods will form a part of the final processed goods;
- the incoming goods, after being used for processing, cannot be returned to their previous state without incurring substantial costs;
- the application of this procedure will not constitute a circumvention of regulations on the origin of the goods or the quantitative restrictions that apply to the end products being admitted to economic exchange.

The procedure of temporary importation allows for complete or partial exemption of non-Community goods to be used in the EU from customs duty, provided no changes are made to the goods, with the exception of regular wear arising from the use of those goods.

The customs office sets a date (normally up to two years) after which the goods must either leave the EU or receive a new customs status. This period may be extended.

The ATA carnet can be used for temporary importation/exportation of some goods, i.e. promotional goods, goods destined for exhibitions, etc.

Outward processing allows for the partial or complete exemption of goods from customs duty, which are temporarily exported from the EU for their processing to increase their value, and are then returned to the EU.

These authorisations would only be issued to the EU entity if it can be proved that the goods exported from the EU constitute a part of the final products subsequently imported into the EU.

The procedure of outward processing cannot be applied to the goods:
- the departure of which would entail the reimbursement or cancellation of customs duties already levied;
- which, before their departure, were admitted to free circulation with a total exemption from customs duties because of their end use (this remains in force as long as regulations granting such exemptions remain in force).

The export procedure enables Community goods to leave the EU customs zone. Admission for exportation can be effected after satisfying all the requirements of the customs law, including trade policy measures, as well as regulations regarding export customs duties, if applicable.

Every Community product intended to be exported should be subject to this procedure, with the exception of goods that are subject to outward processing.

Goods should be declared for the customs procedure using SAD forms. Depending on the customs procedure, the declaration should be filed with the customs office located either in the area where the company is registered or where the goods are physically located/processed/loaded, etc.

2.7. Currency and Exchange Controls

The new Foreign Exchange Law came into effect on 1 October 2002.

This law defines a resident as:
- A natural person with his permanent place of residence on the territory of Poland;
- A legal person or another entity that has the right to contract obligations and to acquire rights for itself while having its place of registration on the territory of Poland;
- A branch, representative office or company established in Poland by a non-resident.

A non-resident is:
- A natural person with his permanent place of residence abroad;
- A legal person or another entity that has the right to contract obligations and to acquire rights for itself while having its place of registration abroad;
- Branch offices, representative offices and enterprises located abroad which are established by a resident.

The new Foreign Exchange Law introduces a distinction between non-residents from the EU countries and non-residents from third countries, with the third countries limited not only to countries outside the EU, but also to the countries other than the OECD countries and EEA (European Economic Area) countries. Non-residents from the territory of the EU (as well as OECD and EEA) are treated with priority and currency transactions in their case are subject to more lenient restrictions than the currency transactions with non-residents from third countries.

The Foreign Exchange Law defines the restrictions and obligations connected with transactions in foreign currencies. The avoidance of these restrictions and obligations requires a general permit (issued by the Minister of Finance in the form of a decree) or an individual foreign exchange permit.

Foreign exchange permits issued by the National Bank of Poland ("*NBP*") are needed:
- to define and accept amounts due from non-residents to residents in currencies other than a convertible currency (the list of convertible currencies is published by the President of the NBP);
- to export and dispatch domestic and foreign currencies abroad at an amount exceeding EUR 10,000, (in a single transaction), excluding exporting and dispatch of domestic and foreign currencies abroad by non-residents, should they have previously imported them into the country and duly declared this upon customs clearance;
- for residents to export, dispatch or hand over domestic or foreign currencies to third countries, with the aim of starting up or developing business activities in those countries, with the exception of such activities as direct services, the performance of signed contracts and activities consisting of promoting and advertising business activities conducted by the resident domestically;
- for residents to open accounts in banks and branches of banks located in third countries, both directly and through other entities;
- to make payments between residents in foreign currencies, excluding payments between private individuals, if they are not connected with the management of business activities;
- to manage activities related to the operation of exchange offices.

Special restrictions may be introduced on foreign exchange transactions with foreign countries, if they are required to:
- implement the decisions of the authorities of international institutions, of which the Republic of Poland is a member;
- ensure public order and security;
- ensure a balance of payments, in the case of its general imbalance, a sudden slump, or a threat in this matter;
- ensure the stability of the Polish currency in the event of sudden fluctuations of its exchange rate or any threat in this matter.

As a rule, all operations and payments in Poland are required to be made in the Polish currency (*złoty, PLN*). Residents are obliged to make foreign payments through money orders and domestic payments to non-residents through authorised banks, if the amount of the money order or a payment exceeds EUR 10,000.

Residents concluding a transaction abroad in a foreign currency are obliged to provide the National Bank of Poland with the data required to prepare a balance of payments and international investment position.

Non-residents may transfer sums that are subject to taxation only after the presentation of a confirmation from a tax office confirming that the due taxes have been paid.

2.8. Intellectual and Industrial Property Rights

Polish law protects intellectual property and prevents unfair competition in industry, literature, scientific achievements and artistic works. This protection relates to the works of practising artists, computer programs, soundtracks, radio and television programmes, inventions, industrial designs, trademarks, logos and commercially used names.

2.8.1. Copyright

Copyright in Poland is protected in accordance with the Berne Convention on copyright. Polish law protects any manifestation of creative activity of an individual nature that is established in any form, irrespective of its value, designation or manner of expression (work).

Such works as those contained in the following areas of intellectual property are protected:
- expressed in words, mathematical symbols, graphic signs (literary, journalistic, scientific and cartographic as well as computer programs);
- artistic;
- photographic;
- industrial design;
- architectural and town planning;
- musical and textual, as well as only musical:
- stage, stage and musical, choreographic and pantomime;
- audiovisual (including films).

Copyrights include both proprietary and personal rights.

In general, an author's proprietary rights expire after 70 years:
- from the death of the author;
- for works whose author is not known – from the date of initial dissemination;
- for works the author's proprietary rights of which are, under statutory law, held by a person other than the author – from the date of dissemination of work and, if the works were not disseminated; from the date of their creation;
- for audio-visual works – from the death of the last of the following persons: the main director, the author of the screenplay, the scriptwriter or the composer of the soundtrack written for the audio-visual works.

Producers and importers of tape and video recorders and other similar devices, reprographic devices, as well as blank media used for recording works with the help of such devices for personal use must pay fees to collective management organisations acting to the benefit of authors, artistic performers, producers of phonograms and videograms and publishers, the amount of which is no higher than 3% of the amount due for the sale of such devices and carriers (including CDs).

Gains from copyright infringement may be confiscated. Polish law stipulates penalties for the violation of copyrights in the form of fines, limitation of freedom or imprisonment up to five years.

Barring several exceptions, reproduction, transmission and performance in the media or for non-commercial purposes is restricted.

2.8.2. Patents

The legal protection of industrial property applies for the following periods (provided that fees are paid regularly):
- patents – 20 years;
- utility models – 10 years;
- industrial designs – 25 years;
- geographical indications – without restriction.

A patent grants the exclusive right of use of an invention in Poland to the patent holder and to licensees who are granted a license by the patent holder. This exclusive right may not be abused by applying monopolistic practices.

Marking the product with its patent number is common practice, but is not obligatory.

Patents are not granted in cases of:
- New strains of plants, breeds of animals, biological processes of plant cultivation or animal breeding. However, new types of plants can be protected in Poland in accordance with the International Convention for the Protection of New Varieties of Plants (UPOV);
- Methods of curing diseases in humans and animals, as well as plant protection;
- Scientific discoveries, theories and mathematical methods;
- Creations which are only of an aesthetic nature;
- Plans, principles and methods regarding purely intellectual and business activities, as well as games;
- Creations which may not be used on the basis of established scientific rules;
- Inventions that are contradictory to public order or good conduct;
- Software (this is protected by copyright law).

Topographies of integrated circuits may also be patent-protected in Poland.

The Patent Office will grant a patent after examining the inventiveness, originality, technical nature and application of the applicant's invention.

2.8.3. Trademarks

Trademarks (the term "trademark" also covers service marks) can be registered in Poland.

Trademarks may be protected by law. A trademark is protected through its registration in the Patent Office. It is valid for a period of 10 years from the date of presenting the trademark to the Office. Protection can be renewed by the holder of the trademark for subsequent 10-year periods.

An application to the Patent Office needs to define the product or service that is to be marked by the trademark.

Only a patent agent may act as a representative of a party at proceedings before the Patent Office. A private individual may also be represented by a joint rights holder or his parents, brothers, sisters, descendants or persons related through adoption. Anyone not having his place of residence or a registered office in Poland may only act through the representation of a patent agent. Poland has several Patent Agencies, of which Polservice and Patpol are the largest.

Foreign and Polish legal entities and private individuals are entitled to the same legal protection of trademarks.

A patent holder may grant licenses to third parties.

2.9. Competition Law

2.9.1. The Protection of Competition and Consumers

Two similar competition protection systems have been functioning in Poland since the date of accession: the EU system and the Polish system. The former regulates practices affecting trade between EU member states, while the latter regulates local practices.

Polish law creates the conditions of developing and protecting competition and rules on protection extended in the public interest to the interests of entrepreneurs and consumers. The Office for Competition and Consumer Protection (hereinafter, "the Office") is responsible for protecting competition.

Restrictive practices with the purpose of eliminating or distorting competition are prohibited. Such practices include in particular:

1. Entering into an agreement resulting in:
   - the direct or indirect fixing of prices or other conditions of purchase or sale of products;
   - the restriction or control of production or supply, as well as technical development or investments;
   - the division of the supply or purchase markets;
   - the imposition of onerous or non-homogeneous contractual terms in similar transactions with third parties, thus creating different conditions of competition for these parties,

- conditioning the conclusion of an agreement upon the acceptance or fulfilment of another activity by the other party, which has neither material nor customary relationship with the subject of the agreement;
- the restriction of access to the market or elimination of entrepreneurs who are not party to the agreement from the market;
- the fixing of conditions of a bid submitted by entrepreneurs participating in a tender, in particular in relation to the scope of work or the price.

2. Abuse of a dominant market position, in particular by:

- directly or indirectly imposing unfair prices, including predatory prices or glaringly low prices, significantly delayed payment terms or other conditions of purchase or sale of products;
- restricting production, supply or technical development to the detriment of contractors or consumers;
- imposing onerous or non-homogeneous contractual terms in similar transactions with third parties, thus creating diversified conditions of competition for these parties;
- conditioning the conclusion of an agreement upon the acceptance or fulfilment of another activity by the other party, which has neither material nor customary relationship with the subject of agreement;
- counteracting the imposition of conditions necessary for the emergence or development of competition;
- imposition of onerous contractual conditions by the entrepreneur, thereby generating unjustified profits for this entrepreneur;
- creation of onerous conditions of redress for consumers.

The above arrangements or acts of law representing an abuse of a dominant position are deemed invalid in whole or in the respective part.

The Office may take action to prevent monopolistic practices that can be proven. It can also impose penalties on parties not complying with its instructions.

The Office also oversees corporate mergers and acquisitions, as well as the establishment and transformation of companies in order to monitor whether a dominant market position has been gained.

The President of the Office for Competition and Consumer Protection should be notified of the intention to concentrate the activities of the entrepreneurs whose aggregated turnover in the year preceding the notification exceeds the equivalent of EUR 50,000,000.00.

The Office can stop the process if the entity in question is to gain market dominance. It may also dismiss a person from holding a managerial position in a given entity if this could substantially distort competition.

If the Office finds that a particular entity constantly curbs competition or the conditions necessary for its existence, it can go as far as to dissolve, close down or partition that entity.

Foreign investors establishing businesses in Poland, acquiring shares in existing companies or acquiring companies through privatisation should ensure that these procedures are approved by the Office for Competition and Consumer Protection.

The Office can issue an order to discontinue a practice that infringes collective consumer interests. A practice that infringes collective consumer interests means any unlawful activity of an entrepreneur that is prejudicial to consumer interests. A practice infringing collective consumer interests means, in particular, the use of provisions in model forms of contracts entered in the register of provisions of model forms of contracts that have been pronounced inadmissible, a breach of the duty to provide consumers with reliable, truthful and complete information, unfair or misleading advertising and other acts of unfair competition that are prejudicial to collective consumer interests.

2.9.2. Suppression of Unfair Competition

The Act on the suppression of unfair competition of 1993 regulates the prevention and suppression of unfair competition in economic activities.

According to Polish law, an act of unfair competition is any activity in violation of the law or good practices that threatens or violates the interests of another entrepreneur or customer. In particular, acts of unfair competition include:
- misleading designation of the enterprise;
- false or fraudulent designation of the geographical origin of goods or services;
- misleading designation of goods or services;
- violation of business secrets;
- inciting termination or non-performance of a contract;
- imitation of products;
- making allegations or praising products unfairly;
- impeding market access;
- bribery of a person holding a public post;
- unfair or illicit advertising;
- the sale of goods or services granting a free bonus that is made up of goods or services that differ from those which are sold (except products of small value, samples of goods or goods won in promotional lotteries);
- in promotional lotteries – composing offers so that the consumer is sure of winning if he orders goods or services covered by the promotion or pays an amount in advance to the offering party,
- organisation of pyramid selling systems;
- for discount store networks – introduction of own brand goods into trading for an amount exceeding 20 % of the value of the turnover;
- business activities involving the management of a property erected within a group with the participation of the consumers and aimed at financing purchasing rights, chattels, real estate or services for the benefit of participants of the group (consortium system).

In the event of committing an act of unfair competition, the entrepreneur whose interest has been threatened or impaired may claim:
1) cessation of the illegal acts;
2) elimination of the effects of the illegal acts;

3) making a single or more declarations of appropriate content and in a proper form;
4) reparation of the damages according to general principles;
5) release of undue benefits according to general principles;
6) adjudication of an adequate amount of money for a specific public purpose connected with the support of Polish culture or protection of national heritage – if the act of unfair competition was culpable.

A court, at the demand of an authorised party, may decide that the products, their packaging, advertising materials and other objects directly connected with the commission of the act on the suppression of unfair competition be destroyed or be considered part of the compensation.

The violation of the provisions of the act on unfair competition is subject to punishment by up to 8 years imprisonment.

Foreign natural and legal persons may benefit from the rights arising from the Act on the suppression of unfair competition under international agreements that are binding on Poland or on the basis of reciprocity.

2.9.3. State Aid Regulations

State aid seriously disrupts normal competitive forces by giving certain firms or products favoured treatment to the detriment of other firms or products. Consequently, state aid that distorts competition in the single market is prohibited by the Treaty Establishing the European Community ("the EC Treaty").

The EC Treaty, however, foresees exceptions to the ban on state aid where the proposed aid schemes may have a beneficial impact in overall EU terms.

In particular, it allows for:
- aid to make good the damage caused by natural disasters or exceptional occurrences;
- aid designed to:
  - promote the economic development of underdeveloped areas (which are regarded as particularly backward in accordance with Community criteria);
  - promote the fulfilment of an important project of common European interest or to remedy a serious disturbance in the economy of a member state;
  - facilitate the development of certain activities or areas.

The aid may take a variety of forms as, for instance:
- state grants;
- interest relief;
- tax relief;
- state guarantee or holding;
- provision of goods and services on preferential terms by the state.

Exclusive authority for scrutinising the state aid schemes of EU governments lies with the European Commission. As any other member state, Poland is required to notify the European Commission of the proposed state aid in advance for clearance. The Commission also has the power to require that aid granted by member states that is incompatible with the common market be repaid by recipients.

The admissible amount of state aid to an enterprise may not exceed the maximum intensity of aid for a given region of Poland. The intensity indicates the allowable share of regional aid in costs (investment outlays) which are eligible for such aid.

The intensity of aid allowed on the majority of Poland's territory is 50%, except for:
- Cracow, Wrocław and the Gdańsk-Sopot-Gdynia agglomeration – 40%,
- Warsaw and Poznań – 30%.

The 50% intensity means that entrepreneurs may obtain aid that does not exceed 50% of the investment outlays. For small and medium-sized enterprises, as defined by the Law on Economic Activities, the index is increased by 15 percentage points (to 65%, 55% and 45%, respectively).

Three new block exemptions have been valid since January 2001, which cover aid to SMEs, aid for training and *de minimis* aid (up to EUR 100,000 over a three-year rolling period). The exemption is from the need for notification, as long as all the requirements set out in the regulation are met.

2.10. Product Certification

The aim of certification is to eliminate potential danger to health, life, property and the environment, to eliminate technical obstacles and to facilitate international trade, as well as to ensure the credible evaluation of products and their manufacturing process by independent entities. The Polish certification system is in accord with EU system.

Evaluation is effected by independent entities accredited by the Polish Accreditation Centre.
Products subject to evaluation include:
- iron and steel products (e.g. rods and pipes);
- products of the metalworking industry (e.g. household appliances and electrical appliances);
- machines and appliances (e.g. combustion engines and their parts, processing machines, compressors and ventilators);
- high technology industry products (e.g. automation products and microcomputers);
- means of transport (as well as their parts, accessories and sub-assemblies, as well as bicycles and baby prams);
- gas fuels;
- explosives;
- electronic and electrical industry products (e.g. transformers, capacitors, circuit breakers, installation equipment, casings for lighting products and spotlights);
- chemical industry products (e.g. plastic films, insulation materials, pipes, protective equipment and tyres);

- construction materials (e.g. various types of bricks);
- clothing and textile industry products (e.g. protective clothing, car safety belts, protective shoes and gloves and other leather protective wear);
- cardboard games and toys for infants.

Pharmaceuticals and medical materials are subject to registration in the Register of Pharmaceuticals and Medical Materials, following receipt of a positive result from laboratory tests and the receipt of marketing authorisation for such products.

The CE sign (meaning conformity to EU product standards) started to be used for Polish products and products imported to Poland from 1 May 2004 (the date of entry to the EU). A producer is entitled to mark his product with the CE sign, on his own responsibility, before placing a product on the market. In some specified cases, the CE sign is endorsed by a research institute, which confirms that the technical features are in compliance with EU standards.

The Office for Protection of Competition and Consumers ensures control of conformity to standards after launching a product onto the market.

2.11. Regulations for Entering Into Contracts

According to Polish law, everyone has the right to draw up and enter into contracts.

Types of contract and the signature process are subject to the regulations of the Civil Code. If a specific contract is not listed in the Code, then general principles apply.

The term of each contract, its scope and termination are defined by the parties to that contract.

Contracts must not conflict with Polish legal regulations. Should a conflict arise, the Polish jurisdiction is deemed to be binding. The appropriate procedure is provided by the Civil Procedures Code.

Parties to the contract may decide to apply to an arbitration court (the agreement of both parties is required to do so) instead of standard legal action. They may apply to an existing arbitration court or agree to establish their own. An arbitration clause setting out the procedures to be followed in the event of a dispute is commonly included in contracts. The clause allows parties to select their own arbitration court, the country under whose jurisdiction the contract will fall and forms of compensation.

2.12. Regulations Governing Mergers and Acquisitions

According to the Civil Code and the Code of Commercial Companies, an investor may purchase:

- **The business** of a company or of a partnership – the transfer of all assets of a company or of a partnership to the purchaser in exchange for the purchase price. The purchasing company acquires all the assets allowing it to conduct business activities. The selling company still exists and may conduct other activities.

- **Shares** in a company or a share in a partnership - the transfer of shares in a company or the share in a partnership to the purchaser in exchange for the purchase price. The purchasing company acquires shares in the target company.

Mergers of companies and partnerships are regulated by the Code of Commercial Companies. The Code provides for two methods of company mergers:
- **Merger by acquisition of a target company** – the transfer of all assets of the target company into the bidding company in exchange for its shares which are granted to the shareholders of the target company. The purchasing company acquires all the rights to the target company as of the date of its deletion from the register of entrepreneurs in the National Court Register.
- **Merger by establishment of a new company** – the establishment of a new limited liability or joint-stock company. The assets of the merging companies are transferred into the new company in exchange for its shares which are granted to the shareholders of the merging companies. Once the new company is entered into the register of entrepreneurs in the National Court Register, the separate legal existence of the merging entities ceases and they are deleted from the register of entrepreneurs in the National Court Register.

Companies may merge with other companies and partnerships. However, a partnership may not acquire a company (limited liability or joint-stock company). Partnerships may merge with each other only through the establishment of a new company. All partnerships and companies can be converted into another partnership or company.

The most frequent method of acquiring control over a company is the purchase of its shares.

Depending on the scope of acquisition or merger, the scope of business activities conducted by the target company or partnership, the legal status of both the target company or partnership and the bidding company, the intended acquisition or merger may be subject to notification of or receipt of consent from the European Commission, the Polish Office for Competition and Consumer Protection, the Polish Securities and Exchange Commission and possibly other institutions.

2.13. Bankruptcy and Restructuring

The Bankruptcy and Restructuring Law regulates bankruptcy of entrepreneurs (companies, partnerships, sole proprietors, etc.), as well as settlement and restructuring proceedings aimed at preventing bankruptcy. An entrepreneur can be considered insolvent when he is permanently unable to meet his financial liabilities to his creditors or when the value of assets of an enterprise operating as a corporate entity or of a general partnership, professional partnership, limited partnership or a limited joint-stock partnership in liquidation is lower than the level of its debts, even if the entity in question still pays all of its liabilities.

Bankruptcy proceedings are required for conducting the bankruptcy process that is aimed at repaying all liabilities and liquidating the debtor's assets or executing settlements with creditors. Bankruptcy proceedings are conducted under the supervision of the judge commissioner who is appointed by the District Court.

An application to declare bankruptcy may be filed by any of the entity's creditors or the debtor's governing authorities. After the company is declared insolvent, the court may decide that:

- the debtor's corporate bodies lose their governing powers over the company and a receiver appointed by the court manages the debtor's assets; or
- the debtor continues its business activities under the supervision of a supervisor appointed by the court.

Under the first of the above points, the assets of the bankrupt debtor are to be sold, the bankrupt company is to be liquidated and the money obtained by the receiver is to be distributed among the creditors.

Under the second of the above points, the debtor is allowed to enter into an arrangement with his creditors with the purpose of reducing his debts or repaying them in instalments, as well as securing the payment of these debts.

In the event that the assets of the bankrupt debtor are to be sold and the bankrupt company is to be liquidated, the creditors of the bankrupt company should lay claim to their liabilities in writing. Upon completing the list of liabilities, a distribution plan is drawn up for distribution of sums to be paid to the creditors. The distribution plan specifies the amount to be distributed, the list of all liabilities and the amounts due to every creditor. Liabilities are repaid in the following order:

1. costs of legal bankruptcy proceedings, social insurance premiums, employee remuneration, the receiver's fee and the costs of the proceedings;
2. taxes and other public tributes, as well as social insurance premiums not falling within the first category that are due for one year preceding the declaration of bankruptcy, together with interest and the costs of enforcement proceedings;
3. other liabilities, contractual penalties and the costs of litigation and enforcement proceedings;
4. interest on liabilities which are not paid in the preceding categories, penalties and donations.

Only the company's assets within the territory of the country in which bankruptcy was declared can be included in the liquidation process.

Instead of liquidation of the bankrupt company, bankruptcy proceedings may be finalised by an arrangement between the company and its creditors.

The above Act also contains regulations on the restructuring procedure that may be initiated by a debtor which is an entity registered in the National Court Register and is under threat of insolvency (i.e. it appears obvious that this entity is likely to become insolvent). Such entities may initiate and conduct proceedings that have the purpose of reducing their debts or repaying them in instalments, as well as securing the payment of these debts. The procedure is supervised by the court-appointed supervisor, but conducted by the debtor who has a large amount of discretion in the whole process.

2.14. Public Procurement Regulations

When selecting suppliers and service providers in public contracts, all public authorities must apply the Public Procurement Act of January 2004.

Public contracts may be granted only to a supplier or service provider who was selected by means of:
- a tender (unlimited or limited);
- negotiations with or without public announcement;
- a price comparison;
- non-tendered orders;
- an e-auction.

