Poland: Land of rising opportunities 2019

JAPAN+POLAND

Polish Investment & Trade Agency
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Krzysztof Senger
EXECUTIVE VICE PRESIDENT
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For more than 20 years, Poland like no other country in the CEE, has managed to attract a great deal of foreign capital, totalling EUR 176bn. Furthermore, Poland ranks second as an FDI destination in Europe, by jobs created, surpassing even Germany. Our country offers a safe environment for foreign investors due to the economic stability and highly skilled workforce proficient in numerous languages. Poland has recently become a leading automotive parts producer and a BSS hub in Europe – up to 70% of the CEE centers are now based in our country. A glance into the PAIH portfolio shows we wrapped up 2018 with a record high in FDI stock of completed projects worth over EUR 2 billion. Most importantly, the majority of the projects regarded the two sectors.

In order to boost Poland's economic development, Poland must continue to attract world-class cutting-edge companies. To facilitate this, the Polish government has recently introduced the New Investment Support Act motivating investors to engage in creating highly specialized workplaces, boosting export sales, and collaborating with R&D institutions. Moreover, since 2019 Poland has been offering a wealth of support for investors conducting R&D activity. PAIH has been focused on supporting ventures that would add significant value to the economy even prior to the new law coming into force. Foreign Direct Investments (FDI's) are now supported not only the Warsaw-based Direct Investment Team, but also by our Foreign Trade Offices.

Due to PAIH's support, Japan-based investors have created over 17 thousand workplaces in Poland since 2002. A vast number of the projects were implemented within the automotive sector (30 out of 66), and some recently completed projects featured e-mobility. There is also significant opportunity for Japanese investment in such areas as: smart cities, BSS, Industry 4.0., energy and the pharmaceutical sector. Moreover, the Polish start-up's scene is very dynamic and looking for global partners. This report is to emphasize and in case of some sectors reveal the great business opportunities for Japanese enterprises in Poland.

Hopefully, you will find it useful.

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Piotr Kochański
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This year marks the 100th anniversary of the establishment of diplomatic relations between Poland and Japan. Our mutual relationship is based on an outstanding track record of cultural, business and academic cooperation between the Polish and Japanese nations.

As a prominent member of the European Union with a highly-skilled, cost-competitive labour force, Poland is experiencing economic growth and has become a launch pad for Japanese companies expanding into European markets. Industries such as automotive, electronics, medical, pharmaceuticals and energy are areas in which Japanese companies have already established a strong presence in Poland. Japanese companies have already contributed enormously to the technological advancements of the Polish manufacturing and service industries. Through investments in manufacturing plants and service centres in Poland, Japanese companies have bridged the distance to their final customers in Western Europe and boosted their share in global supply chains of many global brands.

With the introduction of the new investment support scheme in Poland in 2018, Poland has become one economic zone, with tax incentives applicable throughout the whole country. The new law brings new opportunities for Japanese investors to utilize the potential of previously unexplored parts of Poland, possessing untapped reserves in human capital and potential for growth. The new system encourages business expansion across the whole of Poland, and new attractive investment spots that previously have been located beyond the Special Economic Zone will now come into the spotlight. Moreover, the EU-Japan Economic Partnership Agreement, which entered into force in February 2019, brings increasing momentum to the ever growing economic exchange between Poland and Japan.

We present you with this report in the firm belief that it will guide you through some of the emerging business opportunities in Poland. The report aims to encourage Japanese companies to consider investments in emerging sectors including energy, smart cities, e-mobility or the pharmaceutical industry. At the same time the reports mark some aspects of the Polish legal framework that Japanese investors might benefit from such as support schemes dedicated for specific sectors such as energy.

I wish you every success in growing your business in Poland.

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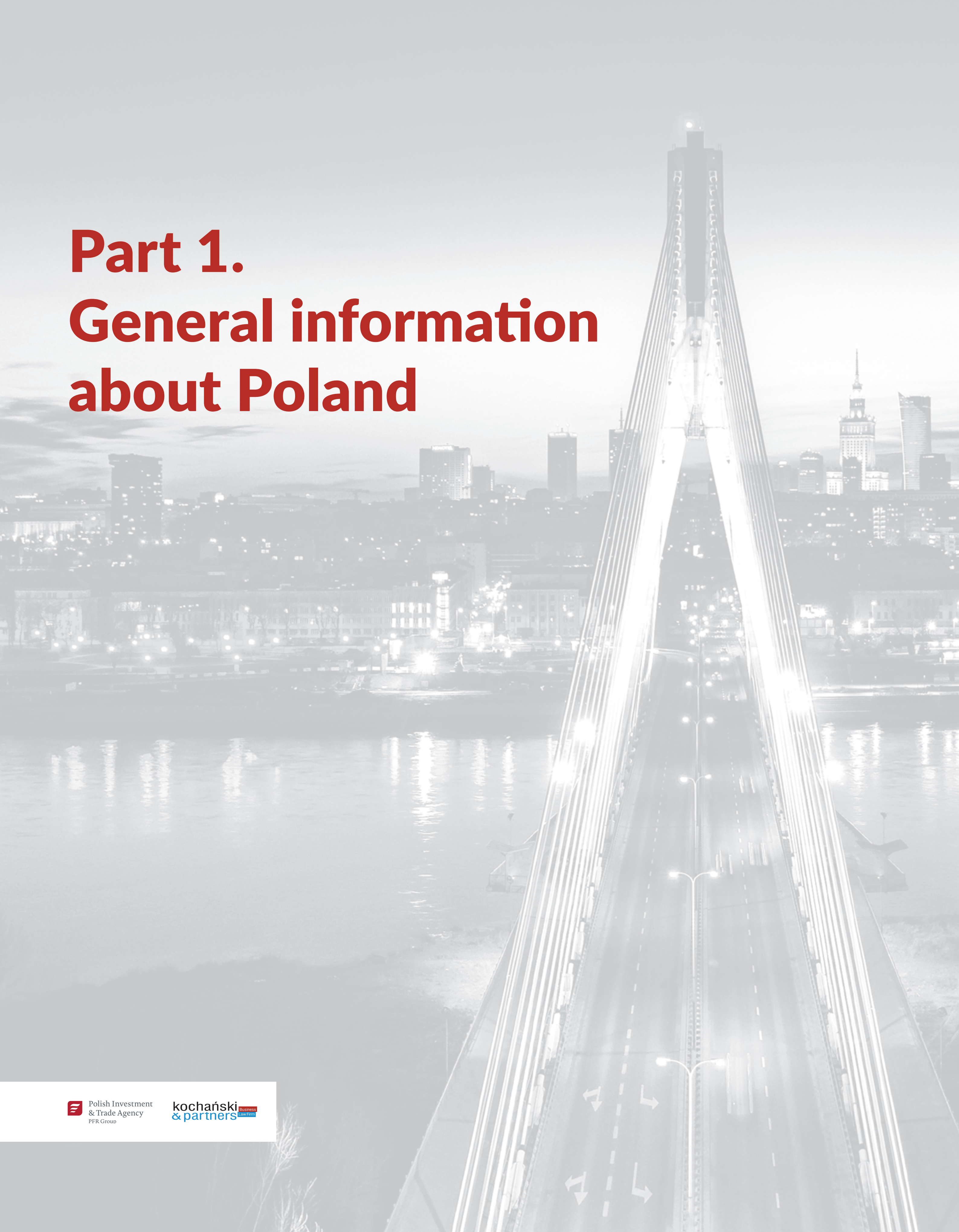
Part 1.
General information about Poland



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1.1 General macroeconomic information

Poland is the 6th country in Europe in terms of population and area. The country is located in the heart of Europe which makes it the perfect investment location for companies needing to export products both in eastern and western directions. On the one hand, companies located here can benefit from a strong economic relationship with Eurozone, having free trade access to the EU market and standardized regulations. On the other hand the Polish economy is stable and resistant to any economic crisis thanks to having its own currency (Polish Zloty).

The Gross Domestic Product in 2017 amounted to USD 526 trillion, with GDP per capita 31 650 USD based on purchasing power parity. According to a preliminary estimation of the Central Statistical Office in Poland, economic growth in 2018 amounted to 5.1%, compared to 4.8% in 2017 (in constant prices from the previous year). Annual inflation is also falling, with the 2018 values 1.6% compared to 2% inflation observed the previous year[1].