Public procurement covers orders for works, supplies or services financed through public budgets (on the state, regional or local level). Non-public entities are obliged to comply with the procedures when the public share of the contract exceeds 50% (jointly EU grant and Polish grant).

Limited and unlimited tenders are the basic and most common procedures. They may be applied in every case and without other specific conditions. Under a limited tender, offers may be submitted only by bidders that have been short-listed in an open pre-qualification process.

During negotiations, the contracting authority negotiates the terms and conditions of the agreement with the potential contractors. The contracting authority may freely select the short-listed companies.

In non-tendered orders, the contracting authority negotiates with only one potential contractor, whereas in the price comparison method, it sends price enquiries to a limited number of potential contractors and compares the prices they offer.

The public contract for commonly available supplies with established quality standards of less than EUR 60,000 may be purchased under the e-auction.

The contracting party is obliged to treat all entities submitting bids equally and to conduct all the tender procedures leading to the selection of the final supplier in a manner that ensures fair competition. Domestic and foreign suppliers or contractors take part in the procedures on an equal basis.

An unlimited call for tender, pre-qualification for a limited tender or an announcement on negotiations worth more than EUR 60,000 is subject to publication in the Public Procurement Journal, which is issued by the Office of Public Procurement, and in the Official Journal of the European Union. Below the threshold of EUR 60,000, the public procurement tender needs to be published on the websites and at the registered offices of the contracting party.

Applications for receiving such orders may be made by contractors who:
- hold licenses to perform a given activity or action, if any legal regulations impose the duty to hold such licenses;
- have the necessary technical potential and staff capable of completing the contract;
- are in an economic and financial condition that guarantees fulfilment of the order;
- are not subject to exclusion from public procurement proceedings.

The contractor participating in a tender is often obliged to pay a tender deposit of between 0.5% and 3% of the value of the order. The deposit should be paid in cash or in the form of a bank guarantee or surety, insurance guarantee, bills of exchange guaranteed by a bank and, upon the consent of the contracting party, in the form of endorsed cheques.

The contracting authority describes the scope of the order in the Terms of Reference. It selects the most advantageous proposal according to pre-defined criteria. The price is not always the main criterion. The contracting party is obliged to draw up a report during the procurement process, which should include the reasons for rejecting bids and provide the grounds for choosing the winner. The report is open to be reviewed. However, a bidder may restrict some of the information in his offer to the contracting party only.

Contracts for the performance of the substance of the public procurement are governed by the provisions of the Civil Code and the Code of Civil Proceedings, unless the Public Procurement Act provides otherwise. A public contract for a period of longer than 3 years requires the consent of the Head of the Public Procurement Office.

Suppliers and contractors submitting tender proposals have the right to protest the conduct of a tender. Protests may be filed within seven days of the date on which the supplier or contractor learns of the circumstances giving grounds for the protest.

The contracting authority should review the protest within 5 days and provide notification of its conclusion. A bidder may appeal against a protest resolution to the Head of the Public Procurement Office who forwards the appeal to a panel of three arbitrators. The result of the arbitration may be taken further to court. Unless the court decides otherwise, the public contract may not be concluded before the final resolution is reached by the court.

"The METRO Group has been present in Poland since the mid-1990s. Because of its potential, Poland was then one of our priority markets. As a country of nearly 40 million inhabitants with a stable political and economic situation, following the road of reforms, this market was likely to develop fast. Its additional advantage was the cultural proximity of the Poles to the nations of the EU member states and the perspective of the EU accession.

Very quickly, Poland transformed the structure of its trade, which took decades in the case of other countries. Poland currently has a stable economic situation and a well-developed infrastructure. An important factor is also the well-educated society: skilled employees constitute one of the pillars of an enterprise's success on the market. Most entrepreneurs have managed to adjust to the changes related to Poland's accession to the EU and the standard of products and services they offer is comparable to the standards applicable in the EU.

It is expected that EU accession will bring growth in GDP and consumer purchasing power, which will almost certainly lead to further economic growth of our country. This is directly reflected in the country's increasing attractiveness for foreign investors. The harmonisation of legal and administrative regulations to EU standards is extraordinarily helpful for the METRO Group's operations in Poland. The elimination of various barriers in trade development, the harmonisation of VAT rates and the adjustment of regulations in fields such as food hygiene and the elimination of customs duties are particularly positive for the retail sector. Poland's later accession to the Eurozone will simplify financial transactions significantly. More competition, together with the free movement of goods, people and capital, will be the engine for further development in the retailing sector and the whole economy."

Renata Juszkiewicz, General Manager of the METRO Group's Representative Office in Poland

III. Investment Incentives

1. Foreign Investment Policy

Companies with a foreign shareholding generally operate their businesses on the same principles as Polish firms – the rule of equal treatment of all entities applies.

Poland has made significant progress in developing further improvements for foreign investments. The most significant issue in 2004 was the reduction in corporate income tax, which is currently set at 19%. The strict banking regulations on the provisioning of loans have been relaxed and have therefore helped reduce lending costs domestically, resulting in an improvement in the aggregate investment performance.
Similarly, improvements in the bankruptcy law and in the administration of real estate registers should help improve the capability of banks collecting on collateral and therefore their willingness to lend.

2. Financial Support for Investments

Direct support for investments may be obtained under the Sectoral Operational Programme Increase of Enterprises' Competitiveness, which is co-funded by the European Regional Development Fund and the Polish state funds. The measures in this programme allow directly for an improvement of the competitiveness of enterprises, especially through the improvement of their product range and technology (with a focus on SMEs, as an engine of employment and economic growth).

Initial investment

Measure 2.2.1 of the Sectoral Operational Programme Increase of Enterprises' Competitiveness is implemented in line with the Act On the Financial Support Of Investments of 20 March 2002.

Financial support may be granted to investors who satisfy one of the following conditions:
- they invest a minimum of EUR 10 million;
- they invest a minimum of EUR 500,000, provided that the investment involves the development or modernisation of an enterprise and results in the retention of a minimum of 100 jobs for five years;
- they create at least 20 new jobs for a minimum of five years;
- they introduce technological innovations;
- they make investments that improve the natural environment;
- they invest within an industrial or technology park.

Investors may obtain:
- **investment grants** covering up to 25% of the eligible investment costs (in Cracow, Wrocław, Gdańsk, Gdynia and Sopot, the upper limit may not exceed 20%, whereas in Warsaw and Poznań this limit is 15% of investment outlays); investment grants could be increased for SMEs by an additional 7.5%;
- **employment grants** – up to EUR 4,000 per each job created.

Eligible expenditures include:
- the purchase of land (up to 10% of total eligible costs);
- the purchase price or manufacturing cost of fixed assets (buildings, structures, machines and infrastructure costs);
- the purchase price of used fixed assets;
- the purchase price of intangible assets (up to 25% of the eligible expenditure);
- the cost of installation of fixed assets;
- the purchase price of materials and construction works.

Business activities related to the particular investment must continue for five years from the date of completion of the investment project. In the case of support of new jobs, they must be maintained for at least five years from the date of completion of the investment project.

Applications for grants must be submitted to the Ministry of Economy and Labour in January and June each year.

Investors who benefit from the investment grants are eligible for other forms of support, such as tax relief in Special Economic Zones, local tax relief, etc. However, the total value of grants and other types of public aid offered to the investor may not exceed the intensity of aid in the region.

Direct investment by SMEs

Measure 2.3 of the Sectoral Operational Programme Increase of Enterprises' Competitiveness is targeted at SMEs operating in Poland, micro-enterprises in operation for more than 3 years, and start-ups based on advanced technologies.

Support will be granted in particular to the following types of project:
- implementation of modernisation projects in SMEs;
- implementation of joint investment projects conducted by enterprises;
- purchase of R&D results and/or industrial property rights by enterprises;
- implementation and commercialisation of innovative technologies and products;
- application and use of e-economy technologies in enterprises;
- application and use of ICT in enterprise management processes;
- adaptation of technologies and products to the requirements of the EU Directives, especially to the harmonised standards and legislation on occupational safety and health.

The EU contribution may be for an amount up to the intensity of aid in the region. A single grant is envisaged at between PLN 10,000 and PLN 1,250,000.

Applications for grants could be submitted to the Polish Agency for Enterprise Development (PARP) throughout the year and they should be filed in line with timing announced by PARP.

Environmental Protection Investments

Support for environmental projects will be provided to enterprises within the framework of Measure 2.4 of the Sectoral Operational Programme Increase of Enterprises' Competitiveness, notably in the following areas:
- water and sewage management infrastructure;
- air protection infrastructure;
- integrated pollution prevention and control, in particular in order to adapt to the requirements of the Best Available Techniques required to obtain an integrated permit;
- investment and operating activities in waste management, with particular emphasis on hazardous waste.

Co-funding is granted both to investment projects replacing production technologies with environmentally friendly projects and to "end-of-pipe" investment projects. The first of above project-types is preferred.

The projects are selected through a contest procedure. The application procedure is envisaged between two and six times a year. The implementing agency is the National Fund for Environment Protection and Water Management.

3. Special Economic Zones (SEZ)

Special Economic Zones (SEZ) are separate administrative areas designated for conducting business activity on favourable terms. The zones are not exterritorial by nature, but they enjoy special relief in taxation and have the infrastructure necessary for starting a business. Entities that are willing to take advantage of the incentives must obtain special permission for conducting business activities in the SEZ. The managing authorities of the SEZ issue the permit based on the result of a tender for conducting business in the Zone.

The most important incentives for investors in the SEZ are as follows:
- Large enterprises can obtain regional aid, as defined by the regulations on state aid (state subsidy), of 50% of the investment value (except for the Technology Park in Cracow, where the threshold for the large investments is set at the level of 15% or 12%); the subsidy is implemented through exemption from corporate income tax (CIT) or personal income tax (PIT).
- Medium-sized and small enterprises can obtain regional aid (state subsidy) of up to 65% of the investment value (except for the Technology Park in Cracow, where the threshold is set at 55%); the subsidy is implemented by means of an exemption from CIT or PIT.
- Enterprises can obtain a state subsidy of up to 50% (up to 65% for small and medium-sized enterprises) of the value of the labour costs of new staff employed over two years; the subsidy is implemented by means of an exemption from CIT or PIT. New jobs must be maintained for at least five years.

Enterprises can take advantage of any type of state subsidy mentioned above (or a mix of these), but the total value of the subsidy cannot exceed 50% for large investors and 65% for small and medium-sized enterprises (with the exception mentioned above) of the higher of the investment value or labour costs over two years.

Apart from the above incentives, companies investing in the SEZ are often granted exemptions from real estate tax by local authorities. Local Employment Offices offer a wide range of work programmes and special training schemes for the unemployed that are financed by the Labour Fund. Investors can also count on free assistance with all formalities related to the intended investment.

In order to take advantage of these favourable terms, the investment should be of at least EUR 100,000 and should last for at least five years. Entrepreneurs doing business within the SEZ are obliged to inform the Office for Competition and Consumer Protection about the subsidy received.

Poland has 14 SEZ (including one Technology Park), each of which is composed of several sub-zones, thus giving a prospective investor a choice of several possible locations.

The table below presents general information on the Special Economic Zones.

Table 5. Special Economic Zones in Poland

Zone	Active until (year)	Maximum tax exemption of the total value of investment (%)	Website
SEZ "Euro-Park" Mielec	2015	50 (65)*	www.europark.com.pl
Katowicka SEZ	2016	50 (65)	www.ksse.com.pl
Suwalska SEZ	2016	50 (65)	www.ssse.com.pl
Legnicka SEZ	2017	50 (65)	www.strefa-legnica.com
Wałbrzyska SEZ	2017	50 (65)	www.invest-park.com.pl
Łódzka SEZ	2017	50 (65)	www.see.lodz.pl
Kamiennogórska SEZ	2017	50 (65)	www.ssemp.pl
Kostrzyńsko-Słubicka SEZ	2017	50 (65)	www.kssse.pl
Słupska SEZ	2017	50 (65)	www.parr.slupsk.pl
SEZ "Starachowice"	2017	50 (65)	www.sse.com.pl
Tarnobrzeska SEZ	2017	50 (65)	www.tsse.pl
Warmińsko-Mazurska SEZ	2017	50 (65)	www.wmsse.com.pl
Pomorska SEZ	2017	50 (65)	www.strefa.gda.pl
Krakowski Park Technologiczny (Cracow Technology Park)	2017	50 (65)	www.sse.krakow.pl

** The numbers in brackets are for small and medium-sized enterprises*

Up to 2001, Poland offered investors in SEZ a 100% tax exemption from income tax for ten years, followed by 50% for the subsequent years of operation in the SEZ. These rules were not in line with the European Union regulations and were amended in 2000 because of Poland's planned accession to the EU. At present, the applicable law on tax incentives in SEZ, which came into effect on 1 January 2001, is fully consistent with EU regional policy and regulations.

Beside the general provisions mentioned above, based on the EU-Poland Accession Treaty, Poland also introduced special regulations that apply to companies that obtained SEZ permits before 2001.
The main rules stipulate that:

- small and medium-sized enterprises may apply for tax relief provided for under the law that applied before 2001 up to 31 December 2011 (small entrepreneurs) and 31 December 2010 (medium-sized entrepreneurs), respectively;
- entrepreneurs, other than small and medium-sized enterprises, may still benefit from tax relief and other state aid, but the maximum amount of the exemption may not exceed:
  – 30% of investment costs incurred up to 31 December 2006 – for enterprises conducting business in the automotive industry,
  – 75% of investment costs incurred up to 31 December 2006 – for enterprises conducting businesses other than those provided for in item (i), based on a permit issued before 1 January 2000,
  – 50% of investment costs incurred up to 31 December 2006 – for enterprises conducting businesses other than those provided for in item (i), based on a permit issued after 31 December 1999.

4. Duty-Free Zones

Duty-free zones are separated parts of the EU customs zone in which the goods are treated by the customs authorities as if they remained outside this zone. Both Community and non-Community goods may enter into duty-free zones. Polish and other EU entities are permitted to manage businesses in these zones.

Several duty-free zones have been established in Poland and are situated primarily on the main communication routes (such as airports and border-crossings): Warsaw Frederic Chopin International Airport (duty-free shops), Gdańsk International Airport (duty-free shops), Katowice International Airport (duty-free shops), Szczecin, Świnoujście, Gliwice, Małaszewicze (close to the Terespol border crossing) and Przemyśl-Medyka. Duty free shops are available only for travellers departing to non-EU countries.

5. Customs (Bonded) Warehouses

A customs (bonded) warehouse is a storage facility for goods that are not subject to either customs duty or the regulations applied to imported or exported products during the storage period. The bonded warehouse can be open to the general public or private entities (with a limitation to the authorised entities).

The requirements that must be satisfied to be able to operate a bonded warehouse include:

- a written application submitted to the head of the local Customs Office and authorisation issued by this authority;

- the registered office or residence in the EU;
- being a remitter of VAT;
- filing collateral for potential customs liabilities;
- no arrears in customs duty or taxes;
- a positive bank reference on the company's financial standing.

6. Support for Hiring Unemployed Persons

Entrepreneurs may obtain support from the local authorities for hiring and training of the unemployed appointed by local labour authorities.

The forms of assistance are:
- the reimbursement of the costs of creating new jobs with equipment of up to 300% of the average monthly salary in the Polish economy;
- the reimbursement of social security contributions (up to a limit of three times the minimum monthly salary);
- training programmes for the unemployed organised by the local authorities are agreed with entrepreneurs;
- the financing of internships for unemployed graduates on the condition that the graduate is employed full time for 12 months and remains employed thereafter.

Applications for the above privileges should be filed with the local labour offices with jurisdiction over the area in which the employer has his registered office.

7. Exemptions from Local Taxes

The partial or full exemption from real estate tax is possible. This exemption is of a general nature (for a group of entrepreneurs meeting certain conditions). The resolution of the municipality councils enabling the exemptions should meet the requirements of the aid programmes specified in the regulations on state aid.

The partial or full exemption from road vehicle tax is also possible. This tax only applies to trucks and buses. Passenger cars are not subject to road vehicle tax.

STATOIL

"The following important factors were considered when Statoil was making the decision to invest in Poland:

- *Poland is seen as a part of Statoil's retail strategy (network of petrol stations) covering the Scandinavian countries and the countries around the Baltic Sea basin;*
- *a large market of almost 40 million inhabitants;*
- *a large potential of the Polish market;*
- *good prospects for future economic development following the political changes started in 1989;*
- *geographical proximity of the Polish and Scandinavian markets as well as the crude oil and natural gas fields on the Norwegian Continental Shelf.*

Poland's qualities considered important from the point of view of Statoil's activities are:

- *the large potential of the Polish market with almost 40 million inhabitants;*
- *free market economy already functioning;*
- *increasing competition on the market;*
- *good prospects for further economic development;*
- *there as still free sites/ locations for building new petrol stations;*
- *improvement in the consistency of Polish laws and the adjustment of provisions of the law to the principles that apply in the EU;*
- *Poland's accession to the EU is creating opportunities for economic development.*

In the longer term, the demand for fuel should increase because of:

- *the expected increase in the level of affluence of customers;*
- *the increase in transit traffic through Poland;*
- *the development of the infrastructure and tourism."*

Kristian Hausken, General Manager, Statoil Polska

"Having operated for 12 years in the industrial sector in Poland, Fiat Auto Poland has had both positive and negative experiences.

The positive experiences include:
- *high efficiency and quality of work of the personnel,*
- *high flexibility of the staff with the introduction of new management methods and new products, as well as their enthusiasm during the implementation process, creativity and consistency,*
- *relatively low labour cost as a result of which the large international industrial groups investing in Poland are followed by their suppliers whose offices, divisions and subsidiaries then supply the final producers guaranteeing new investments, as well as new methods and instruments of industrial, financial and HR management which are transferred from the home countries of the investors,*
- *the economic changes in Poland, which have recently been more revolutionary than evolutionary in creating better commercial law,*
- *easy implementation of outsourcing projects, from the legal and social points of view, in many areas of production and services, which is highly profitable for both parties.*

A good example is the change in the regulations related to exports and imports. In the beginning, these were governed by restrictive customs law which originated at the time of the centrally planned economy. It obligated customs officers to inspect all exported and imported goods in detail. Therefore, companies needed to keep higher warehouse stocks, but frequent production standstills of thousands of workers could not be avoided and hauliers suffered from very low utilisation of their fleets.

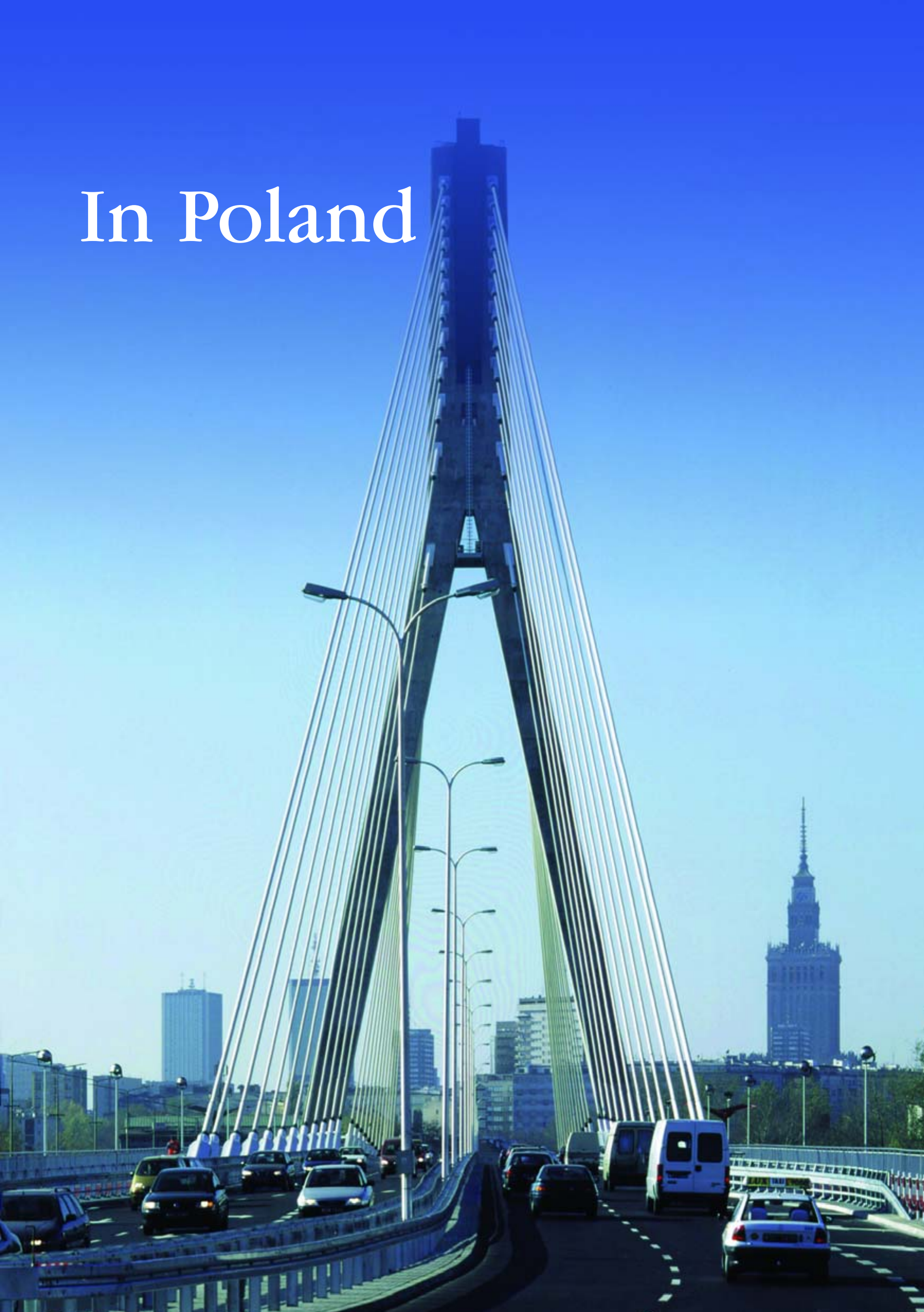
The new customs law, which was introduced in the late 1990s, simplified the procedures, allowed for their computerisation and commodities no longer occupied customs areas for days, but only for several hours. Currently, in connection with Poland's accession to the European Union, the free movement of goods guarantees further economic benefits.

The negative experiences include:
- *occasionally visible mistrust by various social groups, media and public institutions of foreign investors, especially at times of temporary adversity when it tends to become transformed into aggression,*
- *unnecessary chaos generated while introducing new legal solutions because of a lack of transition periods or vacatio legis.*

In summary, foreign investors largely contribute to the development of the industrial culture in Poland."

Enrico Pavoni, President of Fiat Polska Sp. z o.o.

In Poland



IV. Poland in Brief

1. Key Facts About Poland

1.1. Geographic Location and Climate

The Republic of Poland is the ninth largest country in Europe by geographical area, with an area of approximately 312,685 sq. km, stretching 650 km from north to south. It is often referred to as being located in the centre of Europe due to its proximity to both western and eastern markets. Poland shares borders with Germany to the West, the Czech Republic and Slovakia to the South, the Ukraine, Belarus and Lithuania to the East and Russia to the North.

The borders with non-EU countries (Ukraine, Belarus and Russia) are the eastern border of the EU and have a length of 1,163 km.

Poland's largest rivers are the Vistula, Odra, Warta and Bug, all of which contribute to the country's water supply. Forests, which cover nearly 30% of the country, provide raw materials for Poland's well-developed timber products industry.

Geographically, Poland is relatively diversified, despite the fact that 75% of the country is less than 200 m above sea level. The Baltic Sea coastline forms most of the northern border and provides over 500 km of sandy beaches, bays, steep cliffs and dunes. The coast is a popular destination for holidaymakers, both local and foreign. Another destination that is popular with tourists is the extensive Mazurian lake district in the north-eastern part of the country, with more post-glacial lakes than any country in Europe (except Finland).