1 World Bank, Statistics Poland, IMF World Economic Outlook

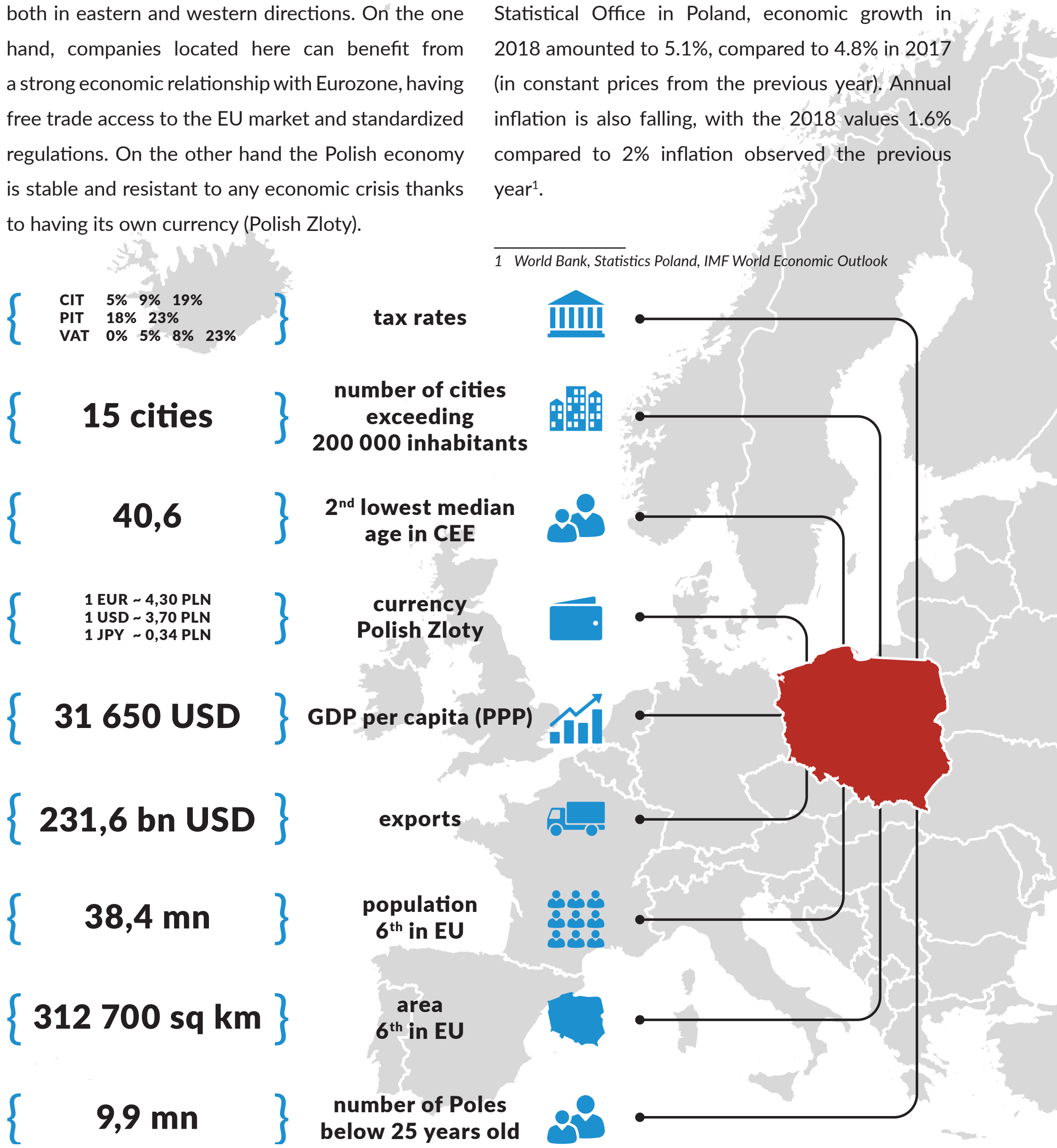

Figure 1
Position of Poland in Europe

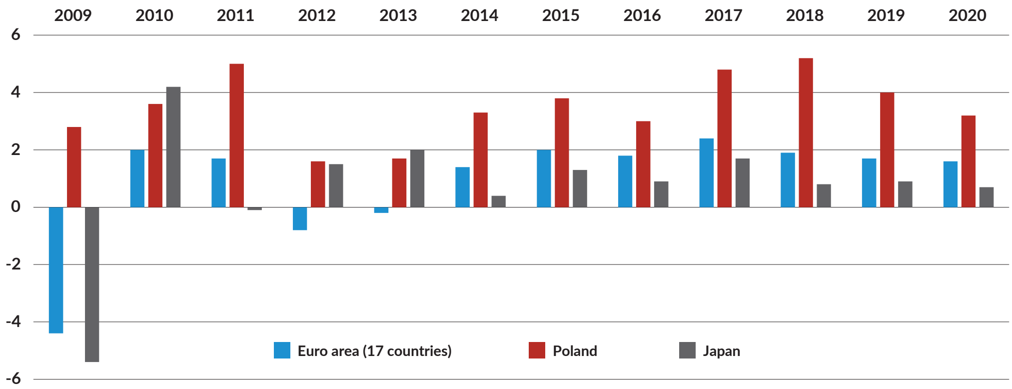

Figure 2
GDP Growth in Poland compared to Euro area and Japan 2009-2020.
Source: OECD

Figure 2 presents GDP growth from 2009 and forecast to 2020. The comparison with the Euro area shows the rapid growth of Poland and the previously mentioned resistance to economic collapse in 2009. What is important, as in the case of Japan, the risk class in the OECD classification for Poland is 0. As a consequence, Polish importers can obtain cheaper loans for the purchase of foreign goods and services, as the insurance costs of such transactions by foreign insurers are relatively low.

Labour Market

The population of Poland amounts to over 38 million people and comprises 40% of the population of Central Eastern European countries. Despite being affected by a trend of the ageing society almost 25% of Poland's population is under 25 years old. Also the unemployment level (average 5,8% in 2018[2]) and number of registered unemployed have stabilized after a long period of decreasing.

However, it is not only a young but also a skilled workforce that can be found in Poland. Each year there are around 1.3 million students and approximately 300 thousand graduates, 20% of these being technical students. What is more, university hubs are located in all larger cities unlike in other CEE countries where there is usually one main university hub located in the capital region.

In recent years, Poland has been one of the fastest growing labour markets, combining a large pool of highly skilled professionals with relatively low labour costs, making it an attractive place to invest in. The main act of Polish labour law is the Labour Code, and directly applies to all employees and employers, regardless of the industry or job position held. Although originating from a time prior to the political transformation and still reflecting some aspects from that period, it has been gradually adjusted to current social and economic trends. At present, the Labour Code and Polish employment law in general, is an employee-and family-centric set of rules, where certain groups of employees, from those being in pre-retirement age to new parents, may enjoy special protection and rights (e.g. 20 weeks of maternity leave and 32 weeks of parental leave).

2 *Statistics Poland*

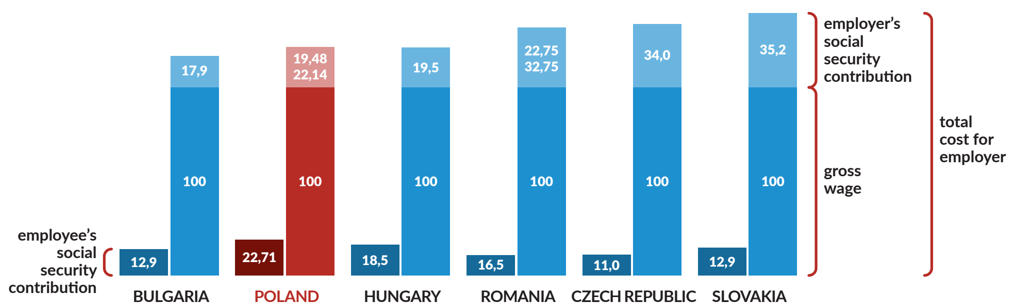

Figure 3
Total cost of employee, social security costs split equally between employee and employer
Source: OECD, CzechInvest, HIPA, Sario, PwC 2018

Poland in the rankings

Poland is an attractive destination for foreign investors – in recent years the country has attracted around 3% of foreign direct investment inflows to the European Union.

Poland ranks 33rd out of 190 in the Doing Business ranking. What is more, the capital of Poland, Warsaw, in the latest ranking published by fDi Intelligence won 3rd place among European business-friendly cities ahead of metropolises such as Berlin, Stockholm or Copenhagen. In the ranking, Warsaw was also among the 25 most promising cities in Europe. Due to the strategy of attracting foreign investments, Warsaw is ranked 8th among European cities, whereas in terms of cost-effectiveness, the Polish capital is ranked 9th.

According to the Transparency International Corruption Perception Index Poland was 60/100 which gives it 36th position among 180 analysed countries. The perception of Poland's transparency is closer to European high scoring economies like Sweden, Denmark than to CEE countries – Hungary, Romania, Croatia. This means that the Polish regulatory environment is getting closer and closer to the highest performing economies in Europe.

Last but not least, the number of jobs created by foreign investors in Poland in 2017 reached 24 000. Foreign investors appreciate Poland's progress across the last decade in the Ease of Doing Business ranking and the Economic Freedom indicator, as well as the presence of cost competitive and highly specialized workforce.

Figure 4
Map of express roads and highways in Poland

1.2 Logistics

Poland's location in the centre of Europe is highly favourable from a logistical perspective. Five out of nine Pan-European transport corridors go through Poland enabling companies located here to easily access the global market. What is more, the quality and diversification of Polish infrastructure supports the rapid growth of economy.

Since 2004 the most important section of transport is road transport. In 2016 the value of the market added up to PLN 95 million (the total value of the transport market was PLN 205 million) in 2016. Nonetheless, road transport cannot satisfy the long distance and intercontinental needs of the industry. ***Figure 5*** shows the layout of airports, intermodal terminals and sea ports in Poland which completes the landscape of infrastructure in Poland.

In 2016, intermodal transport amounted only to 1% but the segment is rising – in 2017 growth by 26.1 % year to year - and one of the reasons is a well–developed network of terminals.

Currently intermodal terminals are more than merely a reloading point, but part of a bigger business unit – logistic park, distribution centre, etc. 6 out of 30 terminals are sea terminals (serving sea-rail and sea-road) and 24 are serving road-rail. One example of a growing intermodal terminal (road-rail) is present in Łódź (growth by 18.7%) connecting Łódź with Gdańsk, Gdynia (sea ports), Slovakia and China (Chengdu).

Air transport is also growing. In 2017 cargo operations were augmented by 11.7% year to year. The most popular cargo airport is Chopin Airport in Warsaw (79%) and second is Katowice Pyrzowice Airport (14%). Airports that gained importance in 2017 were Poznań (119% growth) and Gdańsk (22% growth). What is very important for Japanese investors, in 2016 LOT Polish Airlines introduced direct connection between Warsaw and Tokyo. Starting from summer 2019 the connection is available daily. There are three main seaports in Poland – in Gdańsk, Gdynia and Szczecin and Świnoujście Seaports. Comparing to 2009 all of Polish sea ports have increased their capacity – Gdańsk by 215%, Szczecin-Świnoujście by 154% and Gdynia by 160%[3].