Moving southward, the majority of the western, central and eastern regions of Poland are lowlands. The Sudety and Carpathian mountain ranges form Poland's natural southern border. The highest point in Poland is the Rysy peak (2,499 m) in the Polish Tatra part of the Carpathian mountain range.

The largest rivers are the Vistula (1,047 km in length), Odra, Warta and Bug. The Odra is the natural border with Germany. Both the Vistula and Odra rivers flow northwards across the country into the Baltic Sea.

Because of its geographic location, Poland generally has a moderate continental climate, but is prone to unpredictable temperature fluctuations from season to season and from year to year. The winter months (from December to March) are generally cold, with snow throughout the country and temperatures from 0ºC (32ºF) to a minimum of -20ºC (-4ºF). The depth and durability of snow also varies. In the lowlands, it rarely exceeds 20 cm, as it melts several times during the winter. In the mountains, snow covers may keep for 200 days, depending on altitude, and may reach a depth of up to two metres.

From July to September, summers are mostly sunny and warm, with temperatures up to 35ºC (95ºF) anticipated in the holiday month of August. The warmest regions in Poland are the Silesian Lowlands and the west of the Sandomierz Valley. Average annual temperatures are lowest in the north-eastern part of the country.

Precipitation varies with altitude and ranges from 500 mm a year in the lowlands to 1,070 mm in the mountains. The average rainfall amounts to 600 mm per year.

Poland is in the Central European time zone and is one hour ahead of standard GMT. It switches to daylight saving time between March and October.

Up to 1998, Poland had 49 provinces, known as voivodships. This changed on 1 January 1999, and now there are 16 provinces, 380 administrative districts, or poviats (of which 66 are cities with poviat status) and 2,478 municipalities (*gmina*). The capital of Poland is Warsaw, with 1.7 million inhabitants (as of 2003), located in the centre of the country on the Vistula river. Other large cities include Katowice, Cracow, Łódź, Wrocław and Poznań. The major seaport cities are Gdańsk, Gdynia, Szczecin and Świnoujście.

REPUBLIC OF POLAND
ADMINISTRATIVE DIVISIONS (since 1999)

1.2. Population and Language

The population of Poland is approximately 38.195 million, which represents about 5.3% of the total population of Europe. This makes Poland the 7th largest country in Europe and the 28th largest in the world by size of population. Over 98% of the population are ethnic Poles. Germans constitute the largest ethnic minority, followed by the Ukrainians and Belarusians.

The majority of the population lives in cities, with almost 30% of all citizens living in one of the 42 largest cities having a population of over 100,000 inhabitants.

Poland's workforce is one of the youngest in Europe, with the population of working age exceeding 24.039 million in 2003. The retirement age is 65 years for men and 60 years for women.

Table 6. Population statistics

1990 (38.2 million)	Females – 51.3%	Males – 51.3%	Urban areas – 61.8%	Rural areas – 38.2%
2003 (38.195 million)	Females – 51.6%	Males – 48.4%	Urban areas – 61.6%	Rural areas – 38.4%

Source: GUS

Table 7. Population of working and non-working age, in %

	1990	2000	2001	2002	2003
Pre-working age	29.60	24.07	23.20	23.20	21.90
Working age	57.50	61.21	61.90	61.80	62.90
Post-working age	12.90	14.70	14.80	15.00	15.20

Source: GUS

The majority of Poles (90%) are Roman Catholics. The official language is Polish, but most educated Poles speak one or more foreign languages. The most commonly spoken foreign languages are English, German and Russian.

1.3. Political System

The Republic of Poland is a democratic state of law, implementing the principles of social justice. Poland's supreme law is the Constitution that was passed on 2 April 1997 and ratified in a national referendum.

The system of government of the Republic of Poland is based on the separation of and balance between the legislative, executive and judicial powers. Legislative power is vested in a bicameral Parliament, composed of the Sejm (lower house) and the Senate (upper house); executive power is vested in the President of the Republic of Poland and the Council of Ministers, and judicial power is vested in the courts and tribunals.

1.3.1. The President

The President of Poland is elected through a general election. The President is elected for a 5-year term and can remain in office for a maximum of two terms. He is the Head of State and the Commander-in-Chief of the armed forces. As the representative of the state in foreign affairs, the President may ratify and renounce international agreements. The President has the obligation to sign statutes approved by Parliament and has the right to veto these acts. Such a veto can be overruled by a 2/3 majority vote in the Sejm. He also has the power to dissolve Parliament when it is incapable of performing the tasks of government or cannot agree to approve a draft of the State Budget. The President appoints the Prime Minister and other cabinet ministers.

1.3.2. Parliament

Legislative power is vested in a bicameral Parliament. The upper house, the Senate, consists of 100 senators. The senators are elected by their respective electorates for a 4-year term of office.

The Sejm, the lower house, consists of 460 deputies. They are elected through a general election for a 4-year term of office.

The legislative procedure starts with the Sejm. A bill passed by the Sejm is submitted to the Senate, which may approve it, adopt amendments or reject it. However, the Senate's veto may be overruled by an absolute majority vote in the lower house.

The Sejm and the Senate sitting in joint sessions, which are presided over by the Marshal of the Sejm, constitute the National Assembly. The National Assembly's tasks are to adopt the Constitution, receive the oath from the President and resolve to press charges against the President, thus making him accountable to the State Tribunal.

1.3.3. The Council of Ministers

The Council of Ministers, as the executive body, handles the state's internal affairs and foreign policy, ensuring the implementation of statutes, management of the administration, approval of the draft of the State Budget and maintenance of the state's internal and external security. The Council of Ministers consists of the Prime Minister and the subordinate ministers. The Prime Minister, who is appointed by the President, designates the membership of the government. The government is appointed by the President after its programme has been accepted by Parliament. The government is accountable to Parliament for its activities throughout its term in office.

The non-governmental state authorities, which control and enforce legal rights laid down in the Constitution, are the Supreme Control Chamber, the Commissioner for Civil Rights Protection (Ombudsman) and the National Broadcasting Council.

1.3.3.1. The Supreme Control Chamber

The Supreme Control Chamber (NIK) is the chief state audit body and is responsible solely to the Sejm. The Chamber audits the activities of the government administration authorities, the National Bank of Poland and other state authorities. It has the right to audit the activities of local government and other commercial entities regarding the management of public expenditures.

1.3.3.2. The Commissioner for Civil Rights Protection (Ombudsman)

The office of the Commissioner for Civil Rights Protection has been introduced with the aim of safeguarding citizens' rights and freedoms that are guaranteed by the Constitution, as well as other normative acts.

The Sejm appoints the Commissioner for a 5-year term. The Commissioner is independent and responsible only to the Sejm, informing it of its activities.

1.3.3.3. The National Broadcasting Council

The National Broadcasting Council safeguards the freedom of speech, the right to information and the public interest regarding radio broadcasting and television. Four of the Council's nine members are appointed by the Sejm, two by the Senate and three by the President. The term of office of each member is six years. One third of the Council is replaced every two years. The Council specifies the conditions of the radio and television broadcasters' activities, supervises compliance with regulations, issues licenses for radio and television broadcasting and establishes subscription and license fees.

1.4. Central and Local Government Administration

The governing tasks in Poland are divided between central and local administration.

The central administration comprises the Chancellery of the President, the Council of Ministers, their respective ministries and structures, such as committees, centres and councils that operate in accordance with acts of Parliament.

The responsibilities of ministries are summarised below:
- Ministry of the Economy and Labour: policy-making regarding the economic development of the state, coordination of the economic activities of government administration;
- Ministry of the Treasury: representing the State Treasury in the area of managing its property, in particular, the commercialisation and privatisation of state-owned enterprises and national investment funds;
- Ministry of Foreign Affairs: foreign policy;
- Ministry of Internal Affairs and Administration: overseeing internal security and state administration;
- Ministry of Finance: tax policy, State Budget and public finance;
- Ministry of Agriculture and Rural Development: agricultural policy;
- Ministry of Scientific Research and Information Technology: supervision of the state policy in the area of science and technology;
- Ministry of Justice: maintenance and development of the basic guarantees of the rule of law;
- Ministry of National Defence: defence policy, matters connected with the fulfilment of the general duty of national military service;
- Ministry of Infrastructure: transport, construction and communications;
- Ministry of Culture: supports the arts and culture, protects Polish heritage, implements strategies to promote cultural and heritage attractions;
- Ministry of the Environment: environmental protection;
- Ministry of Health: administration of the health care system, provision of services to the public through such programmes as pharmaceutical policy, community and public health, as well as health promotion and the prevention of diseases;

- **Ministry of National Education and Sport:** policy for national education, as well as promotion and development of sports;
- **Ministry of Social Policy:** social welfare.

Under the new administrative division (introduced in 1999), the country is divided into provinces (voivodships), administrative districts (poviats) and municipalities (gminas). Representatives of the Council of Ministers in the voivodships are the marshals (voivods), who also act as supervisory authorities for local government units and represent the State Treasury. A voivod is appointed by the Prime Minister and is responsible for the execution of the government's policy within the voivodship. The voivod is the head of the Voivodship Council, which defines policies and controls the voivodship authorities. The voivod is responsible for organising the Council's activities and presides over its sessions. The voivod is also the head of the self-government executive authorities of the voivodship and represents it externally.

1.5. System of Justice

The bodies of judicial authority in Poland are the courts and tribunals, which are separate and independent of the other institutions of power. The system of justice is vested in the Supreme Court, the common courts, administrative and military courts. Judges are independent, cannot be dismissed and are subject only to the Constitution and regulations.

Supervision over the activities of common and military courts is exercised by the Supreme Court, which hears cases under particular regulations, provides uniformity and accuracy of interpretations of the law and issues opinions on bills.

The Supreme Administrative Court exercises control over the activities of public administration and judges the conformity of resolutions of local government authorities to the regulations and normative acts of local government administration authorities.

The Constitutional Tribunal judges the conformity of laws and international agreements, of regulations issued by state authorities, of the objectives and activities of political parties to the Constitution. The Constitutional Tribunal adjudicates on disputes over authority between central state authorities, and its judgements are final.

The most important state officials are accountable to the State Tribunal for violations of the Constitution or of a regulation, committed by them, within their office or within their scope.

FRENCH CHAMBER OF COMMERCE AND INDUSTRY IN POLAND

"In 2003, France confirmed that it is still in first place among the investors in Poland. Poland, therefore, continues to be a strategic market for French companies. This is also reflected in the considerable increase in trading that practically doubled since 1997. France is Poland's 4th largest supplier and 2nd largest customer.

The position of leading investor that was achieved in 2000 can be explained mainly by the fulfilment of several important privatisation transactions, chiefly in the telecoms and the energy sectors. Other factors include the reinforcement of the position of French industrial companies, which increased their capabilities in Poland, and the continuation of expansion of hypermarket chains which amount to a quarter of the French investments in Poland and give 25,000 jobs. It is worth noticing that small and medium-sized enterprises have recently started to pave their way to Poland, in particular in the form of joint-ventures. Therefore, despite the importance of the hypermarkets and telecom companies, French investments are highly diversified: energy, the food sector, electronics, construction, automotive spare parts, chemicals and pharmaceuticals. The French presence in sectors such as banking and insurance is also currently growing at a significant pace.

All of this is no coincidence. Apart from the old ties of understanding between our countries, which are reappearing in the economy and which have created a basis of trust in French enterprises, fresh experiences are obviously present, which constitute a source of development and expansion. Primarily, the human factor: the quality of local experts and managers, their zeal to work and our mutual understanding. Next, the gradual elimination of administrative barriers and the lack of unequivocal interpretation of regulatory texts and finally, a deep conviction of Poland's potential for development, which is clearly justified by the results at the beginning of 2004. All of this has contributed to an improvement in the planned business activities and the strategic decisions being made.

Consequently, Poland should remain a privileged target for French investors. The last barriers are being erased together with the actual accession to the EU, some of which are purely psychological, and what seemed to be distant and difficult for some companies (including small and medium-sized enterprises), is now becoming a specific working objective: establishing businesses in Poland.

Almost certainly more diversified, but also more integrated with the domestic strategies of parent companies, French investments have a future in Poland."

Bruno Duthoit, President of the French Chamber of Commerce and Industry in Poland

"Motorola Global Software Group selected Cracow, Poland, as the site for its first European software development centre after considering numerous sites on the Continent for this investment. It based its choice primarily on the availability of highly qualified staff/human resources, excellent universities, as well as the positive attitude and support of authorities at the national and local level. Since its establishment, the Cracow Software Centre has become one of Motorola's best software development facilities and in 2002, it achieved a best-in-class rating, SEI Level 5, from the Software Engineering Institute of the United States, a global authority on software quality. With Poland's accession to the European Union, Motorola believes the Cracow Software Centre will play an even more important role in the company's software development."

Ryszard Łada, President of the Management Board,
Motorola Polska Sp. z o. o.

2. Infrastructure

2.1. Transport and Communications

Poland is located at the heart of Europe, with established road, rail, air and sea communication routes to all major European capitals.

2.1.1. Road System

The road network in Poland is constantly expanding. In 2003, it consisted of 372,300 km of roads, of which 249,441 km were hard-surface roads. It is therefore not surprising that road transport is the preferred method of transporting goods (76.8% of total transport by weight) and passengers (72.4% of total transport). The average road density is estimated to be 80 km per 100 sq. km, with the most complex road networks in urban areas, where the density is over 150 km per 100 sq. km. Areas with less developed road systems are the northern and north-eastern regions of Poland.

Table 8. Car travel from Warsaw

	Distance	Time
Gdańsk	340 km	4h 30
Katowice	300 km	4h 00
Cracow	300 km	4h 00
Łódź	130 km	2h 00
Poznań	310 km	4h 00
Szczecin	524 km	6h 30
Wrocław	344 km	4h 30
Olsztyn	213 km	3h 00
Bydgoszcz	255 km	3h 30
Lublin	161 km	2h 30

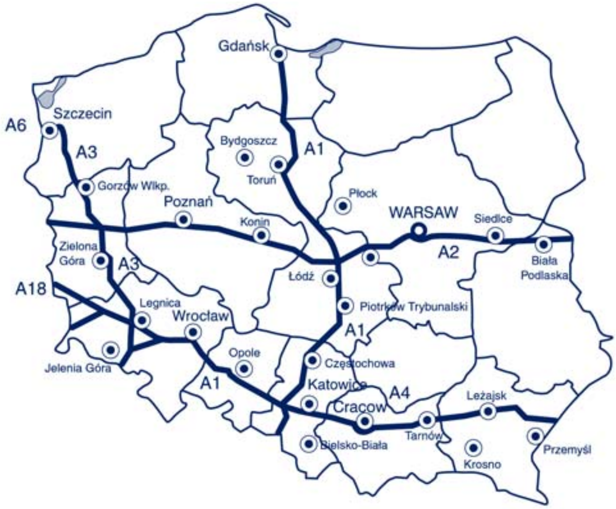
2.1.2. Motorways

Poland had 405 km of motorways and 226 km of expressways in 2003. Plans have already been approved to extend the motorway network by building seven main arteries of a combined length of 2,600 km. The following motorways are currently under construction:

- **A1 North – South**, linking Gdańsk and Gorzyczki (on the border with the Czech Republic), of total length of 564 km;
- **A2 West – Central East**, from the German border through Poznań and Warsaw to the border with Belarus, of total length of 651 km;

- **A4 West – South East**, from the German border through Katowice and Cracow to the Ukrainian border, of total length of 779 km.

Planned motorway network in Poland



Source: General Directorate for National Roads and Motorways

2.1.3. Railways

The railway network covering Poland has a total length of 20,665 km and includes predominantly standard gauge lines, of which 58.8% are electrically powered. The average density of the railway network is 6.6 km per 100 sq. km. Poland has one of the highest densities of railway networks in the world. The last remaining narrow gauge lines of total length of approximately 100 km are located in the south-east of Poland, but are due to be replaced. The total length of the railway network in Poland has been steadily declining since the mid-1980s, as lines became less economically viable. Railway transport comprises 13.5% of total cargo transport calculated in tonnes per km.

2.1.4. Air Transport

The main carrier is LOT Polish Airlines, which is a member of Star Alliance. LOT has 54 airplanes. 3.7 million passengers were carried in 2003 (9% growth from 2002), of whom approximately 2.5 million flew on international routes. The largest Polish airport is Warsaw – Frederic Chopin Airport (formerly Okęcie Airport), which is the main domestic and international airport. Other domestic airports (some of which have international connections) include Cracow, Gdańsk, Katowice, Poznań, Wrocław, Szczecin and Rzeszów.

Cheap airlines, such as Air Berlin, Wizz Air, SkyEurope, EasyJet and German Wings, are currently also marketing their services.

2.1.5. Waterways and Maritime Transport

The length of inland navigation routes is 3,643 km. Inland waterway transport accounts for 0.6% of all cargo carried. Inland waterways are a less popular means of transport than rail or road. The fleet comprises 849 vessels for cargo transport (barges, pushers and tugs) and 113 passenger ships with a total of 13,548 seats. The Odra, lower Vistula, Warta and Noteć, as well as the waters near Szczecin and Gdańsk have good conditions for the use of inland waters. The most commonly carried goods are sand, gravel, coal, metal ores and fertilisers.

The main commercial seaports are Gdańsk, Gdynia, Szczecin and Świnoujście. The maritime transport fleet consists of 116 vessels. Maritime transport accounts for 1.9% of all cargo carried.

2.2. Telecommunications Infrastructure

2.2.1. Telecommunications Systems

2.2.1.1. Fixed Line Telephony Systems

The last decade brought substantial growth in the telecommunications sector, with an increase in the number of customers and the introduction of many new services. Despite the market deregulation, voice telephony in Poland is still dominated by Telekomunikacja Polska S.A.

Activities of private operators are usually restricted to local markets. However, Domestic Long Distance (DLD) and international call services are now offered by a growing number of operators, some using their own physical network, some offering services using the networks of other operators through interconnect agreements. Long distance calls via the Telekomunikacja Polska S.A. network are still made by dialling 0 and the area code. Services of other operators can be used by dialling a prefix between the 0 and the area code. Some examples of operators and their prefixes are: NOM – 1044, Netia -1055, Energis – 1066, Dialog – 1011, Szeptel – 1042, Centrala -1064, Premium Internet – 1077 and Długie Rozmowy – 1051. The wide choice of service providers is not easily accessible. The subscribers of Telekomunikacja Polska S.A. either have to sign an agreement with the alternative DLD operator (with an option of pre-selection to avoid the cumbersome dialling of the prefix) or use an operator which offers prepaid cards.

Available services include 0-800 telephone number facilities, which allow customers to call a company's private number free of charge and 0-801 telephone numbers, where the customer covers only a part of the cost of the call. Services offered also include corporate lines (0-804), televoting (0-707), videoconferencing, satellite connections (Inmarsat offered by Telekomunikacja Polska S.A.), and many others.

2.2.1.2. Internet

Numerous ISPs offer a very wide range of Internet access, ranging from giants, such as Telekomunikacja Polska and NASK, to small local Internet service providers. Internet access can be provided in many ways, from dial-up, copper lines and fibre connections, through WAP, GPRS (GSM), to satellite and radio connections.

Up to 1999, Internet access offered to private customers was very expensive. Recently, many companies have started to offer cheaper alternatives. The average price is approximately EUR 15 per month for 24h, 128/64 kBit/s connection, EUR 30 per month for 24h, 512/128 kBit/s connection, or EUR 55 per month for 24h, 1024/256 kBit/s connection. Telekomunikacja Polska S.A. is leading the growth of this market with Neostrada, an aDSL based solution.

2.2.1.3. Mobile Telephony

The mobile telephony market has been booming since 1996, with ownership of mobile telephones reaching 18.6 million in the fourth quarter of 2003. Second generation mobile telephones (GSM) are used in Poland and operators have already started to launch third generation (UMTS) telephones. Competition is strong and includes three operators: Polska Telefonia Cyfrowa (PTC) with 35.7% of the market, Polkomtel – 31.6% and PTK Centertel – 32.7%. The three operators provide services over three independent networks:

- Plus GSM – Polkomtel – GSM 900, DCS;
- Era GSM – PTC – GSM 900, DCS;
- Idea – Centertel – GSM 900, DCS.

Over 95% of Poland's territory has GSM 900, DCS coverage. The range of services offered is typical of GSM operators throughout Europe and the Polish operators are keeping up with the latest trends.

Plus GSM has announced the commercial launch of 3G services, though the geographical availability of those services is restricted to some parts of Warsaw. Era GSM is conducting tests on its 3G networks. It is expected that in 2005 all three operators will start to offer some 3G services in chosen major cities in Poland.

2.3. Telecommunications Density

At the end of 2003, Poland had 321.4 fixed line telephones per 1,000 inhabitants. By 2005, this ratio is expected to increase to 350 fixed line telephones per 1,000 inhabitants.

Approximately 76% of the 12.275 million telephones are installed in cities, whereas only 24% are found in rural areas. Private subscribers own approximately 77% of fixed line network telephones.

The number of mobile telephone users was 14.8 million in 2003.

2.4. Data Transmission Systems and Density

Telekomunikacja Polska S.A. offers packet switched data transmission (POLPAK) for small and medium-sized companies. The network comprises 53 nodes and covers the entire country, offering connections to 140 countries. It is suitable for users who do not require continuous connectivity, but periodic data transmission. The system divides data into packets and sends them with a transmission rate of two megabits per second. The network is tolerant to poor quality access lines, which guarantees safety of the transmitted data.

Larger companies may use POLPAK-T, based on the Frame Relay/ATM system. Its major facilities are permanent virtual circuits and virtual private networks. This facility is suitable for companies with offices and branches located in large Polish cities. The network was launched in 1996. Today, the services are offered through the network using the ATM system at a speed of 155 Mbit/s, while some sections of Metropolitan Area Networks operate at 622 Mbit/s.

NASK is another company offering corporate networks using Frame Relay and ATM technologies. The company also offers corporate networks with multinational capability and has recently implemented international IT carrier services with guaranteed bandwidth offering direct worldwide web access for other service providers.

More demanding entities may connect directly to European networks (for example, e-bone, which is offered by some ISPs).

3. Natural Resources

3.1. Coal and Lignite

Poland has significant reserves of coal and lignite. Natural coal reserves are estimated at 44 billion tonnes. Most of the domestic coalmines are located in the Upper Silesia (Górny Śląsk) region, which is the densest industrial area in Poland.

Bituminous coal production in 2003 was 102.8 million tonnes, i.e. greater than domestic consumption, with part of the surplus exported and the remainder resulting in increased stocks.

Lignite reserves are estimated at approximately 14 billion tonnes and are generally located at a depth of 100-200 metres, making extraction relatively easy. Polish lignite has a relatively low calorific value and is less economically viable for transport over long distances and therefore, its consumers are most often coal-based power stations located near the mines. Lignite production amounted to 60.9 million tonnes in 2003.

3.2. Oil and Gas

86 oil deposits were identified in Poland in 2003, of which approximately 70 were being worked.

Geologically documented resources are estimated at 13 million tonnes and are mostly located in south-eastern and northern Poland. The structure of the deposits and, in some cases, their location limits the opportunities to increase production, and therefore Poland is forced to import both oil and petroleum products. 754,000 tonnes of oil were produced in 2003, whereas imports constituted over 18.0 million tonnes.

Processed fuels are sourced mainly from Polish refineries, because of barriers (both logistical and customs) on imported products. Imported products are used to a limited extent near the borders with the Czech Republic and Germany.

Poland is an importer of natural gas, the imports of which satisfy about 75% of the country's demand. The country has insufficient production of nitrified natural gas.

Gas deposits are estimated at 152.6 km^3. Those located in south-eastern Poland are considered most attractive, as this gas has a high calorific value. Most of Poland's gas supply is currently imported from Russia.

3.3. Other Deposits

Poland also has small deposits of sulphur, salt and potassium salts. Metals mined include copper, zinc, lead and iron.