3 Civil Aviation Office, Cargo statistics, Access: ulc.gov.pl/_download/statystyki/2017/wg_org_cargo_4kw2017.pdf; Opracowanie Zbiorowe pod redakcją I. Fechnera i G. Szyszki, Logistyka w Polsce Raport 2017

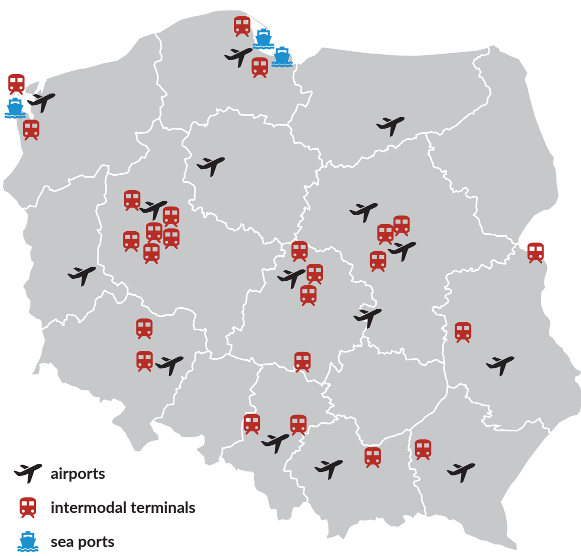

Figure 5
Map of airports, itermodal terminals and sea ports in Poland

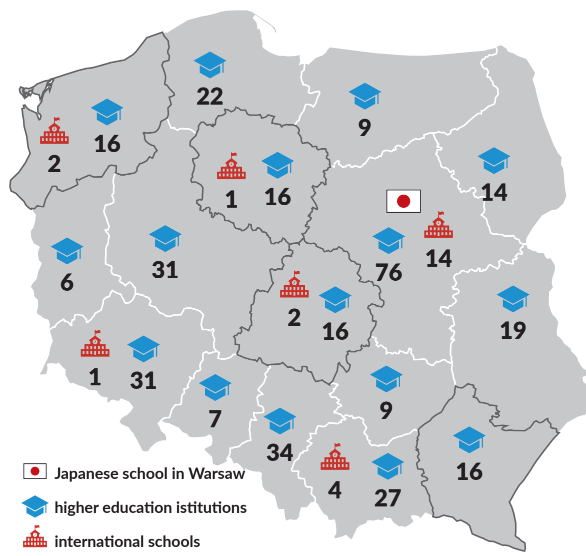

Figure 6
Map of international schools and higher education institutions

REGION	ZACHODNIOPOMORSKIE	KUJAWSKO-POMORSKIE	ŁÓDZKIE	LUBELSKIE	PODKARPACKIE
SEA PORT	✓	—	—	—	—
AIRPORT	✓	✓	✓	✓	✓
INTERMODAL TERMINALS	✓	—	✓	✓	✓
HIGHWAY	—	✓	✓	—	✓
EXPRESS ROADS	✓	—	✓	✓	✓
PUBLIC AID INTENSITY (SEE PART 5)	35%	35%	35%	50%	50%
MAIN CLUSTERS / BUSSINESSES	BIOECONOMY CLUSTER GREEN CHEMICALS	FOOD PROCESSING, PACKAGING AND FERTILIZERS BYDGOSZCZ INDUSTRIAL CLUSTER	MODERN TEXTILE INDUSTRY	BIOECONOMY / EASTERN ICT CLUSTER	AVIATION AND ASTRONAUTICS / AVIATION VALLEY CLUSTER
UNEMPLOYEMENT LEVEL	7,4%	8,8%	6,1%	8,0%	8,8%

Figure 7
Comparison of chosen regions

1.3 Economic potential in Poland

Since 2002 Poland has been experiencing an increased inflow of foreign direct investments. The main destinations of the companies in terms of investment CAPEX were mazowieckie, dolnośląskie, śląskie, wielkopolskie and małopolskie provinces. However, other regions of Poland are also very appealing for foreign investors. ***Figure 6*** shows regions currently identified by PAIH as source of investment potential – zachodniopomorskie, kujawsko-pomorskie, łódzkie, lubelskie, podkarpackie. The map also presents the location of international schools in Poland (working according to internationally recognized curriculums) and the number of higher education institutions in Poland. Established in 1978 there is also The Japanese School in Warsaw with offer for grades from 1 to 9. Additionally, ***Figure 7*** shows a short comparison of selected regions in terms of infrastructure, public aid, core business and availability of workforce.

The selected regions despite being less industrialized than the south western part of Poland in recent years have proven their advantages – the availability of workforce, a new state of the art infrastructure and higher intensity of public aid. The regional aid limits as set by the European Union in selected regions reach 35% or 50% for large enterprises and even up to 70% for medium, small and micro enterprises – the highest available rate in the EU. Public aid and Polish Investment zone topics are explained in Part 5.

Selected regions are keen to promote modern sectors of economy – aviation, ITC, bioeconomy (economy sector focused on producing goods and services using sustainable methods), and modern textile industry. Smaller companies can also benefit from being a part of business clusters whose aim is not only to support cooperation between companies and academia as well as enable the flow of new technologies, and also to help companies establish activity in the region.

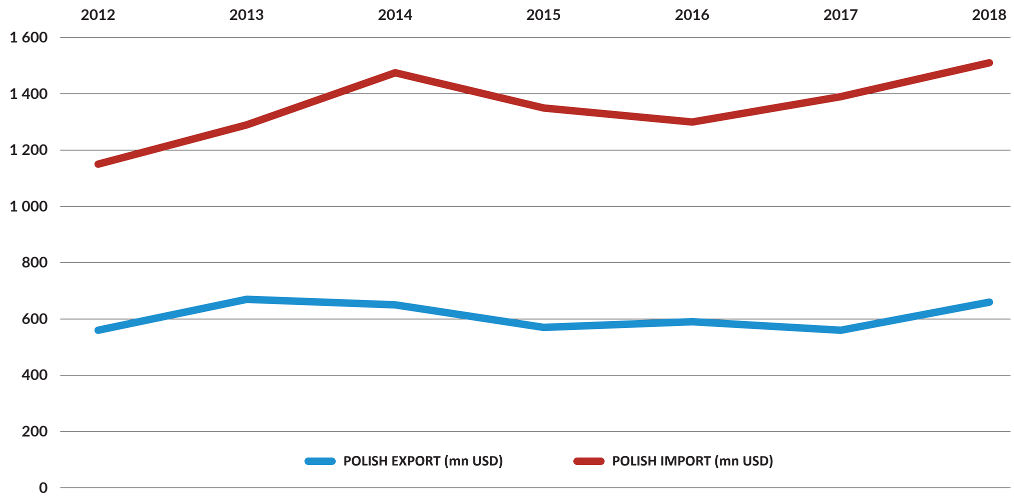

Figure 8
International trade Poland–Japan

1.4 Trade between Poland and Japan

Since Poland has joined EU in 2004, value of Polish-Japanese trade has doubled. Although Poland and Japan are not the most important foreign trade partners, it is worth emphasising that Poland is the main partner for Japan in CEE. In 2018 the value of Polish exports to Japan amounted to USD 671.58 million, while the value of exported goods from Japan to Poland amounted to USD 1540.62 million. The value of goods exported by Japan exceeds almost 2.5 times the value of Polish exports.

Export of Polish products was stable in the last 6 years while increasing on average by 3.63% per annum. At the same time, imports of Japanese products to Poland were characterized by higher growth at this time, with 5,31% dynamics per year[4].

The Top 3 products most often sent by Poland to Japan include:

- Machinery and mechanical appliances, electrical and electrotechnical equipment
- Transport equipment
- Products of the chemical industry

The Top 3 products most often sent by Japan to Poland include:

- Machinery and mechanical appliances, electrical and electrotechnical equipment
- Transport equipment
- Optical, photographic, measuring, checking instruments, etc.

Figure 8 represents changes in Poland-Japan trade since 2012. Both imports and exports are relatively stable since many years. It is worth mentioning that the structure of Polish exports to Japan is an outcome of presence of Japanese companies in Poland. Re-export is a case especially for Japanese automotive companies who have their manufacturing facilities in Poland and ship produced goods to Japan. On the reverse, structure of Japanese exports is traditionally strongly relying on hi-tech goods which is visible in case of exports to Poland. Along with introducing in February 2019 EU-Japan Economic Partnership Agreement the trade relationship between Poland and Japan should become much stronger[5].

4 *Statistics Poland*

5 *G. Mazur, M. Takemura, Polish-Japanese Investment and Trade Relations.*

1.5 Taxation in Poland

The tax system in Poland includes direct taxes (including: corporate income tax, personal income tax, tax on civil law transactions and real estate tax) and indirect taxes (including VAT, i.e. value added tax on goods and services).

Both legal entities and natural persons resident in Poland for tax purposes are subject to respectively CIT or PIT on their total worldwide income (unlimited tax obligation). Other entities without Polish tax residency are subject to respectively CIT or PIT only on certain revenues generated in Poland (limited tax obligation). Taxation of entities with a limited tax obligation can be further limited pursuant to the provisions of an applicable Double Taxation Treaty signed between Poland and the country of the tax residency of such entity. Japanese entrepreneurs can benefit from such a Double Taxation Treaty signed between Poland and Japan on February 20, 1980. A legal entity or a natural person will have a Polish tax residency if their registered office or management (for legal entities) or their place of residence (for natural persons) is located in Poland.

The CIT default tax rate is 19% - with possible reduction to 5% for qualifying revenues (IP Box – tax incentive for innovation) or to 9% for small taxpayers.

PIT taxes are generally progressive (following a tax scale), i.e. the tax rate is 18% for income of up to PLN 85,528.00 and 32 % for a surplus over PLN 85,528.00 - with possible choice of the application of a flat PIT rate of 19% by individuals conducting business activities in certain cases or possible reduction to 5% for qualifying revenues (IP Box).

As a general rule both income taxes are payable monthly by the 20th day of each month for the preceding month (by a taxpayer or in case of PIT – by a payee, for example an employer). Tax returns are submitted once a year.

The taxable base in CIT is the total income earned on the capital gains and of the total income earned from other revenue sources, being the difference between aggregated taxable revenues and aggregated tax-deductible costs from each source (with possible further tax deductions). The taxable base in PIT is the total income earned by the taxpayer from all taxable sources and tax-deductible costs related to the same source (with possible further tax deductions).

Polish VAT (tax on goods and services) is similar to VAT in any other EU member state country. VAT applies to supply of goods and provision of services within the territory of Poland, export of goods outside of the EU, import of goods from a non-EU country as well as import of goods from other EU member state (intra-community acquisition of goods) and export of goods to other EU member state (intra-community supply of goods).

In Poland currently the standard VAT rate is 23% and the reduced tax rates are 8%, 5% and 0% (pursuant to the matrix of tax rates). Some goods and services are also eligible for a tax exemption. The exact applicable tax rate depends on the type of good or service being sold. In 2019 new (updated) matrix of tax rates is expected to be introduced.

Part 2.
Japanese business activities in Poland

2.1 Japanese companies in Poland

Currently there are around 300 Japanese companies in Poland creating 40 000 workplaces. Nearly a third of these are manufacturing companies with the majority located in dolnośląskie and mazowieckie provinces. ***Figure 9*** shows the locations of selected Japanese companies in Poland.

Since 2002 the Polish Investment and Trade Agency has served 66 Japanese projects of total investment value EUR 2.5 billion whilst creating over 17 thousand workplaces. A vast amount of Japanese projects in Poland are automotive (30 out of 66). This shows the maturity of Polish automotive market and its readiness to satisfy even the most demanding international players like Toyota, Bridgestone and Pilkington.

However, Japanese companies in Poland represent a variety of sectors – from manufacturing of industrial machinery, equipment and tools through food and consumer products to business services, with company size varying greatly. The largest Japanese companies employ over 2000 people while the smallest ones have only a few employees.

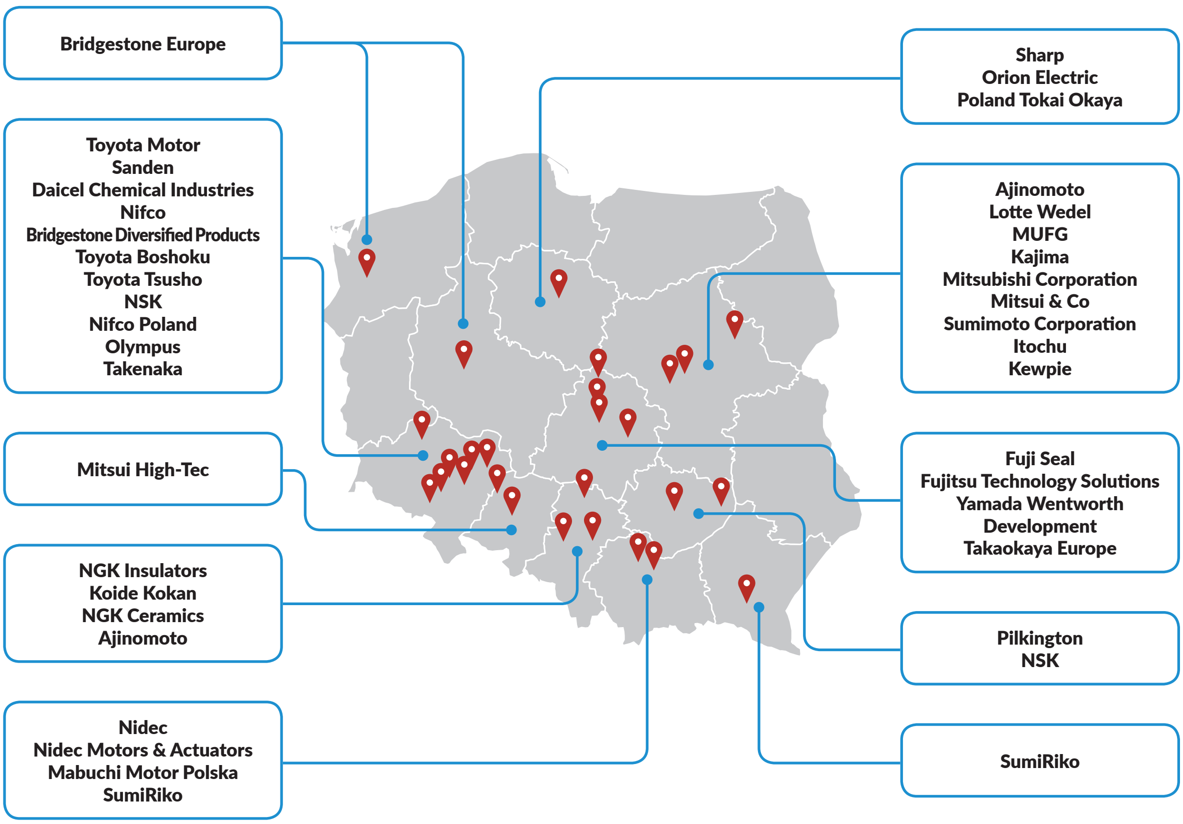

Figure 9
Location of biggest Japanese companies in chosen sectors

2.2 Experience of Japanese companies

Mikihiko Shimizu
DIRECTOR GENERAL
Japan External Trade Organization JETRO, Warsaw Office

"The Central location in Europe, stable economic growth and highly skilled workforce are just some of the factors that have made Poland an attractive investment location for Japanese companies. Currently over 300 Japanese companies are operating in Poland. However, by the entry into force of the EU - Japan Economic Partnership Agreement (EPA), the number is likely to grow. Business collaboration between Poland and Japan is expected to become even more active. As JETRO we hope to contribute to expanding two-way trade and investment between the two countries."

Tomoyuki Onogi
MANAGING DIRECTOR
Koide Poland

"We are small sized company but have developed rapidly together with our client base since being established in 2005. Having already 22 plants all over the world, especially in Asia and North America, we decided it was time to break into Europe, and Poland was the obvious choice. Poland is ideal as many of our clients are in the CEE region, and hence gives us a tremendous location advantage over our competitors. We started out by firstly supplying products to Japanese customers and are now expanding to European customers and also other markets. It may not be easy but rapidly pays off thanks to our skilled and experienced colleagues."

Piotr Jankowski

HEAD OF POLAND GLOBAL DELIVERY CENTRE

Fujitsu Technology Solutions

“We decided to invest in Poland because it is one of the top destinations in the world for business and technology services. The country is in the global top 5 of modern business outsourcing centers destinations, amongst India, China, Brazil and Philippines and the no. 1 in Europe. Poland is the biggest economy in the CEE region, which is the fastest growing part of the EU. The country has the largest talent pool in Central and Eastern Europe that brings substantial opportunities for further growth of Fujitsu and other companies of the IT & business services sector.

Poland is the global hub for modern and diverse business services, which is very important to GDC as we serve global clients of Fujitsu. Foreigners account for a tenth of the sector’s workforce, which means that more than 25,000 people of more than 30 nationalities are employed in ITO/BPO/SSC companies active in the country.

The modern business services sector has changed quite substantially over the course of the last 10 years. In the mid-2000s the sector offered mainly a basic outsourcing process. Now it evolved into a knowledge-based services model. Polish and international workforce has an innovative mindset and relatively high engineering and technical skills, strong mathematical skills as well as impressive work ethics. All those factors combined, influenced the tremendous growth of the sector and are the main reasons why Fujitsu has chosen Poland.”

Katsuya Hayashi

MANAGING DIRECTOR

Mabuchi Motor Poland

“We were originally considering several options of countries for our new Factory in Europe. The major important factors for us were access to our customers, political stability, infrastructure and human resources.

In Poland, land logistics were well developed with new highways making it convenient and easy to deliver products to our customers. Although the currency is not Euro, PLN is in conjunction with Euro and therefore, the currency risk is not large.

The largest difference to the other options was the capacity of the local human resources market. The population of Poland was much bigger than the other options, providing a large pool to source our human resources. So, we finally chose Poland for the location of our new factory.

In Poland, we also had several options for location. The basic infrastructures in Bochnia as regards highways, electricity, water, gas, etc. was improved with flat land. The local government also could provide great support for us. There were also many educational institutions such as universities, technical schools, etc. in the surrounding area, providing good conditions to hire engineers handling automatic production machines. So, we finally chose Bochnia.”

Part 3. Growing your business in Poland

new opportunities for Japanese companies

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3.1 Potential of the BPO sector in Poland

Foreign investors often choose Poland as the perfect destination for BPO investments. Over the past 20 years Poland has become the undisputed Business Services Sector leader in Central and Eastern Europe with the total number of BSS centers currently standing at nearly 1,200 and employing approximately 300,000 people. BPO stands for Business Process Outsourcing and describes a situation where third-party enterprises render professional services and support the business processes of other enterprises under a contract. This allows the contracting enterprise to reduce business and operational costs - such as costs related to infrastructure or equipment, the recruitment of new employees or organization of their workplace, while maximizing the professionalization of the services provided. Such professionally provided business support thus frees up the business to focus on their core activity without the necessity to give up valuable time to other areas.

Outsourcing such services seems to be beneficial when it comes to establishing new enterprises or their branches. The BPO sector in Poland is highly competitive and is viewed by businesses as one of the top choices in the EMEA region. Its competitive edge is predominantly visible in:

- the availability of highly qualified talent (primarily with technical education),
- the availability of and proficiency in a vast number of foreign languages,
- high quality of work with an unparalleled work ethic,
- attractive labour costs.

It should be pointed out that the BPO market is growing dynamically and services offered mainly across large urban agglomerations are thus becoming widely available. It is estimated that Poland has nearly 1300 Business Services centres at present. This number proves that investors recognize the strength and depth of the Polish market and further establishes Poland on the professional business services map of the world.

Poland's extensive startup (eco)system is unique at the regional scale. Owning a business is one of several career paths becoming increasingly popular among young people who may exploit not only investment, technology or development funds, but also offers of numerous organizations running business incubators, science and technology parks or R&D units.

In support of this trend, the majority of higher education establishments now offer entrepreneurship support schemes, looking for a favorable combination of business with science and the effects of this synergy, demonstrated through an innovative approach to the provision of technological solutions and the potential for supporting economic development.

The potential of the BPO sector seems to be significant and of note across the world and Europe, as more and more global players choose Poland, with the rise of a number of regionally and globally renowned locations - Kraków, Poznań, Warszawa, Trójmiasto, Katowice, Wrocław, to name only a few.

The value of new investment support instruments, which will in a few years replace Special Economic Zones (including those supporting enterprises and investors to date) also needs special emphasis. A number of tax exemptions for enterprises pursuing new investments, long tax exemption periods and flexible investment locations undoubtedly make Poland one of the most attractive investment destinations in the region. Attractive quantitative and qualitative criteria, in particular in the services sector, all contribute towards what is seen as a technological industrial revolution, known as Industry 4.0.

3.2 The development of e-mobility in Poland

In the last decade, the Polish automotive industry recorded a 100% increase in sold production which amounted to over PLN 151 billion (2018). Poland is a leading market among CEE markets for commercial and passenger vehicle companies. Vast presence of tier 1 and 2 manufacturers is a solid industrial base for all investors considering establishing business in Poland. A mature ecosystem of cooperation with universities and the high quality of education create a solid foundation for the development of R&D facilities, the R&D centres of companies such as ZF TRW, Delphi, Wabco, Faurecia, Nexteer, Tenneco, Eaton, Valeo, Mahle, GKN Driveline being perfect examples.

This fact is appreciated by Japanese companies as almost 50% of Japanese foreign direct investment in Poland are located in the automotive sector. In total there are 1500 automotive companies employing over 195 thousand people. Among those, there are five major car and engines manufacturers (Opel, Fiat, Volkswagen, Toyota, Daimler) located in Poland and 9 other OEMs (Audi, TPCA, Suzuki, Skoda, PSA, KIA, JLR, Hyundai and Daimler) are located within 300 km radius in Czechia and Slovakia. Moreover, Poland hosts five truck and coache factories both foreign and domestic (Volvo, Scania, MAN, Solaris, Autosan).

The development plan for e-mobility in Poland is one of the important objectives of the government Strategy for Responsible Development by 2020 (with a view to 2030) designed to stimulate the market share of electric vehicles.

In 2018 Poland introduced a new law on e-mobility, providing a comprehensive legal framework for e-mobility in Poland. The law provides a number of incentives for EV car owners including exemptions from excise duty on EV cars and plug-in hybrids (PHEV), exemption from municipal parking fees, and higher amortization deductions for EV cars used by companies. At the same time the new provisions set ambitious plans concerning the construction of new charging stations for EV cars.