KGHM, a copper mining company located in south-western Poland, is the world's third largest producer of copper and is listed on both the Warsaw and London Stock Exchanges.

Other abundant resources in Poland include limestone, marble, dolomite, chalk, gypsum and quartz.

3.4. Crops and Livestock

Cereals, potatoes and sugar beet are the main crops in Polish agriculture. Poland is a major producer of apple concentrate, cabbage, carrots and rye. The cattle livestock is estimated at almost 5.5 million heads and approximately 25 million pigs are bred for consumption.

4. Energy Sector

In 2003, Polish power stations generated a total of 149 TWh of electricity. Annual electricity production amounts to 3,700 kWh per inhabitant.

The main materials used for generating electricity are coal and lignite. A small percentage of total electricity produced is generated by hydroelectric plants located on major rivers. Poland has no nuclear power stations.

The energy sector, formerly 100% state-owned, is currently being privatised. The process includes power stations and electricity distribution companies throughout the country.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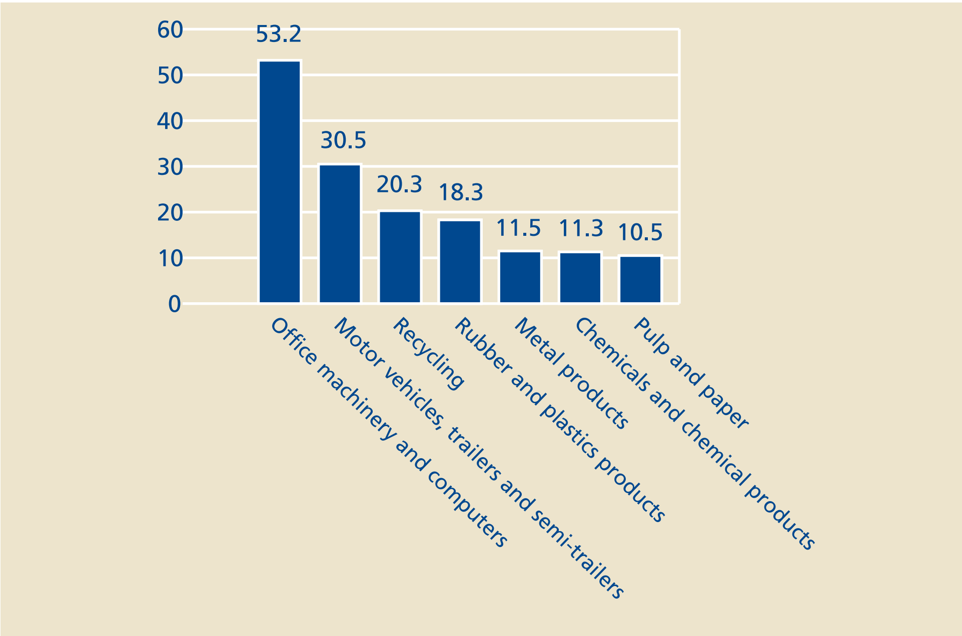
5. Industry

In 2003, industry accounted for 21.7% of Poland's GDP. Industry's turnover for that year amounted to PLN 176.8 billion. The private sector accounted for 79% of total industrial output.

The Figure No. 1 illustrating the results of some industries for 2003, shows that the sold production of office machinery and computers, motor vehicles, trailers and semi trailers, recycling, rubber and plastic products, metal products, chemicals and chemical products, pulp and paper increased significantly with respect to 2002.

Figure 1. Changes in industrial production sold in 2003 (constant prices, in %)



Source: Central Statistical Office (GUS)

6. Tourism

Poland is the 13th most frequently visited country in the world and the most visited country in Central Europe. More than 52.1 million tourists visited Poland in 2003, mainly from Germany and the Czech Republic.

Over 90% of foreigners enter Poland through road border crossings. In the first quarter of 2004, 23.4% of visitors declared that they came to Poland on holiday, 25.7% came on business and 18% came to visit family and friends.

Poland has a rich cultural heritage and a diverse landscape. Places of note include Warsaw (the capital), Cracow – a former capital, Wrocław, Gdańsk, Toruń, Wieliczka with its salt mine, and the Mazurian Lake District. The geographical diversity offers something for all tourism interests – from spectacular mountain ranges to picturesque lakes and the seaside.

Poland's hotel infrastructure is expanding, with 1,155 hotels operating in 2003. The total number of beds is approximately 596,500 of which 117,100 are in hotels. Boarding houses offer 12,300 beds and motels – over 4,900. Almost 52,400 beds are offered by training and recreational centres. The catering network has expanded in line with the growth in accommodation infrastructure.

7. Polish Banking and Financial Institutions

The banking system in Poland comprises the Central Bank (the National Bank of Poland, NBP) and commercial, retail, foreign and investment banks.

Activities of banks in Poland are supervised by the Commission for Banking Supervision, a separate body within the National Bank of Poland which is directly subordinated to the President of the National Bank of Poland. The Commission for Banking Supervision issues licenses for establishing banking activities and supervises the banks.

Payment cards are commonly used, while cheques are available, but seldom used in Poland. The use of cheques as legal tender in international transactions is not recommended.

Loan amounts and interest rates on loans granted by banks depend on the bank's assessment of the borrower's solvency and the risk related to the financing. Banks generally require a business plan and details of the borrower's financial standing. Collateral and bank guarantees are frequently required before a credit is granted.

7.1. The National Bank of Poland

The National Bank of Poland ("*NBP*") is the Central Bank of the Republic of Poland. It is the exclusive issuing institution of the Polish zloty (abbreviated to zł or PLN; PLN 1 = 100 groszy) and has the exclusive right to set and implement monetary policy. The NBP is held accountable for price stability and the zloty exchange rate. Apart from its role as the only organisation authorised to issue the Polish currency, the NBP also acts as the bank of the state and the bank of banks.

The management authorities of the NBP are the President of the NBP, the Monetary Policy Council and the Board of Directors. The Monetary Policy Council lays down the foundations for monetary policy, sets interest rates and defines the level of obligatory reserves for the commercial banks. The Board of Directors is charged with implementing this policy. The Board of Directors is independent of the government.

7.2. Commercial Banks

60 commercial banks currently operate in Poland. In addition, 17 foreign banks have established representative offices. The vast majority of the commercial banks are controlled by private shareholders. Following the recent floatation of the largest state-owned bank PKO Bank Polski S.A. on the Warsaw Stock Exchange, there are now two state-owned banks – Bank Gospodarstwa Krajowego S.A and Bank Gospodarki Żywnościowej S.A. Foreign investors exerted an influence over 45 banks and hold more than 67% of the sector's equity. The greatest proportion of the foreign capital in banks comes from Germany (17.1%), followed by Italy (13.4%), the USA (8.5%), the Netherlands (7.3%), Belgium (6%) and Ireland (5.1%). The asset value of the Polish banking sector amounts to USD 128.7 billion.

Considerable progress has been made in retail banking in recent years. Polish banks have adopted the most modern solutions and introduced new services, such as 24-hour access to accounts via the Internet, as well as fixed line and mobile telephones. Internet banking is developing rapidly and is attracting new customers, the number of whom was estimated at over 12 million at the end of 2003.

15,900,400 payment cards were in circulation in the second quarter of 2004, of which 1,563,500 were credit cards. Both cash dispensers and commercial entities accept popular credit cards (VISA, MasterCard, Diners Club and American Express) and payment cards (VISA Electron and Maestro). In the second quarter of 2004, there were approximately 7,800 cash dispensers throughout the country.

The improvement in retail banking services has also had a positive effect on service levels offered to corporate customers. It is obligatory for every company in Poland to have a bank account. The account must be registered with the tax authorities. Registration documents should be presented when opening an account on behalf of a legal person. Every bank account in Poland is protected against unauthorised access by the Secrecy Act and the confidentiality law.

8. Stock Exchange and Capital Market Regulations

More than 200 companies are currently listed on the Warsaw Stock Exchange (WSE). Most securities and all treasury bonds and derivatives are quoted in the continuous trading system. Only some securities are traded in the single price quotation system.

The following trading systems exist on the WSE:
- single price auction system;
- continuous trading;
- off-session block trades.

The Warsaw Stock Exchange deals in:
- stocks;

- bonds;
- subscription rights;
- futures;
- warrants;
- index-linked participation units.

The stock exchange operates between 9.00 a.m. and 4.20 p.m., Monday to Friday.

There is also a Warsaw Board of Trade (*Warszawska Giełda Towarowa S.A., WGT S.A.*) and the Electronic Treasury Securities Market (ETSM), which operates on a basis similar to NASDAQ.

8.1. Structure of the Warsaw Stock Exchange

The Warsaw Stock Exchange was founded by the State Treasury as a non-profit joint-stock company. The highest decision-making body of the Warsaw Stock Exchange is the General Meeting of Shareholders. Its role is to make changes to the Articles of Association and to elect members of the Supervisory Board. It consists of representatives of the State Treasury, banks and brokerage houses (the WSE shareholders).

The Warsaw Stock Exchange's Supervisory Board formulates the Rules of the WSE, controls operations of the exchange, admits securities to trading and grants and recalls stock exchange membership. It comprises 12 members appointed by the General Meeting of Shareholders.

The Management Board coordinates the day-to-day operations of the WSE, sets the rules for the introduction of securities to exchange trading and supervises the activities of brokers and brokerage firms in market transactions. The Management Board consists of five members, acting under the supervision of the President who is elected by the General Meeting of Shareholders for a 3-year term.

8.2. Securities and Exchange Commission

The Polish Securities and Exchange Commission (SEC) is the only administrative body authorised to admit securities to public trading. An entity that would like its shares or bonds to be publicly traded is obliged to prepare a prospectus. The prospectus should include a detailed description of the stock; detailed information on the company: its registered office, the nature of its business, the structure of equity, the Management Board, the management style, plans for the future, the last three annual reports and the latest audited annual report.

The SEC ensures that the prospectus satisfies the specific conditions stipulated by the law and grants permission for the stock to be traded. GDRs and ADRs also require the approval of the SEC in order to be issued.

The SEC also exercises administrative supervision over the activities of brokerage houses and grants permits for each specific category of brokerage activities.

Special requirements need to be satisfied to enable the specified limits of votes to be exceeded at the General Meeting of Shareholders:

- 5%, 10%, 25%, 50% and 75% – obligatory notification of the SEC and the company itself, within four days of the date that the limit is exceeded or from the day in which the obligee learned about such a change or could have known about it if proper/suitable care had been applied.
- 25%, 33% and 50% – obligatory notification of the SEC about the intention to exceed these limits and receipt of permission to do so.

An investor who has purchased shares giving him over 50% of the votes at the General Meeting of Shareholders is obliged to offer to purchase the remaining shares in the company or sell the number of shares required to reduce his voting power to below 50% of votes at the General Meeting of harehold-ers. The price offered may not be lower than the average stock price for the previous six months.

Failure to comply with these requirements may result in a fine of up to PLN 1 million.

Foreign investors are generally entitled to transfer all of their profits. Furthermore, capital gains may be transferred abroad without the need to obtain special permission.

Foreign investors are generally subject to the same rules and regulations as Polish investors.

8.3. Venture Capital Funds

Venture capital activities are conducted by investment funds, consulting companies, investment banks, special funds belonging to financial corporations and, recently, also by companies in the IT sector.

Most of these are foreign companies or companies with a foreign shareholder, which is due to the lack of funding and experience in this type of activity on the domestic market. Most companies established by venture capital funds operate in the IT and media sectors.

9. Education

9.1. The Education System

From pre-school education, through primary and lower secondary stage, Polish pupils reach the stage of upper secondary education. Polish is the compulsory language in Polish schools. Both state and private education institutions exist in Poland. The latter began to appear after 1990. However, at the compulsory education level, almost all pupils attend state schools (99%). A private school must receive permission to operate from the Ministry of National Education and Sport.

It acquires a legal status and is then registered by the Minister of National Education and Sport. Here is also a selection of international schools in major cities, where education is provided in English or other languages.

9.1.1. Pre-primary education

The first level of the education system is pre-primary education, for children aged between 3 and 6. Children aged 6 have the right to one-year's education within the framework of the so-called 0 grade, preparing for primary school education. 97.7% of 6-year olds used this form of education in the 2002/2003 academic year. From the 2004/2005 academic year, the education of 6-year olds will become compulsory.

9.1.2. Compulsory Full-Time Education

Compulsory education in Poland covers two types of school: primary school and lower secondary school. Primary school education lasts 6 years, and its pupils are children aged between 7 and 13. Lower secondary school education lasts 3 years and is for children aged between 13 and 16. Age is the only criterion for being accepted into a primary school, and a certificate of having finished primary school is required in the case of admittance to a lower secondary school. Catchment areas apply – parents are obliged to register their children with schools located nearest to their homes. The school year is divided into two semesters, and lasts approximately 185 days, from September to June. School education is generally spread over 5 days a week. Teachers examine the knowledge and skills acquired by pupils at school in the form of both written and oral tests. Pupils not obtaining satisfactory results must repeat a year.

A new system of external examination of pupils at the end of primary school and lower secondary school was introduced in Poland, starting from the 2001/2002 academic year. Pupils sit a compulsory examination at the end of 6 years of primary school (at the age of 13). Their next compulsory final examination comes at the end of the 3-year lower secondary school (at the age of 16). The results are stated on the lower secondary school graduation certificate.

9.1.3. Upper Secondary and Post-Secondary Education

The following types of schools exist at this level in Poland: general upper secondary school (*liceum ogólnokształcące*), with pupils aged from 16 to 19, specialised upper secondary school (*liceum profilowane*), with pupils aged from 16 to 19, technical college (*technikum*), with pupils aged from 16 to 20 and basic vocational school (*zasadnicza szkoła zawodowa*), with pupils aged from 16 to 18-19. Admittance to these schools is conditional on having a lower secondary school graduation certificate. Moreover, two types of supplementary schools have been created for graduates of 2- or 3-year basic vocational schools: supplementary general secondary school (*uzupełniające liceum ogólnokształcące*), with students aged from 18-19 to 20-21 and supplementary technical college (*technikum uzupełniające*), with students aged from 18-19 to 21-22. Graduates of general upper secondary schools may continue studying in post-secondary schools (*szkoła policealna*), with students aged from 19 to 21.

After completing this level of education, all schools (except basic vocational schools) organise a final examination (baccalaureate). A new, completely external final examination will be applied in Poland from the 2004/2005 academic year. The baccalaureate certificate is required when applying for higher education courses. Basic vocational schools issue a basic school graduation certificate (a certificate which allows pupils to enter the employment market). Post-secondary schools (*szkoły policealne*) prepare their students for professional life. After graduating from these schools, students obtain the title of "skilled worker", "technician" (*technik*) or an equivalent professional title.

The introduction of an external standardised vocational examination at the end of 2 – 3 year basic vocational school is planned.

9.1.4. Higher Education

In Poland, there are higher vocational courses (*wyższe studia zawodowe*), complementary master's degree courses (*uzupełniające studia magisterskie*) and uniform master's degree courses (*jednolite studia magisterskie*).

Table 9. Students of higher education establishments (2003/2004)

Field of education	No. of students (in '000)
Education science and teacher training	239.7
Arts	19.8
Humanities	146.2
Life sciences	16.1
Social and behavioural sciences	248.9
Business and administration	505.4
Law	57.3
Physical sciences	34.3
Mathematics, statistics and computing	83.5
Health	62.0
Engineering and engineering trades	177.6
Architecture and construction	55.3
Agriculture, forestry and fishery	37.0
Security services	7.4
Transport services	14.6
Journalism and information	13.7
Personal services	44.3
Environmental protection	56.8

Source: Central Statistical Office, Concise Statistical Yearbook of Poland 2004

Admittance may be additionally conditional upon the results of entrance examinations or a qualifying interview. In most cases, the higher educational establishments themselves decide upon the recruitment procedures. Upon graduating from a 3- or 4-year non-university higher vocational school (*wyższa szkoła zawodowa*], students obtain a diploma of their vocational qualifications and the title of bachelor (*licencjat*] or engineer, which allows them to enter the employment market or gives them the opportunity to continue their studies in a two-year master's degree course. Upon graduating from a uniform master's degree course, which lasts between 4.5 and 6 years, universities or other higher education establishments issue a higher education graduation diploma. Graduates obtain the title of Master, Master of Education, Master of Arts, Master of Engineering, Master of Engineering in Architecture or Doctor, Doctor of Dentistry, Doctor of Veterinary Medicine – depending on the type of course. Graduates with such titles may apply for doctoral studies.

Table 10. Graduates of higher education establishments (2003/2004)

Field of education	No. of students (in '000)
Education science and teacher training	55.4
Arts	2.9
Humanities	27.0
Life sciences	2.9
Social and behavioural sciences	53.3
Business and administration	129.0
Law	8.9
Physical sciences	5.9
Mathematics, statistics and computing	9.3
Health	7.6
Engineering and engineering trades	23.9
Architecture and construction	6.3
Agriculture, forestry and fishery	6.4
Security services	0.9
Transport services	2.1
Journalism and information	2.4
Personal services	6.7
Environmental protection	9.7

Source: Central Statistical Office, Concise Statistical Yearbook of Poland 2004

9.1.5. Doctoral Studies

The Act On Academic Titles and Academic Degrees regulating the award of academic titles and degrees establishes the following academic ranks (in ascending order):
- the academic degree of *doktor* (Ph.D.) of a particular academic subject area within a particular academic discipline;
- the academic degree of *doktor habilitowany* (post-doctoral degree) of a particular academic subject area within a particular academic discipline;
- the title of *profesor* (professor) of a particular academic subject area.

The title of professor is granted by the President of the Republic of Poland upon the resolution of the Central Commission issued in response to a petition by an academic council of sufficient standing to be entitled to award the degree.

9.2. Special Education

Special education is an integral part of the Polish education system. Most children with special educational needs are taught at special schools or in special classes of general access schools (1.8% of all pupils in compulsory education). Pupils may be integrated into general access schools based on positive recommendations by the agencies responsible for diagnosing the type and level of disability and/or the wishes expressed by the child's parents.

9.3. Teachers

Teachers in Poland must have a degree, and the required level of education depends on the level of school in which they wish to teach. For example, in order to teach in primary and lower secondary schools, teachers must hold a Bachelor's or Master's degree, but in upper secondary and post-secondary schools, they must hold a Master's degree. In addition, every teacher must receive teacher training.

Over 1.8 million people in Poland studied at higher and tertiary education facilities in the 2003/2004 academic year. Students account for 52.9% of all inhabitants aged 19-24. Over one-third of students studied at non-state schools. There were almost 877,400 full-time students and almost 960,600 took evening classes and part-time courses. 366,100 graduates completed their studies in 2003 at 400 tertiary education establishments.

31.5% of the higher education facilities are currently state-owned and 3.5% are owned by religious organisations. Poland has 17 universities, 22 polytechnics, 93 business schools, 10 medical academies and 9 agricultural colleges.

The main centres of tertiary education are Warsaw, Cracow, Poznań, Łódź, Gdańsk, Toruń, Szczecin and Wrocław.

9.4. Scientific and R&D Institutions

The State Committee for Scientific Research (Komitet Badań Naukowych, KBN) is the main governmental administration authority for scientific policy. The Committee plans the state's science policy, sets the direction of scientific research and development and proposes the annual budget for scientific research and development.

Scientific institutions also include tertiary education establishments, R&D institutions, which report to the Chief Council of the Research and Development Institute, Polish international research institutions and the Polish Academy of Sciences.

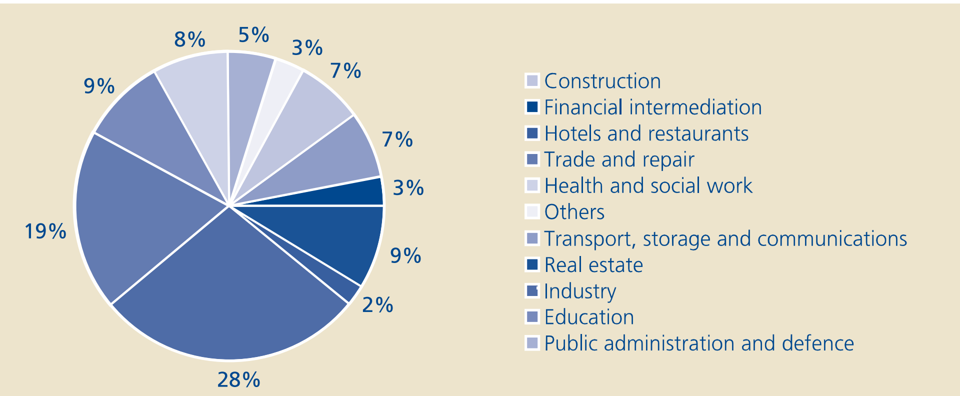
The Polish Academy of Sciences (Polska Akademia Nauk, PAN) is a state scientific institution that coordinates the cooperation of scientists with scientific bodies. The Academy's Committees are self-governed units representing their respective scientific disciplines. Activities in various scientific fields are conducted by specialised institutions, such as the Institute of Physics, Institute of Genetics and Animal Breeding, Institute of Mathematics and Institute of Rural and Agriculture Development.

10. Human Resources

10.1. Employment and the Labour Force

Poland's economically active population aged over 15 in 2003 numbered 16.9 million, which represented 44.6% of the total population. 13.6 million people were employed, of whom 70.2% worked in the private sector.

Figure 2. Employment by sector, 2003



Source: Central Statistical Office (GUS)

10.2. Unemployment

According to official statistics, at the end of July 2004, 3,042,400 people were registered as unemployed, of whom 52.81% were women. Unemployment was estimated at 19.3% of the economically active population. The highest rate of unemployment, 29.4%, was registered in the Warmińsko-Mazurskie voivodship, and the lowest, 15.4%, in the Małopolskie voivodship and 15.1% in the Mazowieckie voivodship. Almost 41.3% of the unemployed live in rural areas.

10.3. Salaries

The average gross monthly salary for Polish residents in the last quarter of 2003 was PLN 2,276.84. Sectors with the highest average gross monthly salaries (in PLN) are presented in table below.

Table 11. Sectors paying the highest gross monthly salaries, in PLN

	Mining and quarrying	Financial services	Gas, electricity and water	Public administration, defence industry	Transport, storage and communications
4Q 2003	5,011.38	4,214.95	3,182.7	2,847.77	2,765.0

Source: Central Statistical Office (GUS)

Sectors with the lowest average gross monthly salaries (in PLN) were as follows:

Table 12. Sectors paying the lowest gross salaries, in PLN

	Hotels and restaurants	Health and social security	Manufacturing	Education	Construction
4Q 2003	1,804.83	1,868.52	2,184.74	2,189.78	2,276.97

Source: Central Statistical Office (GUS)

Table 13. Average gross monthly salary

Year	in PLN	in USD
1996	874.30	324.24
1997	1,061.93	323.68
1998	1,239.49	354.78
1999	1,697.12	427.76
2000	1,923.81	442.62
2001	2,061.85	513.79
2002	2,133.21	522.91
2003	2,201.47	579.33

Source: Central Statistical Office (GUS)

11. Basic Macroeconomic Indicators

Poland's economic growth, at 6.9% in the first quarter of 2004, is much stronger than in the Eurozone (1.3%) and higher than the average of the 25 EU member states (1.6%). Poland's growth has been driven to a significant extent by export growth, industrial production and investments. Employment is rising slowly. More detailed information on individual indicators is provided below.