An increasing number of electric cars in Poland now require the development of sufficient supporting infrastructure. In particular the EV market needs investment not only in vehicle technology itself but also in charging stations both in public places and at users homes. According to the Polish e-mobility law by the end of 2020 Polish municipalities must install the minimum number of charging stations depending on the number of citizens and cars.

NUMBER OF RESIDENTS	> 1 000 000	> 300 000	> 150 000	> 100 000
NUMBER OF CARS	≥ 600 000	≥ 200 000	≥ 95 000	≥ 60 000
NUMBER OF CARS PER 100 RESIDENTS	≥ 700	≥ 500	≥ 400	≥ 400
NUMBER OF CHARGING POINTS	1000	210	100	60

Figure 10
Cars per residents in Poland

The development of EV infrastructure in Poland has been left to the market during the initial phase of growth. However city mayors are obliged to monitor the status of the market and provide a report by January 15, 2020 indicating whether achievement of the expected levels are probable by the end of 2020. If desired numbers are not achieved then city mayors will need to produce a specific strategy imposing an obligation on energy distribution companies operating in each region to actively develop EV charging infrastructure.

Both from a technological as well as a regulatory view point, the development of the e-mobility market in Poland will bring a number of issues that an investor should take into account when investing in the sector. In particular as the EV charging infrastructure is one of the bottle necks of the market, investments in this part of the sector are likely to be especially attractive. Investors will need to fulfil conditions for connection from the distribution company, sign necessary agreements with energy companies and operators of individual EV stations in addition to information requirements.

Thus, the e-mobility market will be a rapidly expanding industry over the next few years, and due to the government's active policy regarding e-mobility, one which presents significant opportunities of the prudent investor.

3.3 Industry 4.0 – Protection of data, including personal data in the digitalization of production enterprises

Industry 4.0 demonstrates the coming of the era of the next technological revolution. Modern business in the world of tomorrow is based on the entire palette and range of technological solutions, rather than simply individual devices or IT tools. The automation of digital and business processes, the combination of numerous machines into a single harmonious unit, the processing of data in cloud computing and AI replacing human workers are ground breaking changes with ourselves as the creators. In Industry 4.0, independent communication between devices now supports the technological development of the economy, business and other processes.

This change requires developing new business practices and responding to legal risks found all around, the number of which is directly proportional to the number of technical solutions.

Industry 4.0 inevitably forces changes in every branch of business which must follow the trends to remain competitive. Poland is considered a leader in technological solutions facilitated not only by significant development funds, but also by a business approach based on a startup ecosystem, numerous technological projects, and a network of technical higher education institutions and universities.

Drawing on the value of our economy, we are set to become one of the most advanced economies in the near future. Numerous back-offices or shared services, consistently moving to Poland, demonstrate the value of Poland as a European Industry 4.0 league player. Modern banking, telecommunications, e-health or e-commerce sectors are just a few examples that we can be proud of.

Rapid access to information from anywhere in the world facilitates and enables rapid responding to competition, allows for efficient production of only small batches of products which flexibly reflect the business demand. This allows enterprises to take off, rather than burdening them with unnecessary expenses, extended dates of production, storage of goods or high costs of services. Corresponding consulting services reflect the practical application of new technologies based on smart devices, the Internet of Things, or fast and short business operations.

The modern lawyer must adapt to the surrounding reality, learning how to use various tools in order to optimize monotonous and long-term tasks for meeting of standards ensuring the legal security of clients and transactions, and the security of e.g. personal data and information.

Big Data no longer solely applies to marketing or the analysis of consumers' shopping habits (even online), but is used for a number of other business operations, such as profiling the service provision, predicting unusual trends or patterns, and providing advance solutions ,thus enabling the effective combatting of abuse and fraud, and increasing business security.

Health care computerization, telemedicine and e-health development also have an indirect impact on corporate computerization. An employee can thus use certain medical care services without obtaining sick leave or even leaving the workplace, not to mention queuing and is a further example of the optimization of time management in enterprises.

INDUSTRY 4.0. – RESEARCH PROJECT

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The world has entered the era of the 4th industrial revolution, in which emerging technologies redefine the boundaries between physical, digital and biological spheres of our life. In Europe, since early 2011 the German government has been pushing the agenda of "Industry 4.0" a new style of advanced manufacturing technologies aimed at creating smart-factories based on automation and data exchange. Due to its proximity, the German model of automation is expected to have an enormous impact on Poland and Japanese manufacturing companies operating in the region.

Researchers from Hosei University (Japan) and Kozminski University (Poland) recently carried out a joint research project entitled "Re-visiting Japanese hybrid factories in Central and Eastern Europe". The aim of the project was to measure the development and changes that occurred in Japanese production plants in Central and Eastern over the last 15 years. In 2017-2018 the researchers visited 16 out of original 29 Japanese production plants still in operation in the region, including in Poland (6), Hungary (6) and the Czech Republic (4).

Firstly, the study found that Japanese factories in Poland made much greater progress in implementing Japanese management and were in much better shape than factories in other countries. In Poland, all 6 plants were in the process of investing additional funds in significant expansion of their production capabilities and facilities. In comparison, only 4 out of 6 factories in Hungary and 2 out of 4 factories in Czech Republic were expanding their activities. The study also found that all 4 factories in Slovakia visited in 2003 had already shut down or been relocated. Compared with other countries, Japanese factories in Poland had been able to implement a significant amount of Japanese production methods (QC, TPM, JIT), while achieving the greatest progress in terms of localization of management staff.

On the other hand, the study found that Poland was slightly lagging behind other countries in the region in the implementation of Industry 4.0 solutions. This is believed to stem from extremely low unemployment and rapidly rising wages in Czech Republic and Hungary, which have forced Japanese factories to implement automation in these countries. At the same time in Poland ,owing to its large population and inflow of immigrant workforce from Eastern Europe, the pressure to implement automation was not as great as in neighbouring countries. However, the scale of the Polish manufacturing sector combined with a rapidly growing awareness of the Industry 4.0 concept supported by Polish government initiatives launched in 2018 combined with the high-level skills of Polish IT engineers, allow us to predict that Poland is on the verge of the 4th industrial revolution and the rapid adoption of Industry 4.0 technologies. This means massive investments and growing demand for automation and robotics in the coming years. Interviews indicate that due to the positive image of Japan, Japanese companies and their factory automation solutions can provide an attractive alternative for German producers.

3.4 Succession in Polish family businesses as a new M&A market

The Polish economy is largely based on the activity of the so-called family businesses. Contrary to popular belief, these are not restricted to the SME sector, since many of them operate on a large scale. These rapidly growing family businesses make the Polish economy one of the fastest growing and also most stable economies in the CEE sector. To illustrate this, family businesses account for approx. 36% of all businesses in Poland, generating approx. PLN 322 billion of the Polish GDP. A significant part of M&A transactions in Poland are based on this segment. However, most family businesses are entities created and developed at the beginning of the Polish systemic transformation, i.e. in the 1990s, now entering the next stage of development – their original founders gradually stepping aside for their successors.

There are many ways to avoid family business succession, but none of them are perfect and primarily depend on the business's environment and standing. Sudden succession can drive the business into numerous operational problems, fragmentation and even, due to poor management, bankruptcy. Business sale should be an option primarily when the business is growing, however, succession is impossible if there is no suitable successor.

It should be noted that the current generational change is the first such change in Poland due to the recent historical background. It is thus reasonable to assume that family business succession will follow a different pattern than in Western Europe where it is more commonplace. In Poland, the desire to avoid succession, arising from family conflicts or generational differences and Polish entrepreneurs' inexperience in this area increasingly often support business sale as a way to avoid succession.

Such a tendency is also evident in future successors' attitudes towards family business take-over. Surveys of the Family Business Institute reveal that only 8.1% of successors want to take over a family business in the future.

The above strongly indicates that numerous family businesses will be sold in the near future and this trend will have a significant impact on the M&A transaction market in Poland. Since 2015 the impact of succession problems on the M&A transaction market has been evident in the Polish market. This is evidenced primarily by the structure of the market itself with private entrepreneurs being the dominant group.

Analysts agree that many family businesses will opt out of succession in the years to come, thus resulting in prosperity and an increase in the volume of transactions on the M&A market. This is undoubtedly good news for investors and this trend together with other factors make Poland one of the most attractive CEE countries for such transactions.

3.5 New perspectives for the pharmaceutical industry

The Pharmaceutical market is constantly growing. According to a report published by international healthcare consultant company IQVIA, the total value of the pharmaceutical market in Poland in 2017, counted in retail prices amounted to PLN 38.3 billion and continues to increase by 4.9% a year.

Thanks to a highly educated workforce and the accessibility of funding for innovative products, not only pharmaceutical, but also biotechnological products develop dynamically and successfully. However, regardless of statistics, Polish patients still face limited availability of certain items or fall victim to counterfeit products. Having the public health and economic growth in mind, the Polish government is takings action to improve the investment attractiveness of the country for companies investing in R&D and factories in Poland.

"Medicines management policy 2018–2022", a document approved by the government on December 7th 2018 includes a detailed analysis of the current state of affairs and recognition of the issues specific for the pharmaceutical industry, as well as tools to solve them.

One important factor raised by the document is the necessity of increasing clinical trials conducted in Poland. The implementation of EU law to the Polish legal framework, creation of the Medical Trials Agency and the support of competent authorities at the stage of drug development planning are all designed to improve the competitiveness of Poland as a country for the conducting of clinical trials.

The government is also aware of the important role played by several sophisticated factors in hindering the growth of the industry. Therefore, government ministries and national authorities are working on the optimization of the market via:

- IT solutions and the exploiting of opportunities presented by e-tools in cooperation with the infrastructure of registration agencies and European institutions;
- Encouraging e-submission of registration applications;
- Scientific advice and improvement of communication with the Office for Registration of Medicinal Products, Medical Devices and Biocidal Products.

The counterfeiting of medicinal products, with all associated economic and social consequences, is also being targeted. Poland is currently implementing the European Medicines Verification System (EMVS), and the "Medicines management policy 2018-2022" document also recommends joining Medcrime, to secure the market for original and safe medicinal products.

The cost of certain therapies is fully or partially covered from public funds, beneficial for both patients and pharmaceutical companies. The Government is thus aiming to provide stable financing of reimbursed products, improve the effectiveness of reimbursement and expand the catalogue of therapies included in the budget. It is expected that the authorities will soon focus on transparency and open dialogue between the parties involved in reimbursement process. Therefore keeping a close eye on upcoming legislative changes on the Polish pharmaceutical market is recommended for companies interested in investment.

Innovation has become the key word for the Government's actions in the pharmaceutical industry. The Ministry of Entrepreneurship and Technology is currently working on the "Innovative Development Procedure" to encourage investors to produce biosimilar and innovatory medicinal products in the territory of Poland. The details of this procedure and methodology are expected to be announced by the ministry any day now.

3.6 Making Polish cities smart – the growing market for increasing energy efficiency

Improved energy efficiency is a major goal of the Polish 2040 Energy Policy and one of the steps in the process of making Polish cities smarter. As a member of the European Union, Poland is obliged to develop and execute a national action plan to increase its energy efficiency. In line with this, Poland has declared a national target of 20% in improving energy efficiency by 2030 in comparison with the base year 2007.

The need to improve energy efficiency concerns most sectors of the Polish economy including energy generation, public services, commercial and industry as well as transportation and even individual households. The different means of achieving energy efficiency concern among others imposing obligations on entrepreneurs to achieve certain efficiency levels, modernization of the existing municipal infrastructure (thermo-modernization, replacement of municipal lighting systems), improved energy generation techniques, development of energy storage and development of smart grid solutions.

In Poland, due to the significant cost of improving energy efficiency, a great number of projects still rely on public support from bodies such as the National Fund for Environmental Protection and Water Management (NFOŚiGW) in addition to the EU. With the expected decrease in EU financial support for Poland in the near future, a number of Polish companies and municipalities will need to seek alternative schemes for financing these energy efficiency projects.

A promising contractual scheme designed to promote and support increased energy efficiency, and based on alternative funding methods concerns the so called Energy Performance Contract (EPC). The EPC is an arrangement between the beneficiary (e.g. a municipality or company) and an Energy Service Company (ESCO), in which investments in certain energy efficiency measures are paid for in relation to a contractually agreed level of energy efficiency improvement or other agreed energy performance criterion, such as financial savings. As a result the ESCO's profit from introducing certain energy efficiency measures is covered from savings that the beneficiary obtains as a result of smaller bills for energy and as such leads to the self-financing of these type of projects.

The main advantage of the EPC contractual scheme is that the beneficiary does not bear the burden of investment or financial risk associated with an energy efficiency project and can be undertaken by the infrastructure owner even without the securing of funding. The ESCO model is very attractive for the industry as it enables assigning energy management to an external entity (ESCO) and making use of ESCO's professional knowledge, experience, tools and financial resources without engaging the beneficiary's own resources.

3.7 Support schemes for the Polish energy sector

The draft Polish 2040 Energy Policy, introduced for public consultations in November 2018, presented a number of ambitious goals to be achieved by the Polish Energy sector in the upcoming years. The most important goal, to be achieved by 2030 concerned among others lowering the share of coal based energy generation to 60%, increasing the share in energy consumption from renewables to 21%, limiting CO^2 emissions by 30% of the 1990 value and improving energy efficiency by 23%. The existing generation units are still to a large extent based on fossil fuels including coal and lignite. In this context, there is a need for massive investments into Energy infrastructure in the upcoming decades in order for Poland to achieve the above stated goals, including the improvement in CO^2 emission standards required by the EU.

An important factor in any energy investment project is the possibility of obtaining the projected return on investment. However, most energy projects will not make a business case without state support due to regulated energy prices, which are designed to provide both individuals and companies with affordable energy prices.

Poland has introduced a number of support schemes for energy aimed at on the one hand incentivizing owners of existing generation units to maintain their fleet, and on the other to invest in new generation units. These support schemes depend both on the generation technology used as well as size of the unit. The most important support schemes for the new investments in the Polish energy sector include the capacity market, mainly dedicated to large scale base load generation projects, and a number of support schemes for renewables, including auctions, feed-in tariffs or feed in premium.

Capacity market

The capacity market is based on the premise that energy producers guarantee readiness to deliver certain volumes of power to the system within the delivery period and to also deliver this during emergency periods. The capacity market is expected to significantly change the functioning of the energy market in Poland and promote more flexibility in energy production. Even though, at least from a theoretical view point the capacity market is technology neutral, the most suitable form for this support scheme are the base load generation units, as contrast with renewable sources, they guarantee availability on demand.

Renewables

The support schemes for renewables depend on the type of technology used as well as the capacity of generation units. The different forms in which the state supports renewables include priority of access to the network, auctions that are intended for energy generation units ensuring availability and appropriately high power. Feed in tariffs and feed in premium schemes are used for installations of relatively low power, used to manage energy not used by a small producer. Other existing support schemes include subsidies, repayable assistance (local), or tradable green certificates.

Future

With the growing market for some of the new technologies, including in particular offshore wind, there are still works going on regarding the development of new support schemes. Bearing in mind the planned introduction of the first Polish nuclear power plant by 2033, Poland will need to also develop a support scheme for this technology.

3.8. Start-up your business without a physical presence in Poland

Rapid expansion without a large input of resources can be fundamental to business success. Expanding a business into a new geographical market may seem daunting with many business trips and confusing red tape and the need to maintain a permanent representative abroad. However, all this may not be necessary.

In Poland, starting a business from your home country by means of an investment has never been easier!

The business structures available in Poland mirror the most common worldwide models, with the most basic and most common being the Limited liability company (Polish: Spółka z ograniczoną odpowiedzialnością - Sp. z o.o.). The minimum share capital is only PLN 5,000 (approximately USD 1,350). Limited liability means that the shareholders are not liable for any debts provided that have completed their capital contributions, and offers a time- and cost-efficient method of setting up a business.

Although other structures are possible, we have chosen the Limited Liability Company model as a quick and cost-efficient method of setting up a business in Poland without the need for the physical presence of company representatives.

The legal entity is actually created when the Articles of Association, drawn up before a notary public. are signed by the company founders who may be either natural persons or other legal entities. However, due to regulations arising from the Polish Commercial Companies Code, this must take place in Poland. Nonetheless, foreign investors commonly nominate a proxy by way of a power of attorney in the home country, which offers a valid legal basis in Poland. Company documents such as foreign register excerpts, and tax statements proving the existence of the entity should be supplied to the proxy, who then visits a Polish notary to sign the Articles of Association. Generally, a local attorney familiar with company law would be ideal for this purpose. From this point onwards, basic company activities such as signing contracts and hiring staff can be performed. The final step in the process is registration of the new company in the register of entrepreneurs.

Due to Poland's proximity to other countries in the CEE region, an affordable and skilled workforce is always available. Employment contracts may also be concluded on behalf of the company by the proxy, and day-to-day management can be assigned to local teams. The proxy will be able to assist in the appointment of an accountant or tax advisor to keep the company books in compliance with local regulations. Now trading can begin!

Part 4. Evolving legal framework

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4.1. Employment law in Poland

There are several working time systems that may be applied to employees in Poland. The most popular is the standard working time system (where working time may generally not exceed 8 hours per day with an average of 40 hours per average five-day working week), a task-based system (where working time is defined by the tasks entrusted) and an equivalent working time system (where working time in a 24-hour period may be extended by up to 12 hours).

Employers in Poland generally have a wide level of discretion when it comes to determining employees' remuneration levels. It is, however, important that employees are remunerated equally for equal work or work of an equal value. Additionally, remuneration for work may not be lower than the minimum remuneration set out in applicable laws. The employer is also responsible for deducting and paying social security contributions and personal income tax on a monthly basis for each employee. An employee's income tax is levied at progressive rates (18% and 32%), depending on an individual's taxable income for the calendar year (in 2019, the higher threshold applies to income over PLN 85 528).

Upon exceeding certain headcounts, additional obligations will also arise on the employer's side. For example, employers with at least 50 employees are obliged to introduce: (i) workplace regulations, (ii) pay rules and (iii) rules regarding a social fund. While

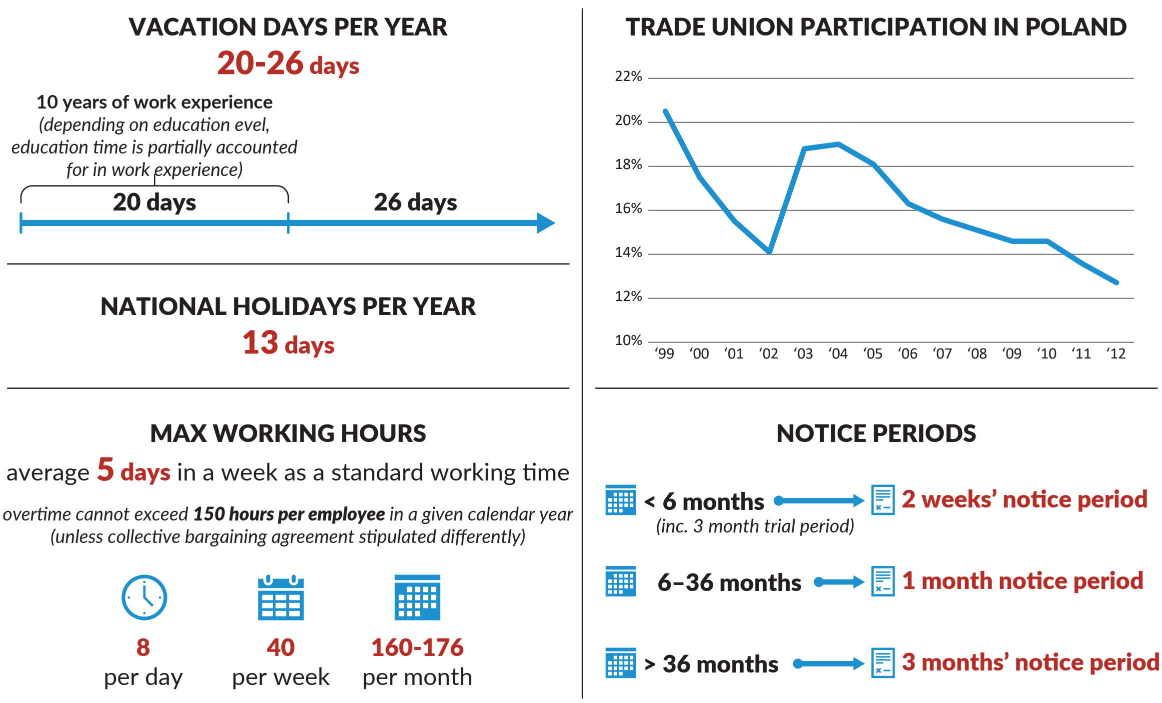
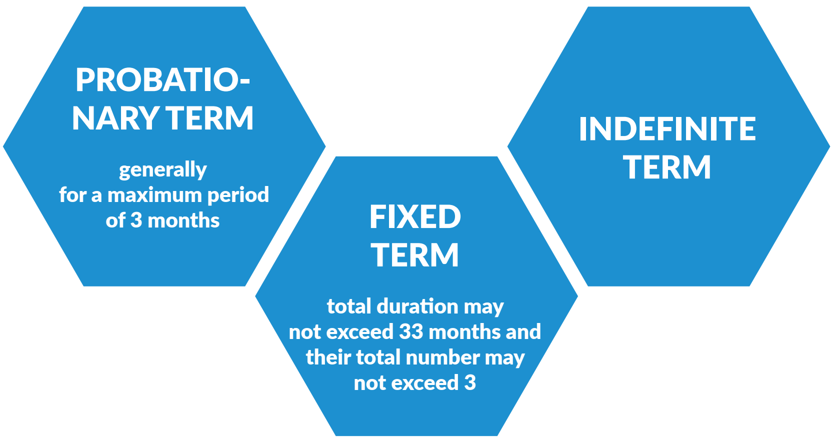


Figure 11
Business friendly labour law regulations
Source: OECD, 2017

exceeding 100 employees' threshold, a health and safety service should be created. At this point, the employees may also form a trade union and work council, aimed at representing their interests, having a significant position in the workplace (reflecting the importance of the trade union movement in Poland's recent past). A union must be established by at least 10 persons performing paid work (i.e. employees and individuals employed under civil law contracts) while works council may be created in enterprises employing at least 50 employees.