11.1. Gross Domestic Product

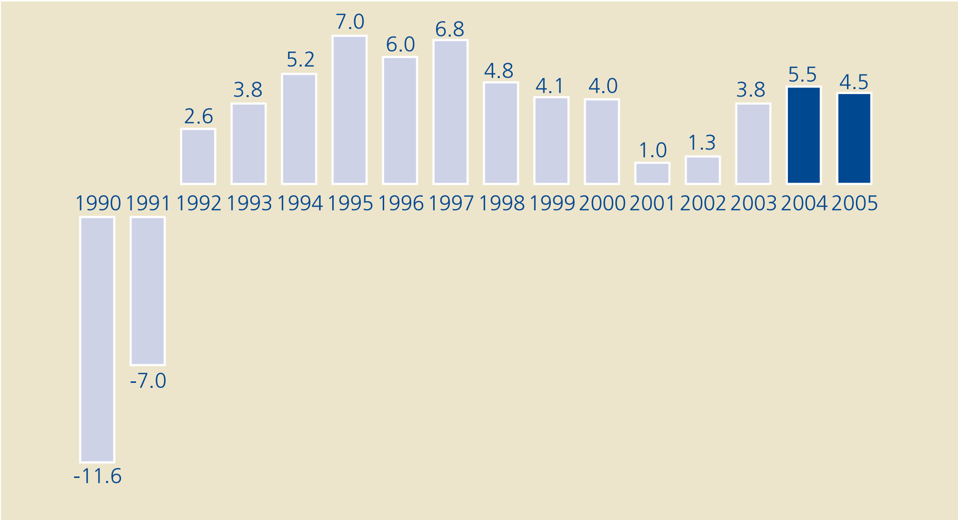
The Polish economy expanded rapidly in the mid- to late-1990s. After a slowdown, due mainly to global economic conditions, Poland has regained the pace of growth that it achieved in the second half of the 1990s. In 2003, GDP increased by 3.8%. Economists forecast that GDP should grow by 5.5% in 2004 and 4.5% in 2005.

GDP increased in the first quarter of 2004 by 6.9%, while in the second quarter of the year, the growth was 6.1%. This, in turn, means that economic growth was 6.5% in the first half of the year, which means that Poland is still a leader in terms of GDP growth not only within the European Union, but also in the region of Central and Eastern Europe.

Poland's economy was also one of the fastest growing in the first quarter of 2004 compared with other European countries.

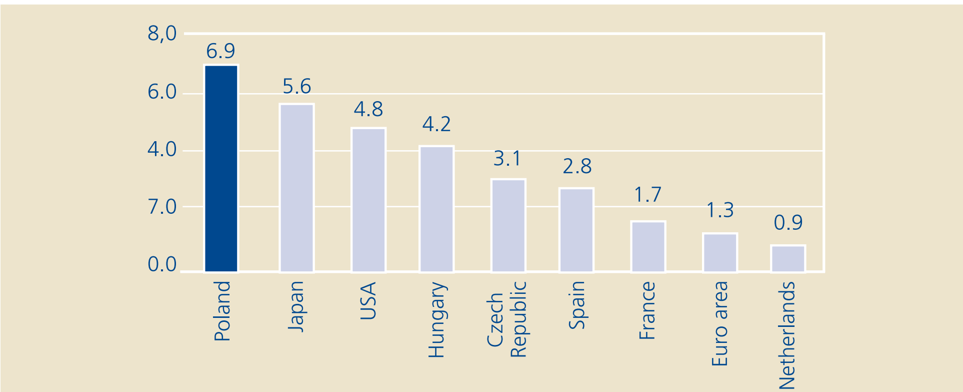
Poland's GDP at current market prices was estimated at USD 207 billion in 2003, (or USD 5,400 per capita). In terms of purchasing power parity, this equals USD 10,900 per capita, having grown from USD 4,400 in 1990.

Figure 3. GDP growth in years 1993–2005 (%)



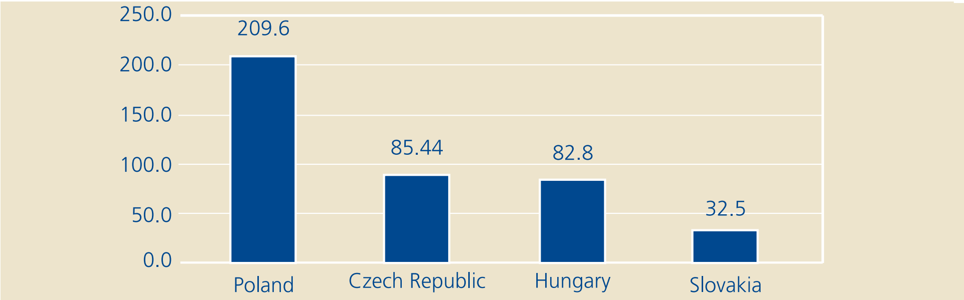
Source: The Economist, July 2004

Figure 4. GDP growth in 1st quarter 2004



Source: The Economist, July 2004

Figure 5. GDP in 2003 (USD billion)



Source: EIU 2004

11.2. Consumer Price Index

The consumer price index has been dropping since the start of the transformations. Average annual inflation in 2003 was 0.8% (1.9% in 2002). According to the Economist Intelligence Unit forecast, CPI will reach a level of 2.0% in 2004.

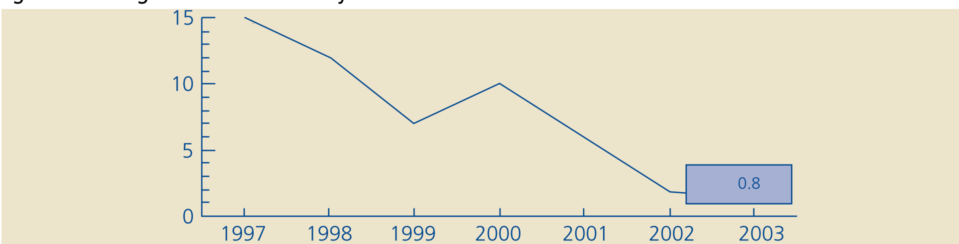
Table 14. Consumer Price Index (%)

Year	1997	1998	1999	2000	2001	2002	2003
CPI average	14.9	11.8	7.3	10.1	5.5	1.9	0.8
CPI year-end	13.2	8.6	9.8	8.5	3.6	0.8	1.7

Source: Polish official statistics

In July 2004, inflation (year-on-year) was 4.6%, which is due to the higher growth of the index in the individual months of 2004 compared to the previous year.

Figure 6. Average annual inflation in years 1997-2003



Source: Polish official statistics

11.3. Foreign Trade

Polish imports reached a level of USD 68 billion in 2003, while exports amounted to USD 53.6 billion. Compared to 2002, exports denominated in USD increased by 31%, while imports increased by 23%. Since 2000, exports have been rising at a faster rate than imports because of the improving competitiveness of Polish goods and a limited increase in domestic consumption.

Poland trades primarily with developed countries, to which it directs 74.8% of all exported goods. In 2003, trade with the EU accounted for 68.7% of all Polish exports and 61.7% of Polish imports. Germany is Poland's most important trading partner; trade with Germany constitutes 32.3% of all Polish exports and 24.4% of all imports. In 2003, Poland increased its exports mainly to Sweden, Italy, the Czech Republic, Ukraine, France, Great Britain and the Netherlands. Increased imports are being observed from China, the Czech Republic, Italy, France and Germany.

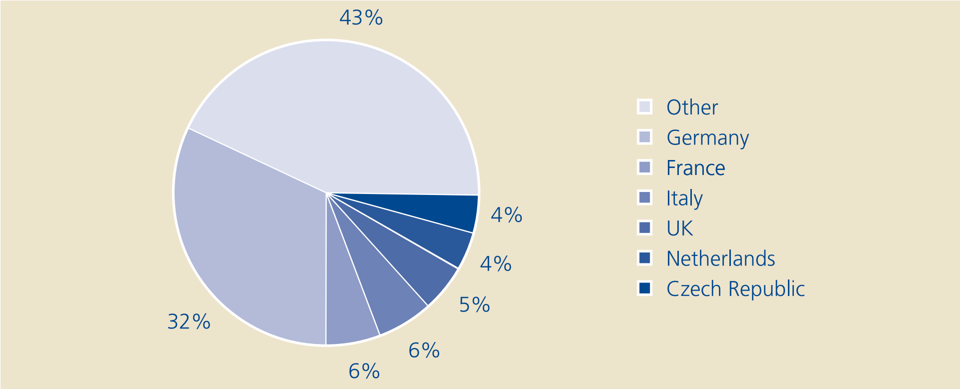
Goods sold to Poland's 10 largest trading partners accounted for 70.2% of the Polish exports.

Table 15. Main destinations of Polish exports in 2003

Market	PLN million	USD million	EUR million	%
Developed countries	156,331.4	40,082.4	35,574.2	74.8
of which: EU	143,682. 4	36,842.5	32,700.9	68.8
Central and Eastern Europe	40,994.3	10,511.4	9,303.7	19.6
including CEFTA	19,915.8	5,106.1	4,521.4	9.5
Developing countries	11,618.6	2,983.1	2,648.5	5.6
Total	208,944.3	53,576.9	47,526.4	100.0

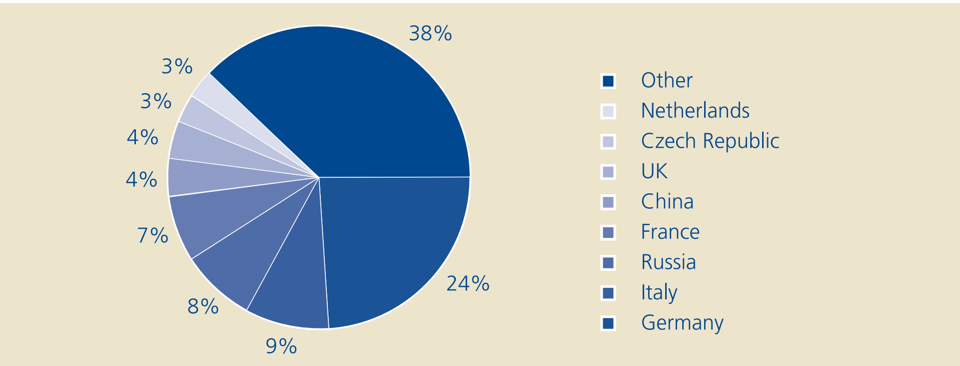
Source: Polish official statistics

Figure 7. Poland's main export partners in 2003 (%)



Source: Polish official statistics

Figure 8. Poland's main import partners in 2003 (%)



Source: National Bank of Poland (NBP)

Table 16. Exchange rates

Currency	1998	1999	2000	2001	2002	2003
1 USD	3.4937	3.9675	4.3464	4.0939	4.0795	3.8889
1 EUR	1.9888	4.2270	4.0110	3.6685	3.8557	4.3978

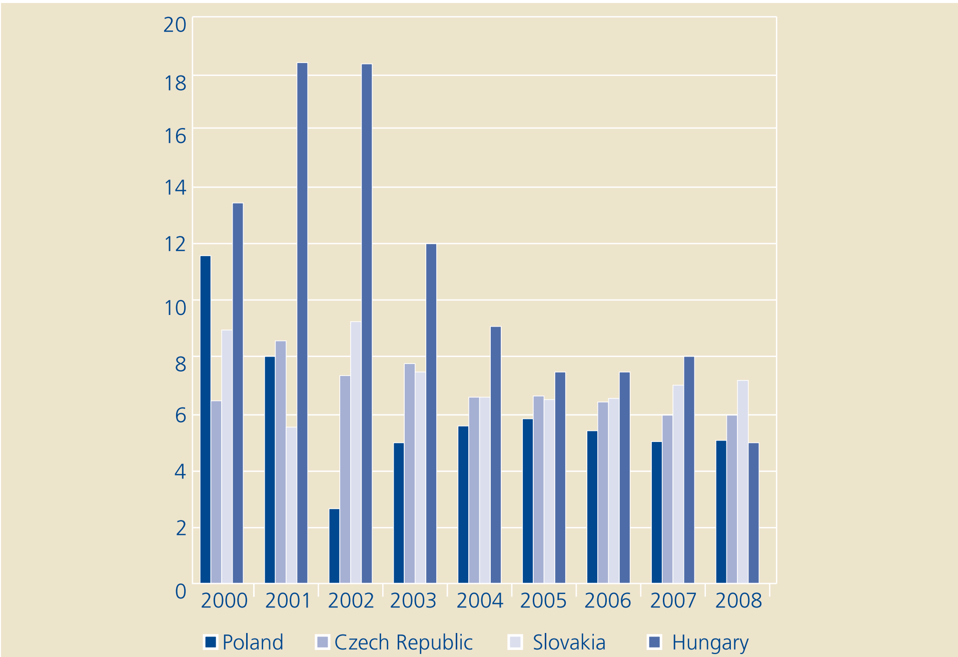
Source: Polish official statistics

11.4. Local Cost Effectiveness

According to a survey commissioned by the Polish Information and Foreign Investment Agency (PAIiIZ) in 2003, reasons for entering Poland cited most commonly by investors include costs and the possibility of decreasing them (85.3% and 80.5% of responses, respectively). The costs of conducting business in Poland are significantly lower than in Western Europe.

The graph below illustrates the average nominal growth of wages in Poland, Slovakia, the Czech Republic and Hungary between the years 2000 and 2003. It also forecasts how the situation should develop over the coming five years.

Figure 9. Wages in Poland grow slower than in other CEE countries



Source: EIU

11.4.1. Labour Costs

According to the PAIiIZ survey, the main reason for almost 90% of investors choosing Poland were low labour costs.

Since 2001, wages in Poland have been increasing very slowly due to high unemployment. As a result, the wage level in the Czech Republic and Hungary is now higher than in Poland. The average monthly salary in the manufacturing sector in February 2004 in Poland was EUR 490. According to Cushman & Wakefield Healey & Baker Cities Monitor, Warsaw is the best capital city in Europe in terms of staff costs.

Table 17. Best cities in terms of cost of staff

	Score*
1. Warsaw	1.20
2. Budapest	1.17
3. Prague	1.04
4. Lisbon	1.03
5. Barcelona	0.73

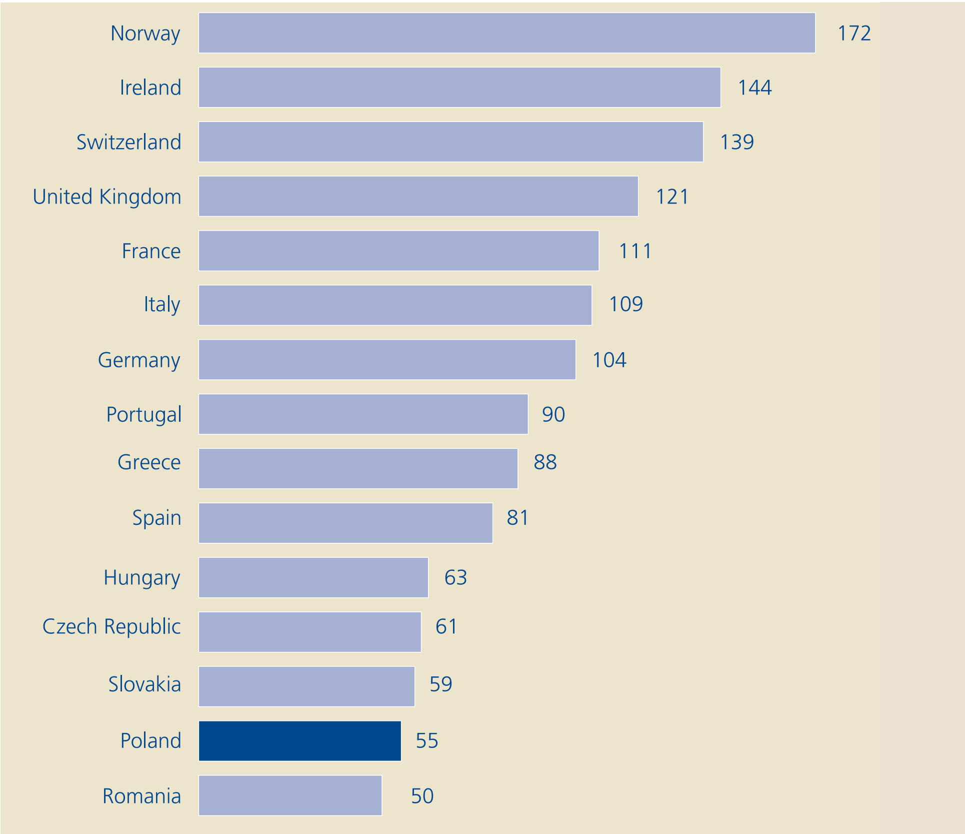
**The score is derived from the number of nominations for best, second best and third best*

Source: European Cities Monitor 2003, Cushman & Wakefield Healey & Baker

11.4.2. Costs of Living

Poland can offer a standard of living equal to EU standards. A positive difference is the cost of living. According to the Economist Intelligence Unit, the cost of living in Poland, which encompasses such factors as retail prices of household supplies, personal care products, clothing, entertainment and transportation, is at a level of 76% of that of Berlin, 59% of that of London and Oslo, 68% of that of Vienna and 65% of that of Washington.

Figure 10. Price level for food, beverages and tobacco – overall 2003 survey results



Source: Eurosat, 2004

The social structure in Poland is gradually becoming similar to that of the Western European countries. For example, out of 13 million households, 3.3 million are single person households, which, until recently, has been a characteristic feature of such countries as France, Scandinavia or Great Britain. Poland is witnessing the growth of the class of single-living, young, educated and financially independent people, who are career-oriented and ambitious, reflecting the patterns of Western Europe.

11.4.3. Real Estate

The average cost of building a square metre of office space in Poland ranges between EUR 750 and EUR 1,150 (according to EC Harris research). An industrial property can be built at EUR 150 – EUR 300 per sq. m of floor space. Renting office space in large cities, such as Warsaw, Cracow, Wrocław and Poznań, costs between EUR 10 – 30 per sq. m/month. The average cost of purchasing an apartment is approximately EUR 350 per sq. m and differs from region to region. The average price per square metre of land is EUR 4.50 – 20.00, although in large cities such as Warsaw, it can be considerably higher.

11.4.4. Energy

The average price of energy for industry is less than USD 30 per GJ in Poland. The table below shows a comparison of prices between several EU countries.

Table 18. Energy prices (including VAT) in USD/GJ, December 2003

	Poland	Spain	Ireland	Germany	Italy
Households					
Electricity	30.21	42.37	47.01	62.03	55.92
Gas	10.42	18.98	26.36	23.39	20.52
Trade and services					
Electricity	23.71	30.25	31.13	29.56	36.84
Gas	6.00	7.85	7.54	8.16	16.18
Industry					
Electricity	14.86	21.78	20.14	19.32	29.73

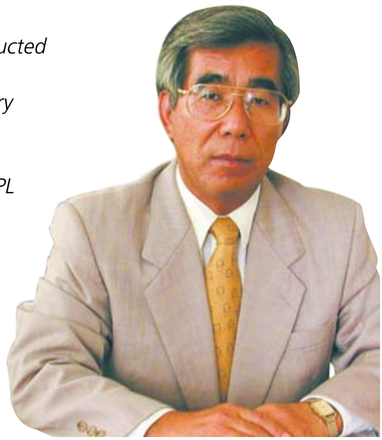
Source: Energy Market Agency (Agencja Rynku Energii – ARE)

Panasonic
Matsushita Battery Poland S.A.

"The following were the factors that determined MBPL's decision to invest in Poland:
- *the socio-economic transformations after 1989,*
- *the resources of good quality zinc, as the key raw material in our production,*
- *the potential of qualified local staff,*
- *the favourable geographical location – access to the markets on all sides of Europe, the simplicity of logistical solutions,*
- *the perspectives of a future potential of the Central and Eastern Europe markets,*
- *the ethnic and religious homogeneity.*

Poland's advantages, which were important to the type of activities conducted by the company, are:
- *the zinc deposits,*
- *the geographical location in the centre of Europe,*
- *the level of personnel: the education of staff of experts, engineers and managers, the experience and good qualifications of the mechanics,*
- *the continuously improving quality of local (Polish) suppliers,*
- *a large and developing domestic market,*
- *the country's constant development (changes in regulations, infrastructure, society's level of affluence and education and technological progress).*

The company's development perspectives, in the context of Poland's recent EU accession, are good. The following will take place:
- *the free movement of goods (no customs barriers for purchase and sale within the EU),*
- *legal regulations fully harmonised with the community law (a reduction in legal barriers),*
- *no need to commit resources for VAT (which used to be deducted after payment and no longer exists since 1 May),*
- *lower tariff rates on raw materials and components for battery production after EU accession,*
- *Poland, as one of the 25 EU member states, will be able to influence the regulations regarding the market on which MBPL operates."*



Toshiaki Kimura, President of Matsushita Battery Poland S.A.

"BP's key investments in Poland took place in the 1990s. It was precisely then, at the time of the fundamental political changes and the move to the market economy with such elements as the free market and competition, that BP decided to build a network of petrol stations, investing in the areas of liquid propane-butane gas, asphalt production and trade in lubricants and chemicals. Such extensive involvement by the company in Poland was due to Poland's location on the main transport routes of Central Europe, expectations of rapid growth of the Polish economy, and finally, the fact that the infrastructure was considerably behind and hence, the need to catch up. Obviously, the existence of a large consumer market of almost 40 million people was also taken into consideration. The government's adoption of the commercialisation and privatisation of the fuel sector aiming towards the development of a competitive fuel market was also significant.

From our point of view, the factor of fundamental significance for BP's activities is Poland's location at the intersection of the main transport routes in this part of Europe, and therefore, the high demand for our products and services. Paradoxically, the deficiencies in some areas, such as road infrastructure and the relatively small number of cars per inhabitant, in our case, were promising for the future. Certainly, the availability of a qualified, well-educated workforce, as a result of which Poland also hosts some service centres supplying the needs of BP operations in other countries, is also highly significant.

We expect Poland's EU accession to result in the decided acceleration of economic growth and hence, an increased demand for our fuels, as well as other products and services. In this context, it should be remembered that the simultaneous EU accession of the Baltic States, which will direct a significant proportion of their increasing exports to the old EU member states by road through our country, is also important.

Moreover, there is also another aspect of our EU membership: we expect that the harmonisation of Polish regulations with those of the EU and the decidedly greater stability and predictability of the law will benefit enterprises, and Brussels will also enforce more efficient functioning of the state administration, primarily the authorities appointed to enforce the law, such as the courts. The positive influence of accession on reduction in the unregistered area of business on the fuels market and in particular on the liquid gas market is already noticeable. We also expect that the situation in this field will improve and the unjustified preference of some companies at the expense of the competition will no longer take place, particularly in view of the new regulations in the area of competition protection.

In summary: Poland is an important market for BP, being a member of the European Union, where the demand for fuel is continuously rising. We intend to continue investing in the Polish market at such a pace as will preserve our leadership position among the foreign fuel corporations in Poland."

Wojciech Heydel, President of the Management Board,
BP Polska

12. Poland on the International Arena

12.1. Poland in the European Union

Poland's geopolitical position induces it to actively participate in international political organisations. Poland has been a member of the Council of Europe, the Central European Initiative, the Visegrad Group and the North Atlantic Cooperation Council since 1991. In 1993, it was admitted as an associate member into the European Union. In 1998, Poland presided over the Organisation for Security and Cooperation in Europe (OSCE), and in 1999, it became a member of NATO.

The rapid development of the country's economy was confirmed by Poland's accession into the World Trade Organisation (WTO) in 1995 and into the Organisation for Economic Cooperation and Development (OECD) in 1996. In 1992, Poland became a founding member of the Central European Free Trade Agreement (CEFTA).

Poland signed the trade and economic cooperation agreement with the European Community on 19 September 1989. The Association Agreement was signed on 16 December 1994. Ten years after submission of its application for membership and six years after commencing negotiations, Poland joined the EU on 1 May 2004.

12.1.1. Poland's Position in the European Union

The Treaty of Accession was signed in Athens on 16 April 2003. The accession referendum took place in Poland on 7 and 8 June 2003. 77.45% of Poles voted in favour of EU membership, with a turnout of 58.85%.

1 May 2004 witnessed the enlargement of the European Union from 15 to 25 member countries, with the 10 new member states adding 75 million more citizens to the 378 million citizens of the EU. Today, the European Union has 25 member states: Austria, Belgium, the Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the UK.