TYPES OF EMPLOYEMENT CONTRACTS IN POLAND



In Poland, work may also be performed under civil law contracts which represent a different legal form than employment contracts (the most popular are: mandate contracts, contracts for specific task and self-employment). Their performance is governed by the Civil Code. Generally, the rules of their execution are far more flexible than employment agreements (e.g. there are no limits when it comes to working time).

To legally work in Poland, the foreigner needs to obtain a work permit. There are six different types of work permits (types A-E and S-type); with each applying to different factual circumstances. In practice, the most popular is the type A (issued to an individual working in Poland under an employment/ civil law contract with an employer having its seat in Poland) and type C (issued to an individual working for a foreign employer, who is assigned to Poland to a branch/plant belonging to the foreign employer for a period exceeding 30 days in a calendar year). The work permit is obtained by the employer, acting on the behalf of a foreigner and take around one month to acquire. However, a work permit by itself does not allow a foreigner to work in Poland. It is also necessary to legalize an individual's stay in Poland (e.g. by obtaining a visa or residence permit). Alternatively, a foreigner may request temporary residence and work permit, which allows the individual both to work and to stay on territory of Poland.

4.2. Digitalization of Taxation in Poland

In recent years, the Polish tax system has been undergoing a significant reconstruction. Each entity planning to invest in Poland should primarily consider two main aspects of these changes, i.e. (i) increased tax compliance obligations for entities doing business in Poland and (ii) implementation of IT solutions by tax administration (which require the aligning of taxpayer systems and procedures with tax administration requirements).

Key investor information with regard to tax compliance are:

- **Mandatory Disclosure Rules (MDR)**
  Poland has implemented MDR legislation as of 1 January 2019 (following on from EU Directive 2018/822 aiming at the automatic exchange of taxation information in relation to reportable cross-border arrangements). The Polish MDR legislation requires the reporting of specified cross-border and domestic arrangements with noncompliance carrying heavy fines (i.e. by a personal fiscal-penal liability of up to c.a. PLN 21.6 million for persons responsible for handling financials and fines of up to PLN 10 million for the company). Thus MDR compliance is highly recommended.

- **Withholding tax ("WTH") compliance rules**
  As a general rule, payments made by a Polish entity such as license fees, interests, dividends or other similar payments are subject to WHT in Poland at a default rate of 20%. It is possible to apply WHT at the reduced rate of 10% (or a total exemption from tax in certain cases) pursuant to the applicable double taxation treaty signed between Poland and Japan (DTT). Application of this tax benefit requires possession of a tax certificate confirming that the beneficiary of interest is a tax resident in Japan.

  Starting from January 1, 2019 rules regarding WHT in Poland have become more complex. In particular, all payments qualifying for WHT over PLN 2 million are subject to a default WHT at 20%, regardless of the provisions of DTT. The payee or a taxpayer may only apply for a tax refund (in case of being entitled, via the DTT, to a reduced tax rate). Application of these new WHT rules have been postponed until 30 June 2019, although the new WHT compliance regimen is already in force, i.e. a Polish entity is obliged to make payments with "due diligence". Implementation of a proper WHT due diligence procedure is highly recommended.

- **Value Added Tax ("VAT") compliance rules**
  Entities doing business in Poland should also consider introducing a proper VAT due diligence procedure, in particular when trading in an industry commonly facing VAT fraud (such as trading electronics or recently in the case of telecommunication services).

Key investor information with regard to implementation of IT solutions (digitalization of taxes):

- **JPK schemas** – Polish taxpayers must comply with mandatory data reporting, in particular VAT and CIT data reporting. This requires robust and proper IT solutions.
- **Electronic submission of financial statements and certain tax documents** – most tax documents have to be submitted in Poland electronically. This requires the use of electronic signatures or a unique secure profile registered with the tax administration. As financial statements have to be signed by each and every member of the directors board (and may not be performed by a proxy), each member of a management board has to thus personally obtain such electronic signature or secure profile.

4.3. Restriction of the use of certain hazardous substances in electrical and electronic equipment

Before introducing electrical or electronic equipment (EEE) onto the Polish market, it is necessary to meet the environmental protection requirements with regard to the use of certain hazardous substances. These requirements affect not only the producers of final products, but also - directly or indirectly - importers, distributors and the supply chain.

EU requirements regarding restrictions in the use of hazardous substances in EEE are currently harmonised via Directive 2011/65/EE of the European Parliament and of the Council of 8 June 2011 on the restriction of the use of certain hazardous substances in electrical and electronic equipment (ROHS II).

ROHS II forbids the introduction to the market of any EEE item made of materials containing the following substances in a value exceeding the maximum specified concentration : Lead, Mercury, Cadmium, Hexavalent chromium, Polybrominated biphenyls (PBB), Polybrominated diphenyl ethers (PBDE). On the basis of Commission Delegated Directive (EU) 2015/863 of 31 March 2015, beginning from July 22, 2019 the following hazardous substances are to be added to the above list : Bis(2-ethylhexyl) phthalate (DEHP), Butyl benzyl phthalate (BBP), Dibutyl phthalate (DBP) and Diisobutyl phthalate (DIBP). According to ROHS II, manufacturers of EEE are obliged i.a. to:

- draw up the required technical documentation and carry out an internal production control procedure;
- draw up an EU declaration of conformity (according to the specifications of Annex VI to ROHS II) and affix the CE marking on the finished product;
- retain technical documentation and the EU declaration of conformity for 10 years after the EEE has been placed on the market;
- ensure that their EEE bears a type, batch or serial number or other element allowing its identification on the EEE (or its packaging);
- indicate their name, registered trade name or registered trade mark and the address at which they can be contacted on the EEE (or its packaging).

ROHS II also imposes some of the obligations of directive compliance for importers and distributors of these products. The Directive does not impose obligations directly on the supply chain, but manufacturers, in order to meet the requirements of ROHS II, transfer their liabilities onto the suppliers, particularly in order to reduce their own costs.

In Poland ROHS II is implemented via the Regulation issued by the Minister of Development and Finance of December 21, 2016 on basic requirements regarding the restriction of the use of certain hazardous substances in electrical and electronic equipment.

4.4. Compliance of production activities with the REACH Regulation

The EU Regulation (EC) No 1907/2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), is the most important legal act on chemicals covering, in principle, all substances used on their own, in mixtures or in articles. REACH is also one of the most complex and challenging regulations in the EU. In addition, the implementation of REACH involves high costs (e.g. costs of information exchange management in the supply chain, registration fee, costs of tests and analysis, costs of translating documents, costs of changing formulas and assortment), as well as a large amount of time needed to do so.

The purpose of REACH is primarily to ensure a high level of protection of human health and the environment while enhancing the competitiveness and innovation of the European chemical industry. It also promotes the development of alternative methods for assessment of hazards of substances.

The rules of REACH apply to chemicals used in industry, but also should be taken into account in relation to substances used in everyday life - in cleaning products, electronic devices, adhesives, paints, and as an element of furniture or clothing. REACH therefore applies to almost all products available in the EU (both those produced in the EU and those imported from outside the EU)

Although REACH applies in the EU (and the EEA and EFTA states), it may also affect entrepreneurs established outside the EU. It sets forth reporting requirements for chemicals imported into the EU - according to REACH, producers and importers are required to register a manufactured or imported substance if its weight exceeds 1 ton a year (REACH provides for certain exemptions from the registration obligation).

According to REACH, these are entrepreneurs who are responsible for assessing the risks and threats posed by chemicals manufactured and marketed in the EU, and managing the related risks. Entrepreneurs dealing with chemicals should make recommendations to other actors in the supply chain. This should include an appropriate and transparent description, documentation and notification of risks arising from the manufacture, use and disposal of any substance.

In connection with the implementation of REACH, the entrepreneur, among others:

- should define its role under REACH, i.e. whether it is a manufacturer, importer, distributor or downstream users of substances, which will make it possible to determine the specific obligations incumbent upon it;
- should draw up a list of substances which the entrepreneur manufactures, imports or uses (on their own (e.g. formaldehyde, aluminium), or in mixtures (e.g. grease, ink) or in articles (e.g. toys, mobile phone). Then, check for each of these substances, whether they are subject to REACH and, if so, to which provisions and also whether the substance is on the restriction list, whether there are any exemptions that apply to it;
- should verify what is the annual quantity of the manufactured or imported substance in its own, in mixtures or in articles;
- should consider appointing a person or a team of persons within the company to be responsible for meeting the requirement of REACH. It is also worth considering cooperation with a consulting company and advisors or appoint a third party representative for proceedings under specific provisions of REACH involving discussions with other manufacturers, importers, or where relevant downstream users.

Part 5. Incentives

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5.1. Polish Investment Zone as a new regulation for business

In order to meet business expectations, in June 2018 the Polish parliament introduced the New Investment Support Act. Thanks to this new regulation, nearly 100% of Poland's geographical area now comprises a unified zone in which companies can benefit from tax advantages. This is a fundamental step up compared to the previous regulations from the late 1990s, where Special Economic Zones covered a mere 0.08% of Poland's area. Under the applicable Polish Investment Zone, it is possible to obtain a CIT or PIT exemption for a period of 10, 12 or 15 years after meeting certain location dependent conditions.

The criterion of granting public aid in the new regulation is not limited to a quantitative measure, considering the minimum required investment based on the unemployment rate in a given county and the size of the company involved, but also takes into account certain qualitative parameters affecting the country's sustainable economic development. The

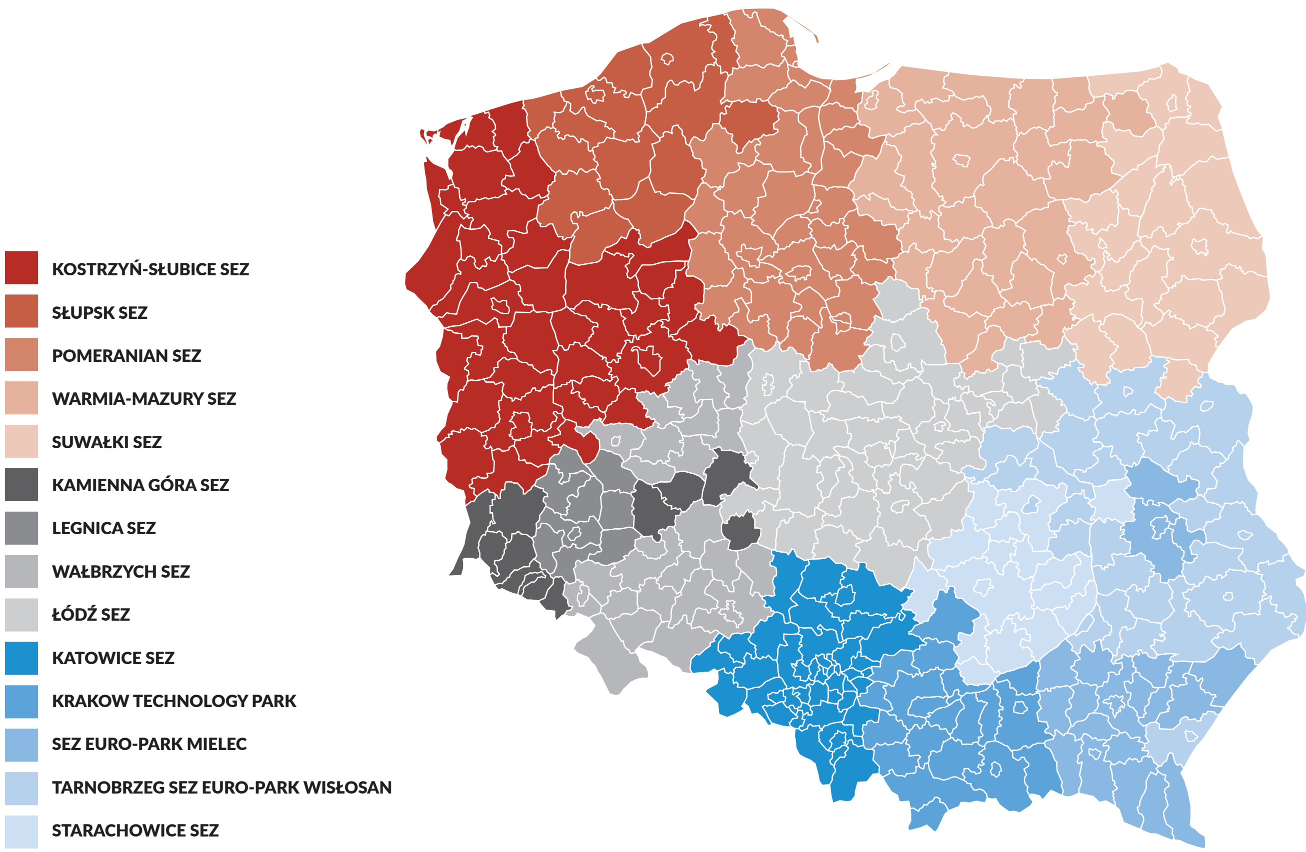

Figure 12
Polish Investment Zone

quality criteria, included in the Polish Investment Zone, motivate investors to go for projects which create highly specialized workplaces, perform export sales, and collaborate with R&D institutions.

Furthermore, the decision to grant support applies not only to the implementation of new projects but also for a planned expansion of existing businesses, such as opening a new plant, increasing of production capacity, introduction of new products, or new innovations.

5.2. Benefits for Investors

Starting from the middle of last year, investors can take advantage of the income tax exemption in connection with the implementation of new investments located anywhere in Poland, a project ultimately to replace the SEZ (special economic zone). The new legal arrangements provides companies with the possibility of obtaining tax exemptions for investments provided that they comply with the eligibility rules. Alike to the SEZ credit, the PIZ exemption allows for CIT exemption of income generated by activities covered by a decision on support and conducted within the specified territory .

The level of tax exemption depends on the location of the investment and size of the given company equalling 10% - 50% for large enterprises, 20% - 60% for medium enterprises and 30% - 70% for micro and small enterprises.

The value of aid is calculated as a product of the maximum aid intensity multiplied by the higher value of costs (two-year employment costs of newly created jobs or eligible investment costs). Additionally, the maximum aid intensity for large investment projects (above EUR 50 million of eligible expenditures) is additionally scaled down with the maximum amount of aid established according to a specific formula - the product of standard intensity in the location of the investment and EUR 50 million increased by 50% of costs between EUR 50 and 100 million and 34% of costs over EUR 100 million. Public aid for projects exceeding EUR 100 million should be consulted directly with PAIH.

The qualitative criteria differs according to the type of investment, with slightly differing criteria for industrial and service sector investments. In both cases criteria are divided into two groups: sustainable economic development and sustainable social

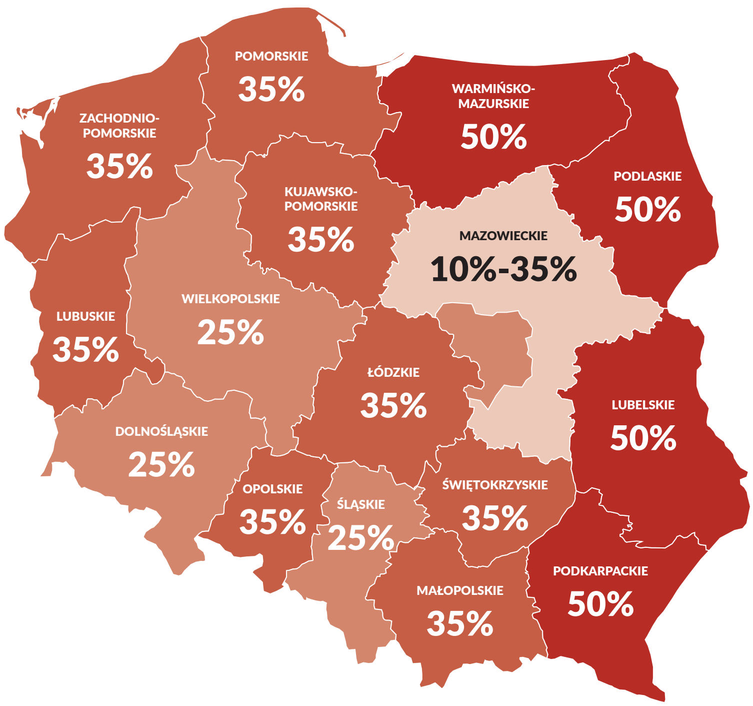

Figure 13
Public aid intensity for large investors 2014-2020

development. Each group has five criteria, each of them for 1 point, with 10 points being the maximum.

The greatest advantage of the new aid scheme is not only the increased flexibility in the investor's choice of location, but also a significantly longer period of tax exemption. This especially concerns investments located within Special Economic Zone areas or regions with highest (50%) aid intensity. In these locations the exemption period could last up to 15 years and almost doubles the period granted under the Special Economic Zone (8.5 years). The decision regarding support is granted via an administrative body, hence the procedure should not take longer than 30 days from submitting the application and may be submitted throughout the year. It is worth considering the potential location of the investment, because the following factors are evaluated with respect to this:

- minimum required value of eligible investment costs under the quantitative assessment
- maximum aid intensity and the amount of available tax exemption
- period of tax exemption
- number of required points within the qualitative evaluation

In addition to the above forms of investment incentives, from 1st January 2019 Poland offers plenty of support instruments for investors conducting R&D activity: R&D tax relief, Innovation Box, and governmental R&D grants in addition to several programmes co-financed with EU funds.

R&D tax incentives in CIT entitles taxpayers to make additional deduction of the expenditures related to R&D activities from the tax base (up to 250%). Poland's Innovation Box complements the existing tax preference system for innovative activities and introduces a preferential 5% tax rate of qualified income from qualifying intellectual property rights (instead of 19% tax rate); the Polish intellectual property rights catalogue is one of the broadest worldwide and the reduced 5% tax rate is one of the lowest of all developed countries. The above forms of aid combined with a governmental programme of grant aid for R&D projects make Polish RDI environment unique and extremely beneficial for investors.

Figure 14
Minimum number of points required for eligible projects

Part 6. Investment & legal advisory

Polish Investment & Trade Agency PFR Group

kochański & partners Business Law Firm

Entering a new market requires analysis of numerous factors, such as the availability of a skilled workforce, macroeconomic conditions of a country, location, proximity of sub-suppliers and business partners, quality of infrastructure, as well as availability of investment incentives. The main aim of Polish Investment and Trade Agency is to support foreign direct investment in Poland as well as Polish outgoing projects. Having over 15 years of experience PAIH is able to provide advisory in all mentioned areas. What is more, as a governmental agency PAIH has an established relationship with local authorities, special economic zones and governmental institutions.

In order to help Polish and foreign investors PAIH has established a network of Foreign Trade Offices which offer professional on-site support in biggest cities of 59 countries. One of the first opened offices was in Tokyo. Since its opening in the beginning of 2017 our Foreign Trade Office has served many Japanese companies who were considering Poland as investment destination. PAIH experts provide basic information about Polish market, investment climate, available incentives and link investor with central office in Warsaw.

At the same time with over 20 years of assistance to foreign companies conducting business and investing in Poland, and a dedicated Japan Desk, Kochański & partners is in a strong position to guide Japanese investors in Poland. With strong connections with the Polish business community and comprehensive understanding of the Polish economy, the Firm assists foreign investors not just from a narrow legal perspective, but in the wider aspect through finding the right business partners, in tender processes and governmental relations. The Firm provides specialized services in ten key sectors. By focusing on these key sectors the investors can be assured that Kochański & Partners not only provides standard legal services, but also a deeper understanding, knowledge and market intelligence of the industry sectors that ensures the absolute highest level of service.

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