The enlargement is one of the most important opportunities for the European Union. With the exception of Malta and Cyprus, the new member states are former Communist states that have barely a decade of experience of being market economies and experiencing capitalist freedoms. This not only represents a significant moment in the history of the EU, but also in the history of Poland.

12.1.2. Membership Criteria

Poland underwent preparations to meet the political, economic and legal criteria of membership in order to become a member of the EU. It has been adopting and implementing the body of EU legislation, which comprises more than 20,000 separate treaties, regulations and directives passed by the European institutions, as well as judgements passed by the European Court of Justice.

In terms of economic criteria, comprehensive reform efforts have been made by the Polish authorities to transform the economy. The legal criteria apply to the implementation and enforcement of Community law ("*Acquis Communautaire*"). Poland has achieved a high level of alignment with the "*Acquis*". There are many areas of taxation that fall within the scope of this legislation, even though the new states still have control over direct taxation and the definition of tax rates. Many challenges and opportunities are now available to investors in the new member states.

Because of the harmonisation of Polish law with EU standards and increasingly extensive integration with the European economy, Poland has become an even more attractive target for foreign investors.

12.1.3. Intra-Community Trade

The EU is Poland's most important trading partner. Trade within the Community accounts for approximately 70% of Polish exports and imports. The volume of trade between Poland and the other EU member states exceeded EUR 60 billion in 2003. In 2003, the European Union member states accounted for 68.7% of Polish exports and 61.7% of imports. Seven out of Poland's 10 largest trading partners are from the European Union. In 2003, Germany ranked first among these, with a 32.3% share of exports and 24.3% of imports.

12.1.4. Financial Assistance

As a European Union member state, Poland will need to contribute to the general EU budget but simultaneously, it will receive back transfers, notably those under the Common Agricultural Policy and the structural policy.

Poland will pay its contribution to the general EU budget at the full amount, i.e. EUR 6 billion in 2004–2006. The first monthly payment was made from the Polish budget to the EU on 4 May 2004. Additionally, Poland will need to contribute to separate specific budgets within the EU. All of these amounts will reduce the amount of public sector demand financed under the Polish central budget.
At the same time, Poland is waiting for financial flows from the European Union. The general EU budget envisages that the commitments to Poland could reach EUR 19.3 billion in 2004 – 2006, while payments could amount to EUR 13.5 billion.

As of 1 May 2004, Poland became eligible for structural funds. The primary objective of these funds is the provision of assistance in reducing the development disparities between regions in order to strengthen economic and social cohesion. The Treaty of Accession set the commitments open to Poland under the structural policy at EUR 11.4 billion (including EUR 7.6 billion under the structural funds and EUR 3.7 billion under the Cohesion Fund). Payments of these commitments will be made up to 2009 (2010 in the case of the Cohesion Fund).

Poland was granted an additional EUR 280 million for 2004 – 2006 to adjust to the Schengen standards of external border control (eastern border and international airports).

During the period 2004 – 2006, the whole of the territory of Poland is set to benefit under Objective 1 of the Structural Funds through seven development programmes. The overall aim is to promote a knowledge-based economy fuelled by an entrepreneurial spirit in order to favour rapid and sustainable economic growth as a means of overcoming the major challenge of unemployment and ensuring better social cohesion.

Investments will be concentrated in four priority areas: growth and employment in the private sector; human resources; infrastructures linked to economic growth and quality of life; improvements to regional development conditions, including rural development.

The programmes scheduled to implement this strategy are the following:

Business Competitiveness

The knowledge-based economy and the industrial environment are the first priority, aimed at giving Polish industry access to information, R&D and technological innovation, improving and rehabilitating sites where companies can establish operations, and improving access to capital for SMEs. As a second priority, direct aid to companies in the private sector, especially in the case of new activities and SMEs, must make companies more competitive on the international market, while creating major employment opportunities.

Human Resources

Firstly, the overall level of employment must be increased through an active labour market and social inclusion policy: prevention of unemployment and the professional integration of young people, the long-term unemployed, disadvantaged groups and women. The modernisation of public employment agencies will be a key element in this priority. The second priority is to develop a knowledge-based society by improving access to a better standard of education and placing emphasis on equal opportunities and the needs of companies in the face of market fluctuations. Continuous training, distance learning, cooperation between universities and companies, increased administrative capacities, etc. will be encouraged.

Transport

The balanced development of various modes of transport will make it possible to encourage competitive alternatives to road transport and improve environmental protection. One aspect will be to respond to the urgent need to modernise the rail network, while seaports will benefit from measures to promote multimodal transport.

The second priority is to improve road transport safety – quality motorways, city ring roads and traffic management – and to make it more efficient by means of shorter journeys and a more comprehensive network. The "Transport" programme is designed to complement the Cohesion Fund projects.

Food Sector and Rural Development

The initial priority applies to changes in primary agricultural production and processing activities: investments in viable farms, help for young farmers in setting up, adaptation of the agro-foodstuff sector to European standards, training, agricultural advisory services, etc. The second priority is the sustainable development of rural areas through measures related to agricultural re-parcelling, the management of agricultural water, the diversification of economic activities, rural renovation, collective equipment, cultural and natural heritage, etc. Aid will also be allocated to local initiative projects inspired by LEADER+ and to the restoration of forestry damaged by natural disasters.

Fisheries

There are four priorities: adjustment of the fishing effort to take account of fish stocks; fleet renovation and modernisation; protection of aquatic resources, development of an aqua-culture, improvements to port installations, processing and marketing activities and product quality; and aid for small-scale coastal fishing, unemployed fishermen and producer groups, etc.

Integrated Regional Programme

The task is to create conditions for sustainable regional competitiveness in each of the 16 voivodships by pursuing three priorities: the development and modernisation of infrastructure contributing to regional competitiveness (technical infrastructure, entrepreneurship development centre, regional transport, environment, social infrastructures in the area of health, higher education and tourism); the improvement of human resources to meet the specific needs of the regional labour market, through study grants and aid to farmers leaving agriculture, workers affected by restructuring, entrepreneurs, etc.; and local development in the most marginalised areas (including urban areas in crisis), by supporting various local infrastructures, micro businesses, the construction or modernisation of educational establishments, tourism and cultural projects, etc.

The Cohesion Fund

Apart from the Structural Funds, Poland receives additional aid from the Cohesion Fund for infrastructure projects in the area of the environment (drinking water, sewage, water resources and solid waste) and transport (roads, railways, airports and waterways).

12.2. Poland in the Single Market

Upon accession to the European Union, Poland has become part of the Single European Market, with the free circulation of goods, services, people and capital.

12.2.1. Freedom of Movement of People

The following persons have the right to enter and leave the territory of the member states simply on the production of an identity card or passport, without the need for an entry visa or equivalent:

- nationals of a member state who are established or who wish to establish themselves in another member state in order to pursue activities as self-employed persons, or who wish to provide services in that state;
- nationals of member states wishing to go to another member state as recipients of services;
- the spouse and the children under twenty-one years of age of such nationals, irrespective of their nationality;
- the relatives in ascending and descending lines of such nationals and of the spouse of such nationals, if the relatives are dependent on these nationals, irrespective of their nationality.

With respect to the principle of the free movement of persons, the "*Acquis Communautaire*" covers four areas:
1. mutual recognition of professional qualifications– the European Community intends to eliminate obstacles to the performance of regulated professions, accepting the principle that a person fully qualified to practice a regulated profession in one member state should be entitled to do so anywhere within the European Community;
2. citizens' rights – covering voting rights (i.e. rights of all European Union citizens to participate actively in the political life of the European Union through European and municipal elections) and the right of residence (originally foreseen only for workers, but subsequently extended to cover non-active persons);
3. free movement of workers – within the scope of which the member states are obliged to ensure that all their legal provisions, in particular those related to criteria on citizenship, residence or linguistic ability, are in full conformity with the "*Acquis Communautaire*";
4. coordination of social security schemes – governed by regulations and thus directly applicable to the member states. The principles of such coordination consist of ensuring that those who exercise their right to the freedom of movement throughout the European Community should not be penalised as a result thereof in the perspective of the protection of social security.

Freedom of movement for workers, which is a fundamental aspect of the freedom of movement for persons and of the internal market, allows the nationals of any member state to work in another member state under the same conditions as nationals of that state.

However, following the enlargement of the European Union on 1 May 2004, the freedom of movement of workers from, to and between the new member states may be restricted. The essential components of the transition arrangements related to the free movement of workers from Poland into the old member states are based on the scheme 2+3+2:
- During an initial two-year period, the EU-15 member states must apply their national law or any bilateral agreements concluded with the new member states under Community law.

This means that, in most cases, workers from the new member states still need a work permit in order to gain access to the labour market.
- The new member states may impose reciprocal restrictions on workers from the EU-15 member states that have adopted such measures.
- In 2006, the Commission will draw up a report that the Council will use to examine the functioning of the transitional provisions. Moreover, each of the EU-15 member states will need to give the Commission formal notice of its intention either to apply Community law in full, and its principle of the freedom of movement for workers, or to maintain restrictive measures for a maximum of three more years.
- In 2009, the EU-15 member states will only be able to extend the restrictive measures for a period of two years, if they observe major disruption on their labour markets, or a threat thereof.
- The end of the seven-year transitional period will bring about the complete freedom of movement for workers who are Community nationals in the enlarged Union.

12.2.2. Freedom of Movement of Capital

Freedom of movement of capital constitutes one of the foundations of the common market. Article 56 of the EC Treaty prohibits any restrictions on the movement of capital between member states. This Article is directly applicable and all the member states enjoy full freedom of capital movements and payments.

The freedom of capital covers payments and transfers of money over the borders as well as other transactions allowing the transfer of ownership of assets and liabilities (such as investments in companies and real estate or portfolio investments). In particular, it allows for the free transfer of profits from one country to another and the right to invest and purchase tangible and financial assets abroad without restriction.

Poland was granted two transition periods for maintaining its national legislation with respect to real estate acquisitions:
- a five-year transition period for the acquisition of "second houses" by foreigners,
- a twelve-year period for the purchase of agricultural land and forests.

12.2.3. Freedom of Movement of Goods

Articles 28 to 30 of the EC Treaty establish the principle of the free movement of goods. The member states may not maintain or impose barriers to trade in areas that have not been the subject of Community harmonisation, except in special circumstances. The goods that may be legally sold on the market of one member state may be also sold in all other member states. Therefore, the authorities of the destination member states will acknowledge the standards to which the product conforms in the member state of origin: this is referred to as the principle of mutual recognition.

Measures were adopted that provide for and govern such aspects as basic technical standards, product certification and metrological definitions in order to ensure the free movement of goods within the European Union.

Since there are goods for which common harmonised standards have been introduced on the basis of directives, rules, etc., and goods for which there are no harmonised standards, the "*Acquis Communautaire*" is usually divided into harmonised and non-harmonised areas with respect to the free movement of goods.

In accordance with the so-called golden rule of European legislation, the principle of the free movement of goods applies in the event that there is no specific harmonisation regulation in a given area. The new approach to the European product law is based on the principle of self-certification and the presumption of conformity to harmonised standards.

The old approach directives still apply to certain product groups (e.g. pharmaceuticals, foodstuffs and motor vehicles).

The European Union has accepted two transitional arrangements for Poland:
1. for the renewal of marketing authorisation for pharmaceuticals up to 31 December 2008;
2. for the validity of licenses for medical devices issued under Polish legislation up to 31 December 2005.

Goods crossing the Community's internal borders have not been subject to controls since 1 January 1993. The free movement of goods within the Community presupposes:
- the prohibition of setting customs duties and charges having equivalent effects between member states;
- the adoption of a common customs tariff for trade between member states and third countries;
- the prohibition of any quantitative restrictions or measures having an equivalent effect;
- the prohibition of discrimination by state monopolies.

These general arrangements apply to all products but are covered by special rules for certain products the movement, control or marketing of which is (for various reasons) subject to specific procedures.

Most of the special rules are for agricultural products (animals, meat, plants and seeds, etc.), where there is still a need to protect animal, plant and human health. In general, agricultural products are still subject to the common organisations of the market, which were reformed in 1992 so as to eliminate all arrangements based on border controls (for milk, cereals and refined sugar, etc.).

The abolition of controls at internal borders presupposes that the external borders are administered consistently and in the "Community spirit". Officials responsible for conducting the controls are required to act on behalf of all national authorities and in the interest of all firms and consumers in the Community. In 1994, the Community Customs Code established a common legal framework for customs controls, supplemented by special measures in the fields of veterinary medicine and plant health, cultural goods, pharmaceuticals and psychotropics, international trade in protected species and the fight against counterfeiting.

12.2.4. Freedom of Movement of Services

According to the provisions of the Europe Agreement on the movement of services between the Community and Poland, all parties will gradually introduce legal solutions allowing economic agents from Poland or the Community to provide services without the need to establish companies in the recipient country.

Poland will retain the right to protect its interests in the area of purchasing national assets that are subject to privatisation up to the end of the transition period (2004). The most important areas to be protected are:

- ownership, usage, sale and lease of real estate;
- transactional operations and agency services in real estate trading, as well as in the trading of natural resources and related activities;
- legal services.

The advantages and disadvantages of Poland's entry into the EU with respect to market services (transport, tourism, banking, distribution services, communications and others), include the following aspects:

- Poland's inclusion among the EU member states will favourably influence the competitiveness of Polish service providers.
- Sectors of the Polish economy which are currently protected against free competition (telecommunications, banking and insurance services and air transportation) will need to be opened up to international competition. Domestic companies, which are financially weak, may be expelled from the market by foreign competitors.
- Access by Polish service companies to the EU service market (e.g. export of construction services, which has been limited) will create the opportunity of leveraging the relative cost efficiencies of Polish firms (related to lower labour costs) even in the fields of professional services.

Every member state will grant the right of permanent residence to nationals of other member states who establish themselves within their territory in order to pursue activities as self-employed persons when the restrictions on these activities have been abolished. A "residence permit for a national of a member state of the European Communities" is issued for this purpose.

12.3. Poland and the Monetary Union

Poland is not a member of the Economic and Monetary Union (EMU). However, the accession to the European Union (EU) opens the way for Poland to start preparations for participating in the Eurozone, which is the next stage of economic integration. The exact moment for the adoption of the euro has not yet been set.

Membership of the EMU is conditional upon the fulfilment of the Maastricht criteria of economic convergence and after at least two years of participation in the Exchange Rate Mechanism. The Maastricht criteria include fiscal criteria, which apply to the general government deficit and public debt, as well as monetary criteria, which refer to price stability, the level of long-term interest rates and exchange rate stability.

The Maastricht convergence criteria are not only a formal requirement for Poland's participation in the Eurozone, but also the basis for a sound macroeconomic stance, creating conditions that are conducive to long-term economic growth. Thus, meeting the criteria both opens the way to the euro and is beneficial to growth.

Poland satisfied the inflation, long-term interest rate and public debt criteria in November 2003. The fulfilment of the general government deficit criterion requires the implementation of comprehensive reforms limiting public expenditures and increasing the efficiency of management of public finance. The exchange rate criterion can only be fulfilled after Poland has entered ERM II. Meeting this criterion will depend on the implementation of a credible macroeconomic policy.

The decision on the acceptance of Poland as a member of the common currency area will be taken by the ECOFIN Council and will be based on the conclusions of Convergence Reports, prepared by the European Commission and the European Central Bank (ECB). These reports will contain an assessment of the level to which the Polish economy is ready for membership of the monetary union.

Participation in the EMU could have the following implications for Poland:
- a reduction in the costs of economic exchange as a result of the use of the euro in all transactions;
- a reduction in the costs of the internal financial management of enterprises;
- a reduction in foreign exchange exposure, as well as the costs of conducting business activities and a reduction in the related reserve levels;
- a reduction in the levels of interest rates;
- the strengthening of macroeconomic stability, as a result of keeping stricter discipline with new monetary institutions;
- an increase in stability, which will be related to an improvement in production conditions.

Following accession to the Economic and Monetary Union, Polish manufacturers, investors, exporters and importers will avoid the costs of hedging against exchange rate fluctuations, as they will no longer be exposed to foreign exchange risk. Small and medium-sized enterprises will gain cheaper access to sources of information about conditions prevailing on the market and the possibilities of development.

Citizens will receive their income in euro, which will enable them to make their payments in Poland and abroad without the cost of currency conversion.

The stages of Poland's progress towards membership in the Economic and Monetary Union are set out in a paper entitled "Euro 2006". It addresses the problems and issues connected with Poland's future participation in the Eurozone.

12.4. Other International Organisations

12.4.1. Poland in the EU – OECD

The Organisation for Economic Cooperation and Development was established by the Paris Agreement on 14 December 1960. The OECD groups 30 member states and maintains active relations with 70 other countries in order to develop democracy and the market economy.

The OECD is primarily a coordinating and opinion-making organisation that provides a forum for the exchange of information and experience, as well as a centre for research into the economies of the member countries. It is also a primary forum for the discussion of economic and social issues, and is frequently consulted by the UN, the WTO and G-7.

Poland concluded a draft agreement with OECD in June 1991 and officially became a member of the Organisation on 22 November 1996.

Membership of the OECD makes it easier for Poland to gain access to preferential credit facilities granted by international financial institutions. Poland also has unrestricted access to the information in the Organisation's numerous databases, including publications and statistics. The OECD online database provides large volumes of information, together with economic analyses on each member country, which is available to the public.

Poland can also benefit from the joint programmes created by the OECD in cooperation with such organisations as Sigma, which offer support for improvements in governance and management in Central and Eastern European countries, financed by the European Union. In addition, Poland, as a member of OECD, takes part in the Environmental Action Programme for Central and Eastern Europe (EAP).

12.4.2. WTO

The World Trade Organisation was established on 1 January 1995. It is an international organisation associating 147 countries.

The main aim of the WTO's policy is to serve as a guardian of treaties and trade agreements, monitoring national trade policies and settling disputes among its members. The WTO also offers aid to developing countries.

The success of the WTO is reflected in the security of trade and high quality of products in the member states. Customers are offered a wide range of quality products, which are tested by international centres, and exporters have the assurance that the markets of the member countries will remain open to them.

By reducing tariffs, the WTO has eliminated many barriers between countries and people.

The rules of the WTO (contained in agreements and contracts) are the result of negotiations among the WTO members. The core document is the General Agreement on Tariffs and Trade (GATT).

GATT consists of 60 agreements which were signed individually in specific areas by each member state.

12.4.3. NATO

The North Atlantic Treaty Organisation (NATO), a political and military organisation, emerged as a result of signing the Treaty of Washington on 4 April 1949. The signatory countries were: USA, Canada, Belgium, Denmark, France, Holland, Iceland, Luxemburg, Norway, Portugal, Great Britain and Italy. The Treaty of Washington brought a common security system into being, which was based on partnership between the 12 signatory countries. NATO currently consists of 26 countries.

The North Atlantic Alliance was founded under a Treaty between the member states, which was entered into freely by each of them after a public debate and the due parliamentary process. The Treaty upholds their individual rights, as well as their international obligations, in accordance with the Charter of the United Nations. It obligates each member state to share the risks and responsibilities, as well as the benefits, of collective security and requires that each of them undertake not to enter into any other international commitment that might conflict with the Treaty.

More than half a century has elapsed since the Alliance was established. For much of this time, the central focus of NATO was providing for the immediate defence and security of its member states.

The Czech Republic, Hungary and Poland are the first countries representing the "old" Warsaw Pact, which joined NATO on 12 March 1999. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia followed in 2004.

"Several factors influenced Lafarge's decision to invest in Poland. As a developing country, Poland has large needs in terms of road infrastructure, housing construction and environmental protection, which stimulates the need for investment outlay and consequently, increases cement consumption.

Another important factor is the high quality of Polish managerial staff. The competence, creativity and potential of Polish managers makes this country a good location for conducting business.

In relation to our company's field of operations, it is important that Poland is a large and rapidly developing country with a consolidated and stable position in the cement industry. Above all, however, the considerable development potential in many areas should be mentioned, which creates a demand for our products. Good geological conditions and the availability of raw materials create large development opportunities. Additionally, we consider the company's development perspectives in the light of Poland's recent EU accession to be very favourable.

Lafarge has a stable market position. We completed our investment programme, the objective of which was to adjust our capabilities to the growing market requirements. We produce in accordance with European standards. Our factories are among the most modern in Europe in terms of the level of emissions, production costs and ecological norms, as well as environment protection. Furthermore, we have sufficient production capacity today to meet the challenges that EU accession will bring. The total cost of Lafarge Cement Polska S.A.'s investment in Poland since 1995 has exceeded PLN 900 million. We are therefore hoping for an economic boom, which would be largely linked to the availability of EU structural funds.

In the long term, it can be expected that the society will start investing in housing construction. Greater willingness to invest will also arise from more widespread availability of loans granted on increasingly better conditions, as well as other sources of financing.

I am also counting on Poland's accession to the EU improving the standards of implementation of the law in our country, and the regulations, especially in the area of commercial law, becoming clear and unequivocal."

Andrzej Tekiel, President of the Management Board,
Lafarge Cement Polska SA

V. Sources of Information

1. Polish Information and Foreign Investment Agency (PAIiIZ)

Foreign investors who are considering investing in Poland are able to take advantage of the assistance of the Polish Information and Foreign Investment Agency ("PAIiIZ").

PAIiIZ, a specialised investment agency, was established in 2003, as a result of a merger of the Polish Agency for Foreign Investment and the Polish Information Agency. PAIiIZ's activities include: increasing the inflow of foreign direct investments to Poland, incentivising foreign businesses to invest in Poland, advisory services at each stage of the investment process, assistance in the interpretation of legal procedures and regulations, the provision of full access to the economic and legal investment environment, as well as assistance in selection of attractive investment locations.

PAIiIZ offers investors the services of its best specialists in responsible for: Investor Support, Regional Cooperation and Economic Promotion.

The Investors' Servicing Department provides direct assistance to businesses interested in investing in Poland. Project managers assist investors at each stage of the investment planning and execution process. The professional assistance enables effective and fast implementation of business strategies.

Range of services:
- search for appropriate locations to meet the criteria of investors;
- the provision of the required statistical, economic and legal data for preparing a feasibility study and for making final investment decisions;
- organisation of visits in Poland (assisting visitors);
- preparation of individual investment packages in cooperation with the European Commission;
- post-investment assistance (trouble-shooting at further stages of business activity in Poland).

PAIiIZ operates in accordance with the "third generation agency" regulations, according to the operational strategy adopted in 2003. The main aim of the model is to reach investors at the sectoral level in order to obtain more information on various sectoral investment needs and to meet their specific requirements. A detailed analysis of investment strategies of leading businesses in a given branch enables the design of investment proposals with the purpose of satisfying investor needs.

The sectoral strategy adopted by the Agency has enabled the selection of strategic sectors considered most important in the development of Polish economy. Investors representing such sectors are a priority to PAIiIZ.

Strategic sectors have been selected under the following criteria:
1. increasing added value created by a given sector and comprising:
   - the introduction of advanced technologies;

- manufacturing of modern and competitive products;
- the introduction of advanced services;
- the development of modern infrastructure.

2. job creation.
3. involvement of local suppliers.
4. increasing Poland's export potential.

Based on the above preferences, the following sections were distinguished within the Investor Support Department: Automotive, Aviation and Metal Processing, Shared Services Centres, Electronics and IT and Food.

PAIiIZ has formed a Japanese and Korean section because of the cultural peculiarities and business etiquette of the Far East.

The structure of the Investors' Servicing Department is supplemented by the Analysis and Research and Database sections.

The main tasks of the Regional Cooperation Department include coordinating cooperation between foreign investors and the authorities of the region in which the investment is planned; and the support of local authorities in the professional preparation of investment proposals.

The main task of the Regional Cooperation Department is to build a nationwide network of Investor Assistance Centres (COI) – partners of PAIiIZ supporting the investment process on a regional level. The network of COIs is being built in cooperation with the authorities of the individual regions. The centres operate as "one-stop shops". COIs offer investors comprehensive services at voivodship level, including post-investment assistance. They provide continuously updated investment proposal packages, as well as macroeconomic and legal information and provide liaison for investors and local authorities.

The Regional Investor Assistance Centres have been gradually taking over the comprehensive support of smaller investment projects from PAIiIZ, guiding investors through appropriate procedures and offering them advice.

The Economic Promotion Department propagates the benefits of investing in Poland abroad. The Department's employees present the advantages of investing in Poland at fairs and exhibitions, participate in international conferences and seminars and organise investment missions in strategic countries in order to attract foreign direct investments to Poland. Numerous promotional projects fulfilled in cooperation with other institutions and entities operating under the "Promotion Network Poland" agreement are administered by PAIiIZ.

Foreign businesses interested in investing in Poland are provided with a wide range of comprehensive information on our country, its investment climate, economic and legal environment, as well as the procedures required to complete the investment. The information is prepared and updated by the

Information Department. We offer access to an investment location database. This information is available at: www.paiz.gov.pl, in books and multimedia publications, such as "Investors' Guide – Poland – How To Do Business", "Legal and Tax-Related Bases for the Conducting of Business Activity in Poland". The Information Department also organises investment conferences and seminars in Poland, visits for foreign journalists dealing with economic issues and, in cooperation with the Polish media, provides public opinion with information on the achievements of foreign investors in Poland, thereby positively influencing social acceptance of foreign investments.

More information on the activities of the Polish Information and Foreign Investment Agency can be found in documents and reports published in subsequent issues of "PAIiIZ Yearbooks".

Polish Information and Foreign Investment Agency (PAIiIZ)
(Polska Agencja Informacji i Inwestycji Zagranicznych S.A.)
ul. Bagatela 12
00-585 Warsaw
tel.: (+48 22) 334-98-00
fax: (+48 22) 334-99-99
www.paiz.gov.pl
e-mail:post@paiz.gov.pl

Table 19. Foreign Direct Investments (FDI) in Poland – by activity (as of December 2003)

Polish Classification of Activity (PCA)	Capital invested (million USD)	Investment plans (million USD)
Manufacturing	27,776.9	4,826.6
Transport equipment	6,581.3	775.1
Food processing	6,247.0	377.8
Other non-metal goods	3,936.1	567.2
Chemicals and chemical products	2,503.1	706.5
Electrical machinery and apparatus	2,090.7	274.7
Pulp and paper	1,960.2	397.5
Wood and wooden products	1,494.8	195.0
Rubber and plastics	968.8	454.2
Metals and metal products	770.5	757.7
Machinery and equipment	709.3	122.2
Fabrics and textiles	247.4	177.1
Furniture production	236.4	20.1
Leather and leather products	31.4	1.5
Financial intermediation	16,190.5	1,382.5
Trade and repairs	8,127.4	905.1
Transport, storage and communication	7,089.1	249.7
Construction	2,938.7	325.1
Electricity, gas and water supply	2,565.7	1,223.0
Community, social and personal services	2,060.8	697.2
Real estate and business activities	1,570.5	2,019.9
Hotels and restaurants	847.2	392.2
Mining and quarrying	224.5	13.0
Agriculture	49.7	24.1
Investments exceeding USD 1 million	69,441.0	12,058.4
Estimated investments not exceeding USD 1 million	3,265.0	
Total	72,706.0	

Source: PAIiIZ

Table 20. Foreign Direct Investment (FDI) in Poland – by country of registration (as of December 2003)

Country	Cumulative value in USD million	Percentage share in stock of FDI
France	13,857.23	20%
Netherlands	9,863.25	14%
USA	8,689.29	13%
Germany	8,414.76	12%
Italy	3,837.41	6%
United Kingdom	3,689.88	5%
Multinational	3,161.50	5%
Sweden	3,062.34	4%
Belgium	2,111.45	3%
Denmark	2,048.01	3%
Russia	1,291.90	2%
Austria	1,122.92	2%
Cyprus	1,106.09	2%
Ireland	1,087.72	2%
Switzerland	1,087.34	2%
South Korea	965.88	1%
Greece	556.50	1%
Luxembourg	541.42	1%
Finland	479.23	1%
Portugal	423.41	1%
Spain	387.45	1%
Norway	343.70	0.5%
Japan	258.02	0.4%
Canada	212.75	0.3%
Croatia	173.00	0.2%
Australia	158.10	0.2%
Turkey	100.10	0.1%
Israel	70.40	0.1%

Slovenia	66.22	0.1%
Czech Republic	61.27	0.1%
South Africa	57.19	0.1%
Hungary	55.82	0.1%
China	45.00	0.1%
Philippines	40.00	0.1%
Lichtenstein	14.40	0.02%
Investments exceeding USD 1 million	69,440.956	100%
Estimated investments not exceeding USD 1 million	3,265.00	
Total	72,705.956	

Source: PAIiIZ

Table 21. Top 15 foreign investors in Poland (as of December 2003)

No.	Investor	Capital Invested	Country of Registration	Activities
1	**France Telecom**	4020.3	France	transport, storage and communication
2	**European Bank for Reconstruction and Development (EBRD)**	2695.0	Multinational	financial intermediation
3	**Fiat**	1768.7	Italy	manufacturing of transport equipment; financial intermediation
4	**HVB**	1336.0	Germany	financial intermediation
5	**Citigroup**	1300.0	USA	financial intermediation
6	**KBC Bank N.V.**	1290.0	Belgium	financial intermediation
7	**OAO Gazprom**	1283.8	Russia	transport, storage and communication; construction

8	**Vivendi Universal**	1243.4	France	transport, storage and communication; rental of real estate and business activities; wholesale and retail trade
9	**United Pan-Europe Communications N.V.**	1200.0	Netherlands	other community, social and personal service activities
10	**UniCredito Italiano SpA**	1200.0	Italy	financial intermediation
11	**Metro Group AG**	1156.0	Germany	wholesale and retail trade
12	**Kronospan Holdings Ltd.**	1061.8	Cyprus	manufacturing of wood and wood products
13	**General Motors Corporation**	1010.0	USA	manufacturing of transport equipment
14	**ING Group NV**	990.0	Netherlands	financial intermediation, real estate
15	**Daewoo**	936.38	South Korea	manufacturing of transport equipment; manufacturing of electrical and optical equipment; financial intermediation

Source: PAIiIZ

2. Regional Investor Assistance Centres [COI] – PAIiIZ's Partners:

Dolnośląskie Voivodship
Wrocławska Agencja Rozwoju Regionalnego S.A.
Investor's Assistance Centre
ul. Krupnicza 13
50-062 Wrocław
Contact persons:
Przemysław Królikowski
E-mail: pkr@warr.pl
Tel.: (+48 71) 79-70-400, 79-70-401
Fax: (+48 71) 79-70-407

Kujawsko-Pomorskie Voivodship
Urząd Marszałkowski Województwa Kujawsko-Pomorskiego
Investor Assistance Centre
pl. Teatralny 2
87-100 Toruń
Contact person:
Sławomir Wiertel
Tel.: (+48 56) 621-84-01
E-mail: rozgos@wp.pl

Lubelskie Voivodship
Urząd Marszałkowski Województwa Lubelskiego
Investor Assistance Centre
ul. Spokojna 4
20-074 Lublin
Contact persons:
Paweł Banach
Tel.: (+48 81) 742-45-60
Fax: (+48 81) 534-76-54
E-mail: coi@lubelskie.pl

Lubuskie Voivodship

Agencja Rozwoju Regionalnego S.A.
Investor Assistance Centre
ul. Chopina 111/13
65-001 Zielona Góra
Contact person:
Arkadiusz Pintal
Tel.: (+48 68) 327-05-04
Fax: (+48 68) 325-38-88
E-mail: agencja@region.zgora.pl

Łódzkie Voivodship

Urząd Marszałkowski Województwa Łódzkiego
Marshal Office
Investor Assistance Centre
ul. Piłsudskiego 8
91-051 Łódź
Contact person:
Krzysztof Suszek
Tel.: (+48 42) 663-35-80
E-mail: k.suszek@lodzkie.pl

Małopolskie Voivodship

Małopolska Agencja Rozwoju Regionalnego S.A.
Investor Assistance Centre
ul. Kordylewskiego 11
31-542 Kraków
Contact person:
Justyna Turaj
Tel.: (+48 12) 413-57-69, 413-85-51, 413-89-13 ext. 450
E-mail: justyna.turaj@marr.pl
Jacek Świtała
Tel.: (+48 12) 413-89-13 ext. 451
E-mail: jacek.switala@marr.pl

Opolskie Voivodship

Agencja Rozwoju Opolszczyzny S.A. w Opolu
Investor Assistance Centre
pl. Wolności 5
45-018 Opole
Contact person:
President Katarzyna Suszanowicz
Tel./Fax: (+48 77) 454-02-47/48
E-mail: coi@aro.pl

Podkarpackie Voivodship

Rzeszowska Agencja Rozwoju Regionalnego S.A.
Investor Assistance Centre
Rynek 5
35-064 Rzeszów
Contact person:
Monika Szymańska
E-mail: mszymanska@rarr.rzeszow.pl
Katarzyna Podraza
E-mail: kpodraza@rarr.rzeszow.pl
Tel./Fax: (+48 17) 852-43-76, 852-43-74

Podlaskie Voivodship

Urząd Marszałkowski Województwa Podlaskiego
Investor Assistance Centre
ul. Wyszyńskiego 1
15-888 Białystok
Contact person:
Borys Dąbrowski
Tel.: (+48 85) 748-51-45
E-mail: borys.dabrowski@umwp-podlasie.pl

Pomorskie Voivodship

Agencja Rozwoju Pomorza S.A. w Gdańsku
Investor Assistance Centre
ul. Piwna 36/39
80-831 Gdańsk
Contact person:
Barbara Merchel
Tel.: (+48 58) 323-31-36
E-mail: basiam@arpg.gda.pl
Magdalena Charkin
Tel.: (+48 58) 323-32-56
E-mail: magdalenach@arpg.gda.pl

Świętokrzyskie Voivodship

Special Economic Zone
Investor Assistance Centre
ul. Radomska 29
27-200 Starachowice
Contact person:
Anna Jaworska
Tel.: (+48 41) 275-44-45
Fax: (+48 41) 275-41-02
E-mail: sse@sse.com.pl

Addresses of the remaining Investor Assistance Centres:

Mazowieckie Voivodship

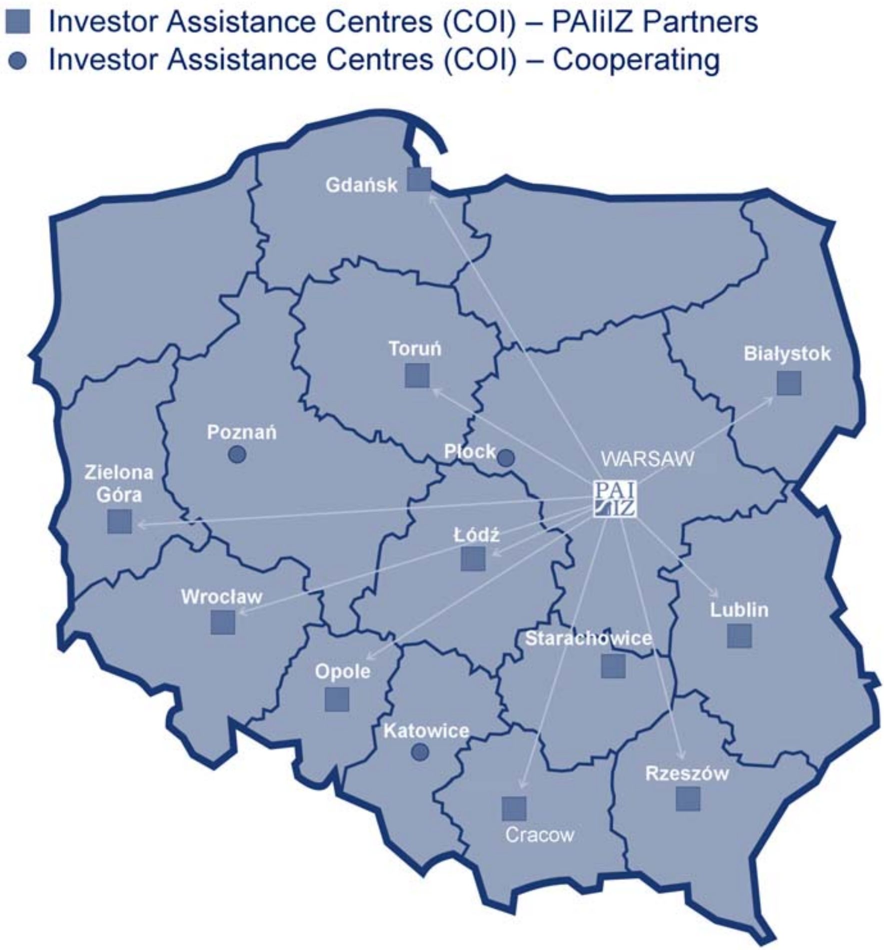
Urząd Miasta Płock
Wydział Pełnomocnika Prezydenta Miasta Płocka
ds. Rozwoju Gospodarczego i Aktywnych Form Zwalczania Bezrobocia
Stary Rynek 1
09-400 Płock
Contact persons:
Dorota Głuchowska
E-mail: dgluchowska@plock.um.pl
Tel.: (+48 24) 268-06-98
Tel./Fax: (+48 24) 268-89-75

Śląskie Voivodship

Urząd Marszałkowski Województwa Śląskiego
Wydział Polityki Gospodarczej
Referat Informacji Gospodarczej
ul. Ligonia 46
40-037 Katowice
Contact person:
Agnieszka Piszczek
E-mail: apiszczek@silesia-region.pl
Tel.: (+48 32) 207-83-71
Tel./Fax: (+48 32) 256-32-44

Wielkopolskie Voivodship

Stowarzyszenie Gmin i Powiatów Wielkopolski
al. Niepodległości 16/18
61-713 Poznań
Contact person:
Łukasz Filipiak
E-mail: filipiak@sgipw.wlkp.pl
Tomasz Telesiński
E-mail: telesinski@sgipw.wlkp.pl
Tel.: (+48 61) 854-19-73, 854-14-72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WARSAW
PAI IZ
Zielona Góra
Łódź
Wrocław
Lublin
Starachowice
Opole
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Rzeszów
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3. Ministries and Government Institutions

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Ministry of Finance *(Ministerstwo Finansów)*

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Ministry of Social Policy *(Ministerstwo Polityki Społecznej)*

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Ministry of Infrastructure *(Ministerstwo Infrastruktury)*

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Ministry of Culture *(Ministerstwo Kultury)*

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ul. Wspólna 1/3 00-529 Warsaw	tel.: (+48 22) 529-27-18 fax: (+48 22) 628-09-22	www.mnii.gov.pl

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ul. Klonowa 1 00-909 Warsaw	tel.: (+48 22) 628-00-(31 do 34) fax: (+48 22) 845-53-78	www.wp.mil.pl

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Ministry of Health *(Ministerstwo Zdrowia)*		
ul. Miodowa 15 00-952 Warsaw	tel.: (+48 22) 634-96-00	www.mz.gov.pl

Chancellery of the Prime Minister
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Al. Ujazdowskie 1/3
00-583 Warsaw
tel.: (+48 22) 694-60-00
fax: (+48 22) 625-26-37
www.kprm.gov.pl

National Bank of Poland
(*Narodowy Bank Polski*)
ul. Świętokrzyska 11/21
00-919 Warsaw
tel.: (+48 22) 653-10-00
fax: (+48 22) 653-24-75
www.nbp.pl

Office of the Committee for European Integration
(*Urząd Komitetu Integracji Europejskiej*)
Al. Ujazdowskie 9
00-918 Warsaw
tel.: (+48 22) 455-55-00
fax: (+48 22) 455-53-33
www.ukie.gov.pl

Central Statistical Office
(*Główny Urząd Statystyczny, GUS*)
al. Niepodległości 208
00-925 Warsaw
tel.: (+48 22) 608-30-00
fax: (+48 22) 608-38-63
www.stat.gov.pl/english/index.htm

4. Other Institutions and Industry Associations

Agency for Restructuring and Modernisation of Agriculture
(*Agencja Restrukturyzacji i Modernizacji Rolnictwa*)
al. Jana Pawła II 70
00-175 Warsaw
tel.: (+48-22) 318-40-01
fax: (+48-22) 318-54-32
www.arimr.gov.pl

Agricultural Market Agency
(*Agencja Rynku Rolnego*)
ul. Nowy Świat 6/12
00-400 Warsaw
tel.: (+48-22) 661-73-88
fax: (+48-22) 628-93-53
www.arr.gov.pl

Agricultural Property Agency
(*Agencja Nieruchomości Rolnych*)
ul. Dolańskiego 2
00-215 Warsaw
tel.: (+48-22) 635-80-09
fax: (+48-22) 635-00-60
www.anr.gov.pl

Business Centre Club
pl. Żelaznej Bramy 10
00-136 Warsaw
tel.: (+48-22) 625-30-37, 825-96-04
fax: (+48-22) 621-84-20
www.bcc.org.pl

Foreign Investors Chamber of Industry & Commerce
(*Izba Przemysłowo-Handlowa Inwestorów Zagranicznych*)
ul. Krakowskie Przedmieście 47/51
00-071 Warsaw
tel.: (+48 22) 827-22-34
fax: (+48 22) 826-85-93
www.iphiz.com.pl

Foreign Trade Research Institute
(*Instytut Koniunktur i Cen Handlu Zagranicznego*)
ul. Żurawia 4a
00-503 Warsaw
tel.: (+48 22) 693-47-67
fax: (+48 22) 693-45-57
www.ikchz.warszawa.pl

Fundation for Small and Medium Enterprises
(*Fundacja Małych i Średnich Przedsiębiorstw*)
ul. Smocza 27
01-048 Warsaw
tel.: (+48-22) 838-03-51
fax: (+48-22) 838-02-61
www.fund.org.pl

Industrial Development Agency
(*Agencja Rozwoju Przemysłu S.A.*)
ul. Domaniewska 41
02-672 Warsaw
tel.: (+48-22) 460-36-00, 460-37-00
fax: (+48-22) 460-37-01
www.arp.com.pl

Info-Net KIG Sp. z o.o.
ul. Trębacka 4
00-074 Warsaw
tel.: (48 22) 630-96-23
fax: (+48 22) 828-99-21
www.infodata.pl

Polish Agency for Enterprise Development
(*Polska Agencja Rozwoju Przedsiębiorczości*)
Al. Jerozolimskie 125/127
02-017 Warsaw
tel.: (+48 22) 699-70-44/45
fax: (+48 22) 699-70-46/56
www.parp.gov.pl

Polish National Tourist Office
(*Polska Organizacja Turystyczna*)
ul. Chałubińskiego 4/6
00-928 Warsaw
tel.: (+48 22) 630-17-36
fax: (+48 22) 630-17-42
www.pot.gov.pl

The Gdańsk Institute for Market Economics
(Instytut Badań nad Gospodarką Rynkową)
ul. Do Studzienki 63
80-227 Gdańsk
tel.: (+48-58) 524-41-00
fax: (+48-58) 524-49-08
www.ibngr.edu.pl

The Polish Chamber of Commerce
(*Krajowa Izba Gospodarcza*)
ul. Trębacka 4
00-074 Warsaw
tel.: (+48 22) 630-96-00
fax: (+48 22) 827-46-73
www.kig.pl

United Nations Industrial Development Organisation
(*Organizacja Narodów Zjednoczonych ds. Rozwoju Przemysłowego*)
al. Niepodległości 186
00-608 Warsaw
tel.: (+48 22) 825-94-67
fax: (+48 22) 825-89-70
www.unido.pl

Warsaw Stock Exchange
(Giełda Papierów Wartościowych w Warszawie S.A.)
ul. Książęca 4
00-498 Warsaw
tel.: (+48-22) 628-32-32
fax: (+48-22) 620-85-18
www.gpw.com.pl

This guide to doing business in Poland was prepared jointly by the professional staff of Deloitte in Poland and the Polish Information and Foreign Investment Agency PAIiIZ. The information has been based on publicly available information and our experience in Poland.

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Polish Information and Foreign Investment Agency (PAIiIZ)
(*Polska Agencja Informacji i Inwestycji Zagranicznych S.A.*)
ul. Bagatela 12
00-585 Warsaw
tel.: (+48 22) 334-98-00
fax: (+48 22) 334-99-99
www.paiz.gov.pl
e-mail:post@paiz.gov.pl
Photos by: Deloitte Archive; W. Kryński
ISBN: 83-60049-15-7

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Deloitte
ul. Fredry 6, 00-097 Warszawa
Tel. (48 22) 511 08 11, 511 08 12
Fax (48 22) 511 08 13
e-mail: dpoland@deloitteCE.com
www.deloitte.pl

Table of Contents

In Poland

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The Appendix

Updated information and data in specific chapters of part II ”In Poland”

December 2005

Page 82 / 1.2. Population and Language / 1st and 3rd paragraph

The population of Poland is approximately **38.2 million**, which represents about 5.3% of the total population of Europe. This makes Poland the 7th largest country in Europe and the 28th largest in the world by size of population. Over 98% of the population are ethnic Poles. Germans constitute the largest ethnic minority, followed by the Ukrainians and Belarusians.

Poland's workforce is one of the youngest in Europe, with the population of working age exceeding **24.240 million** in **2004**. The retirement age is 65 years for men and 60 years for women.

Page 83 / Table 6. Population statistics

1990 (38.2 million)	Females – 51.3%	Males – 48.7%	Urban areas – 61.8%	Rural areas – 38.2%
2004 (38.2 million)	Females – 51.6%	Males – 48.4%	Urban areas – 61.5%	Rural areas – 38.5%

Source: Central Statistical Office (GUS)

Page 83 / Table 7. Population of working and non-working age, in %

	1990	2000	2001	2002	2003	2004
Pre-working age	29.60	24.07	23.20	23.20	21.90	21.20
Working age	57.50	61.21	61.90	61.80	62.90	63.50
Post-working age	12.90	14.70	14.80	15.00	15.20	15.30

Source: Central Statistical Office (GUS)

Page 89 / 2.1.1. Road system

The road network in Poland is constantly expanding. In 2003, it consisted of 372,300 km of roads, of which 249,441 km were hard-surface roads. It is therefore not surprising that road transport is the preferred method of transporting goods (**72.2%** of total transport by weight) and passengers (**74.4%** of total transport). The average road density is estimated to be 80 km per 100 sq. km, with the most complex road networks in urban areas, where the density is over 150 km per 100 sq. km. Areas with less developed road systems are the northern and north-eastern regions of Poland.

Page 89 / 2.1.2. Motorways / 1st paragraph

Poland had **550 km** of motorways and **230 km** of expressways in **2004**. Plans have already been approved to extend the motorway network by building seven main arteries of a combined length of 2,600 km.

Page 90 / 2.1.3. Railways

The railway network covering Poland has a total length of **20,250 km** and includes predominantly standard gauge lines, of which **60.4%** are electrically powered. The average density of the railway network is **6.5 km** per 100 sq. km. Poland has one of the highest densities of railway networks in the world. The last remaining narrow gauge lines of total length of approximately 100 km are located in the south-east of Poland, but are due to be replaced. The total length of the railway network in Poland has been steadily declining since the mid-1980s, as lines became less economically viable. Railway transport comprises **18%** of total cargo transport calculated in tonnes per km.

Page 90 / 2.1.4. Air Transport

The main carrier is LOT Polish Airlines, which is a member of Star Alliance. **8.962 million** passengers were carried in **2004** (**25.6% growth from 2003**), of whom approximately **7.145 million** flew on international routes. The largest Polish airport is Warsaw – Frederic Chopin Airport (formerly Okęcie Airport), which is the main domestic and international airport. Other domestic airports (some of which have international connections) include Cracow, Gdańsk, Katowice, Poznań, Wrocław, Szczecin and Rzeszów.

Page 91 / 2.1.5. Waterways and Maritime Transport / 1st and 2nd paragraph

The length of inland navigation routes is **3,638 km**. Inland waterway transport accounts for **0.66%** of all cargo carried. Inland waterways are a less popular means of transport than rail or road. The fleet comprises 849 vessels for cargo transport (barges, pushers and tugs) and **130 passenger ships** with a total of **14,667 seats**. The Odra, lower Vistula, Warta and Noteć, as well as the waters near Szczecin and Gdańsk have good conditions for the use of inland waters. The most commonly carried goods are sand, gravel, coal, metal ores and fertilisers.

The main commercial seaports are Gdańsk, Gdynia, Szczecin and Świnoujście. The maritime transport fleet consists of **118 vessels**. Maritime transport accounts for **1.7%** of all cargo carried.

Page 92 / 2.2.1.3. Mobile Telephony / 1st paragraph

The mobile telephony market has been booming since 1996, with ownership of mobile telephones reaching **23 million** in **2004**. Second generation mobile telephones (GSM) are used in Poland and operators have already started to launch third generation (UMTS) telephones. Competition is strong and includes three operators: Polska Telefonia Cyfrowa (PTC) with **37%** of the market, Polkomtel – **32%** and PTK Centertel – **31%.**

Page 92 / 2.3. Telecommunications Density / 1st and 2nd paragraph

At the end of **2004**, Poland had **326** fixed line telephones per 1,000 inhabitants. By 2005, this ratio is expected to increase to **340** fixed line telephones per 1,000 inhabitants.

Approximately **77.1%** of the **12.479 million** telephones are installed in cities, whereas only **22.9%** are found in rural areas. Private subscribers own approximately **75%** of fixed line network telephones.

Page 93 / 3.1. Coal and Lignite / 2nd and 3rd paragraph

Bituminous coal production in **2004** was **101 million tonnes**, i.e. greater than domestic consumption, with part of the surplus exported and the remainder resulting in increased stocks.

Lignite reserves are estimated at approximately 14 billion tonnes and are generally located at a depth of 100-200 metres, making extraction relatively easy. Polish lignite has a lower calorific value and is less economically viable for transport over long distances and therefore its consumers are most often coal-based power stations located near the mines. Lignite production amounted to **61.1 million tonnes** in **2004**.

Page 94 / 1st and 3rd paragraph

Geologically documented resources are estimated at 13 million tonnes and are mostly located in the south-eastern and northern Poland. The structure of the deposits and, in some cases, their location limits the opportunities to increase production, and therefore Poland is forced to import both oil and petroleum products. **873,000 tonnes** of oil were produced in **2004**, whereas imports constituted **17.4 million tonnes**.

Poland is an importer of natural gas, the imports of which satisfy about **73%** of the country's demand. The country has insufficient production of nitrified natural gas.

Page 94 / 3.4. Crops and Livestock

Cereals, potatoes and sugar beet are the main crops in Polish agriculture. Poland is a major producer of apple concentrate, cabbage, carrots and rye. The cattle livestock is estimated at almost **5.3 million** heads and approximately **17 million** pigs are bred for consumption.

Page 94 / 4. Energy Sector / 1st paragraph

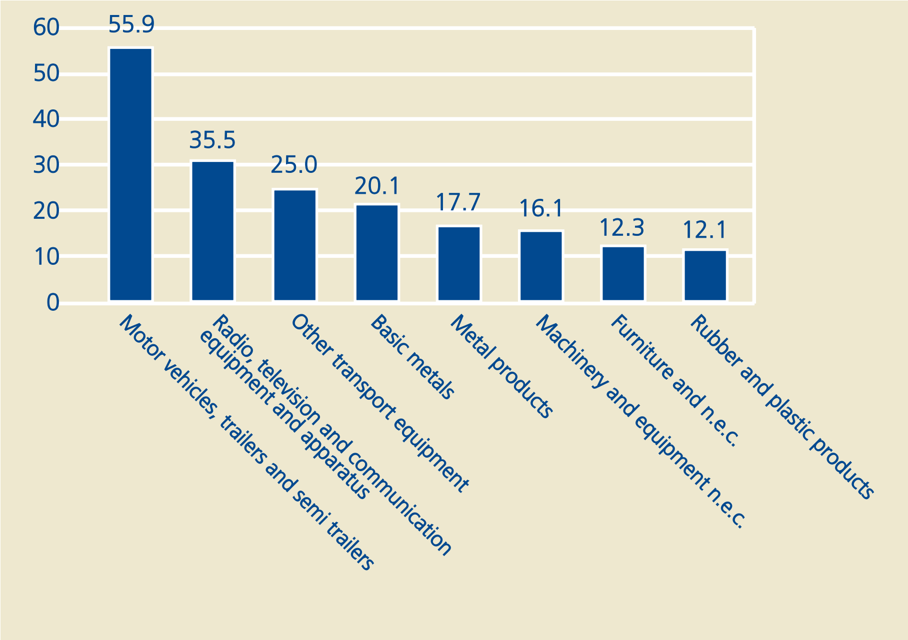
In **2004**, Polish power stations generated a total of **151 TWh** of electricity. Annual electricity production amounts to **3,970 kWh** per inhabitant.

Page 97 / 5. Industry

In **2004**, industry accounted for **23.7%** of Poland's GDP. Value added in industry accounted for **PLN 209.7 billion**. The private sector accounted for **81.6% of total sold production of industry and the value of sold production of industry accounted for PLN 690 billion**.

The Figure No. 1 illustrating results of some industries for **2004**, shows that the sold production of **motor vehicles, trailers and semi trailers, radio, television and communication equipment and apparatus, other transport equipment, basic metals, metal products, machinery and equipment n.e.c., furniture and n.e.c., rubber and plastic products** increased significantly with respect to **2003**.

Page 97 / Figure 1. Changes in industrial production sold in 2004 (constant prices, in %)



Source: Central Statistical Office (GUS)

Page 97 / 6. Tourism

Poland is the 13th most frequently visited country in the world and the most visited country in Central Europe. More than **61.9 million** tourists visited Poland in **2004**, mainly from Germany and the Czech Republic.

Page 98 / 3rd paragraph

Poland's hotel infrastructure is expanding, with **1,202** hotels operating in **2004**. The total number of beds is approximately **584,500** of which **122,900** are in hotels. Boarding houses offer **11,200** beds and motels – over **4,400**. Almost **51,100** beds are offered by training and recreational centres. The catering network has expanded in line with the growth in accommodation infrastructure.

Page 103 / Table 9. Students of higher education establishments (2004/2005)

Field of education	No. of students (in '000)
Education science and teacher training	247.3
Arts	20.9
Humanities	149.9
Life sciences	13.2
Social and behavioural sciences	261.8
Business and administration	503.2
Law	56.7
Physical sciences	34.9
Mathematics, statistics and computing	105.5
Health	77.5
Engineering and engineering trades	158.1
Architecture and construction	56.0
Agriculture, forestry and fishery	38.0
Security services	9.2
Transport services	15.5
Journalism and information	15.6
Personal services	55.2
Environmental protection	57.8

Source: Central Statistical Office (GUS)

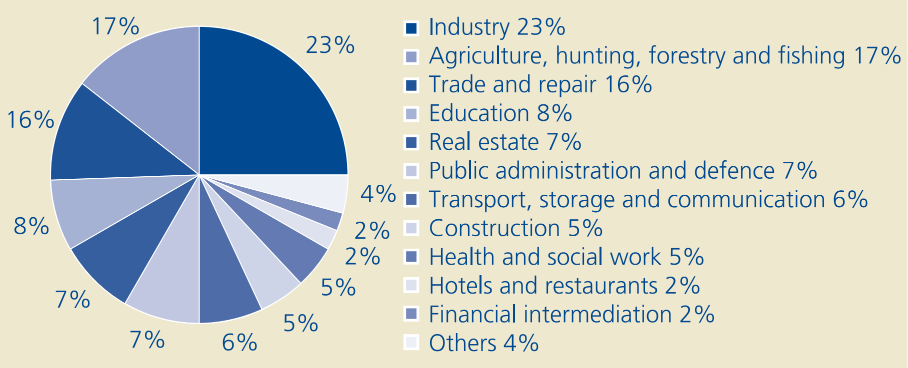
Page 105 / 9.3. Teachers / 2nd paragraph

Over **1.93 million** people in Poland studied at higher and tertiary education facilities in the **2004/ 2005** academic year. Students account for **48.8%** of all inhabitants aged 19-24. Over one-third of students studied at non-state schools. There were almost **923,100** full-time students and almost **979,500** took evening classes and part-time courses. **384,000** graduates completed their studies in **2004** at **388** tertiary education establishments.

Page 106 / 10.1. Employment and the Labour Force

Poland's economically active population aged over 15 in **2004** numbered **17.1 million**, which represented **44.7%** of the total population. **12.7 million** people were employed, of whom **71%** worked in the private sector.

Page 106 / Figure 2. Employment by sector, 2004



Source: Central Statistical Office (GUS)

Page 107 / 10.2. Unemployment

According to official statistics, **in August 2005**, **2,783,300** people were registered as unemployed, of whom **54.4%** were women. Unemployment was estimated at **17.8%** of the economically active population. The highest rate of unemployment, **27.4%**, was registered in the Warmińsko-Mazurskie voivodship, and the lowest, **13.7%**, in the Małopolskie voivodship and **14.3%** in the Mazowieckie voivodship. Almost **41.6%** of the unemployed live in rural areas.

Page 107 / 10.3. Salaries

The average gross monthly salary for Polish residents **in the first and second quarter of 2005** was **PLN 2,367.19**.

Page 107 / Table 11. Sectors paying the highest gross monthly salaries, in PLN

	Financial intermediation	Mining and quarrying	Gas, electricity and water	Public administration, defence industry	Transport, storage and communications
1–2Q 2005	4,455.39	4,008.99	3,228.14	3,134.66	2,741.54

Source: Central Statistical Office (GUS)

Page 107 / Table 12. Sectors paying the lowest gross salaries, in PLN

	Hotels and restaurants	Health and social security	Construction	Manufacturing	Education
1–2Q 2005	1,852.30	1,940.41	2,231.50	2,248.60	2,555.25

Source: Central Statistical Office (GUS)

Page 108 / Table 13. Average gross monthly salary

Year	in PLN	in USD
1996	874.30	324.24
1997	1,061.93	323.68
1998	1,239.49	354.78
1999	1,697.12	427.76
2000	1,923.81	442.62
2001	2,061.85	513.79
2002	2,133.21	522.91
2003	2,201.47	566.07
2004	2,290.00	626.71

Source: Central Statistical Office (GUS)

Page 108 / 11. Basic Macroeconomic Indicators

Poland's economic growth was at **2.8%** in **the second quarter of 2005**. Poland's growth has been driven to a significant extent by export growth, industrial production and investments. Employment is rising slowly.

Page 108 / 11.1. Gross Domestic Product / 1st and 4th paragraph

The Polish economy expanded rapidly in the mid- to late-1990s. After a slowdown, due mainly to global economic conditions, Poland has regained the pace of growth that it achieved in the second half of the 1990s. In **2004**, GDP increased by **5.3%.** Economists forecast that GDP should grow by **3.5%** in **2005**.

Poland's GDP at current market prices was estimated at **USD 242 billion** in **2004**, (or **USD 6,346** per capita). In terms of purchasing power parity, this equals USD 11,966 per capita in 2004, having grown from USD 4,400 in 1990.

Page 110 / 11.2. Consumer Price Index

Average annual inflation in **2004** was **3.5% (0.8%** in **2003)**. According to the National Bank of Poland forecast, CPI will reach a level of **2.5%** in **2005**.

In **August 2005**, inflation (year-on-year) was **1.6%**.

Page 110 / Table 14. Consumer Price Index (%)

Year	1997	1998	1999	2000	2001	2002	2003	2004
CPI average	14.9	11.8	7.3	10.1	5.5	1.9	0.8	3.5
CPI year-end	13.2	8.6	9.8	8.5	3.6	0.8	1.7	4.4

Source: Polish official statistics

Page 110 / Figure 6. Average annual inflation in years 1997-2004

Source: Polish official statistics

Page 111 / 11.3. Foreign Trade / 1st and 2nd paragraph

Polish imports reached a level of **USD 87.9 billion** in **2004**, while exports amounted to **USD 73.7 billion**. Compared to **2003**, exports denominated in USD increased by **37.5%**, while imports increased by **29%**. Since 2000, exports have been rising at a faster rate than imports because of the improving competitiveness of Polish goods and a limited increase in domestic consumption.

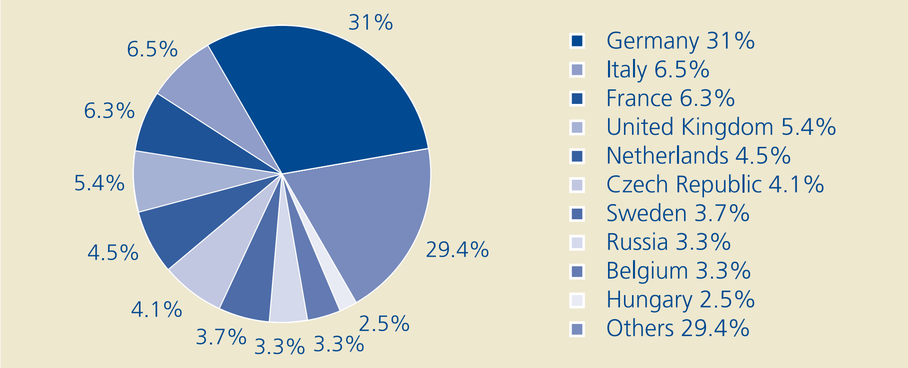
Poland trades primarily with developed countries, to which it directs **85.2%** of all exported goods. In **2004**, trade with the EU accounted for **79.1%** of all Polish exports and **67.9%** of Polish imports. Germany is Poland's most important trading partner; trade with Germany constitutes **30%** of all Polish exports and **24.2%** of all imports.

Page 111 / Table 15. Main destinations of Polish exports in 2004 (average exchange rates: 1 USD = 3.6540 PLN, 1 EUR = 4.5340 PLN)

Market	PLN million	USD million	EUR million	%
Developed countries	231,756.0	63,425.3	51,115.1	85.2
of which: EU	215,143.0	58,878.8	47,451.0	79.1
Central and Eastern Europe	24,553.0	6,719.5	5,415.3	9.0
Developing countries	15,797.0	4,323.2	3,484.1	5.8
Total	272,106.0	74,468.0	60,014.5	100.0

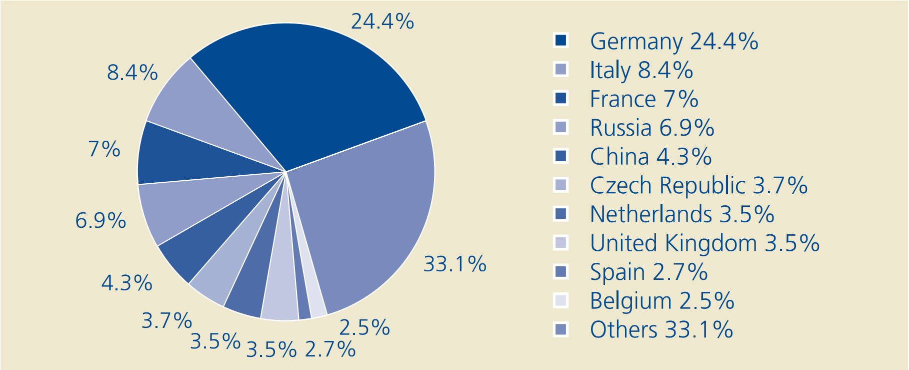
Source: Polish official statistics

Page 112 / Figure 7. Poland's main export partners in 2004 (%)



Source: Polish official statistics

Page 112 / Figure 8. Poland's main import partners in 2004 (%)



Source: Polish official statistics

Page 112 / Table 16. Exchange rates PLN

Currency	1998	1999	2000	2001	2002	2003	2004
1 USD	3.4937	3.9675	4.3464	4.0939	4.0795	3.8889	3.6540
1 EUR	1.9888	4.2270	4.0110	3.6685	3.8557	4.3978	4.5340

Source: National Bank of Poland (NBP)

Page 114 / 1st paragraph

Since 2001, wages in Poland have been increasing very slowly due to high unemployment. As a result, the wage level in the Czech Republic and Hungary is now higher than in Poland. The average monthly salary in the manufacturing sector in **first and second quarter 2005** in Poland was **EUR 615**.

Page 135 / Table 19. Foreign Direct Investments (FDI) in Poland – by activity (as of December 2004)

Polish Classification of Activity (PCA)	Capital invested (million USD)	Percentage share
Manufacturing	32,199.9	39.9
Transport equipment	*6,663.6*	*8.3*
Food processing	*6,624.8*	*8.2*
Other non-metal goods	*4,205.5*	*5.2*
Chemicals and chemical products	*3,250.0*	*4.0*
Electrical machinery and apparatus	*3,245.2*	*4.0*
Pulp and paper	*2,086.0*	*2.6*
Wood and wooden products	*1,692.1*	*2.1*
Rubber and plastics	*1,459.0*	*1.8*
Metals and metal products	*1,278.3*	*1.6*
Machinery and equipment	*1,023.7*	*1.3*
Fabrics and textiles	*349.7*	*0.4*
Furniture production	*290.5*	*0.4*
Leather and leather products	*31.4*	*0.0*
Financial intermediation	18,878.5	23.4
Trade and repairs	9,517.4	11.8
Transport, storage and communication	7,861.4	9.7
Construction	3,207.6	4.0
Electricity, gas and water supply	2,952.7	3.7
Community, social and personal services	2,732.2	3.4
Real estate and business activities	2,110.1	2.6
Hotels and restaurants	885.3	1.1
Mining and quarrying	228.6	0.3
Agriculture	76.3	0.1
Investments exceeding USD 1 million	80,649.8	
Estimated investments not exceeding USD 1 million	3,827.8	
Total	84,477.6	100.0

Source: PAIiIZ

Page 136 / Table 20. Foreign Direct Investment (FDI) in Poland – by country of registration in 2004 (USD million)

Country of registration	Value	Percentage share in total FDI
France	1,575.7	20.1
USA	1,428.1	18.2
Multinational	1,305.0	16.6
Germany	1,175.1	15.0
Netherlands	981.7	12.5
Sweden	437.5	5.6
Belgium	413.8	5.3
Italy	224.5	2.9
United Kingdom	204.1	2.6
Republic of Korea	202.0	2.6
Austria	179.9	2.3
Finland	122.1	1.6
Japan	108.4	1.4
Luxembourg	104.5	1.3
Switzerland	57.9	0.7
Spain	38.3	0.5
Denmark	33.2	0.4
Czech Republic	13.7	0.2
Croatia	12.6	0.2
Portugal	10.0	0.1
Slovenia	8.9	0.1
Monaco	6.8	0.1
Ireland	5.2	0.1
Cyprus	4.4	0.1
Australia	1.7	0
Greece	1.5	0
Liechtenstein	0.6	0
Norway	0.5	0
Russia[1]	–800.0	–10.2
TOTAL	7,857.7	100

Source: PAIiIZ

[1] The outflow of capital in 2004 resulted from the remittance of liabilities by entities with capital cross-ownership

Page 137 / Top 15 foreign investors in Poland (as of December 2004)

No.	Investor	Capital invested (USD million)	Country of registration	Activities
1	France Telecom	4,470.4	France	transport, storage and communication
2	European Bank for Reconstruction and Development (EBRD)	4,000.0	International	financial intermediation
3	Fiat	1,800.6	Italy	manufacture of transport equipment; financial intermediation
4	KBC Bank N.V.	1,743.4	Belgium	financial intermediation
5	Metro Group AG	1,508.0	Germany	wholesale and retail trade
6	HVB	1,336.0	Germany	financial intermediation
7	Citigroup	1,300.0	USA	financial intermediation
8	Tesco Plc	1,300.0	United Kingdom	wholesale and retail trade
9	Apollo-Rida Poland Llc.	1,300.0	USA	construction, real estate and business activities
10	Vivendi Universal	1,243.4	France	transport, storage and communication; real estate, renting and business activities; wholesale and retail trade
11	United Pan-Europe Commu nications N.V.	1,200.0	Netherlands	other community, social and personal service activities
12	UniCredito Italiano SpA	1,200.0	Italy	financial intermediation
13	Kronospan Holdings Ltd.	1,061.8	Cyprus	manufacture of wood and wooden products
14	Vattenfall AB	1,029.2	Sweden	electricity, gas and water supply
15	General Motors Corporation	1,010.0	USA	manufacture of transport equipment

Source: PAIiIZ

Page 139 / 2. Regional Investor Assistance Centres (*COI*) – PAIiIZ's partners:

Changes of addresses, telephone numbers and contacts in Investor Assistance Centres (*COI*):

Dolnośląskie Voivodship
50-075 Wrocław
Contact person: Ewa Kaucz, E-mail: ekc@warr.pl

Kujawsko-Pomorskie Voivodship
Contact person: Magdalena Nawrocka, E-mail: m.nawrocka@kujawsko-pomorskie.pl
Tel.: (+48 56) 621-84-35, Fax: (+48 56) 621-83-02

Lubuskie Voivodship
ul. Chopina 14
Contact person: Tomasz Frąckowiak

Łódzkie Voivodship
Tel.: (+48 42) 663-36-01, Fax: (+48 42) 663-36-02

Małopolskie Voivodship
Fax: (+48 12) 412-43-79

Opolskie Voivodship
Contact person: Magdalena Karońska

Podlaskie Voivodship
Tel.: (+48 85) 749-74-74, Fax: (+48 85) 748-51-46

Pomorskie Voivodship
Contact person: Marcin Dejna, E-mail: marcind@arpg.gda.pl
Tel.: (+48 58) 323-32-63, Fax: (+48 58) 301-13-41

Śląskie Voivodship
Contact person: Magdalena Chawuła, E-mail: mchawula@silesia-region.pl
Tel.: (+48 32) 207-84-77

Wielkopolskie Voivodship
Stowarzyszenie Gmin i Powiatów Wielkopolski
Fax: (+48 61) 851-53-95

New Investor Assistance Centres (*COI*):

Mazowieckie Voivodship
Urząd Marszałkowski Województwa Mazowieckiego, Investor Assistance Centre
ul. Okrzei 35, 03-715 Warszawa
Contact person: Joanna Jędrzejewska-Debortoli, E-mail: j.jedrzejewska@mazovia.pl
Tel.: (+48 22) 597-95-61, Fax: (+48 22) 597-95-52

Świętokrzyskie Voivodship
Urząd Miasta Kielce, Investor Assistance Centre
Rynek 1, 25-303 Kielce
Contact person: Artur Sobolewski, E-mail: artur.sobolewski@um.kielce.pl
Tel.: (+48 41) 367-61-43, Fax: (+48 41) 367-61-42

Warmińsko-Mazurskie Voivodship
Warmińsko-Mazurska Agencja Rozwoju Regionalnego S.A., Investor Assistance Centre
ul. Kajki 10/12, 10-547 Olsztyn
Contact person: Agnieszka Szczyglińska, E-mail: a_szczyglinska@wmarr.olsztyn.pl
Tel.: (+48 89) 521-12-80, Fax: (+48 89) 521-12-60

Wielkopolskie Voivodship
Wielkopolska Agencja Rozwoju Przedsiębiorczości, Investor Assistance Centre
ul. Piekary 19, 61-823 Poznań
Contact person: Justyna Urbanowicz, E-mail: justyna.urbanowicz@warp.org.pl
Tel.: (+48 61) 656-35-07, 656-35-06, Fax: (+48 61) 656-53-66

Zachodniopomorskie Voivodship
Urząd Marszałkowski Województwa Zachodniopomorskiego, Investor Assistance Centre
ul. Piłsudskiego 40/42, 70-421 Szczecin
Contact person: Janusz Gawroński, E-mail: jgawronski@wzp.pl
Tel.: (+48 91) 489-96-70, Fax: (+48 91) 489-39-70