Made in Poland
An Investment Guide for Manufacturing Sector Companies

2016
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Foreword

During the last quarter of the century, Poland made the long journey from being a failing communist state to being a developed market economy and a significant growth pole in the European Union. It is today the sixth largest EU state in terms of economic output, with growth forecasts for the next couple of years being considerably higher than the EU average.

Poland’s economic and demographic weight is not to be underestimated: with its 38 million inhabitants the country is a large consumer market. Its strategic location in the heart of the continent, where the east-west and north-south routes intersect, makes it a unique and attractive place for industrial investments.

The country has been improving its competitive edge with large investments in infrastructure, which leverage on its attractiveness stemming from its location in Central Europe. Today, the modern road network provides convenient connections with most of its neighbours, including Germany. This, coupled with a highly skilled and motivated workforce, and favourably low labour costs, alongside the availability of investment incentives make Poland a very attractive business-friendly location.

The very positive feedback we received to the first edition of the “Made in Poland” report, which provided a local insight and guidance into investing in the country, convinced us to once again team up with our partners: the Polish Information and Foreign Investment Agency (PAiIiIZ), EY and Hays Poland. This co-operation has allowed us to provide you with the most up-to-date report yet.

This report aims to offer guidance to international manufacturing sector companies that wish to establish a presence in Poland and gives an inside view of the country’s manufacturing landscape. It also offers comprehensive expertise on the Polish labour market with regard to the manufacturing sector and advice on important legal topics, such as the structure of grants and incentives, setting-up a business, and tax. Insights on the manufacturing industry also include analysis of sectors. The commentary on the real estate market provides a guide to the different acquisition and rental methods, timeframes and market practices.

We would like to thank all of the partners involved for their valuable input in preparing this report. We firmly believe that “Made in Poland” is a useful source of information about investing in this country.

Tomasz Olszewski
Head of Industrial Department CEE
JLL

Sławomir Majman
President of the Board
Polish Information and Foreign Investment Agency
Executive Summary

Since Poland’s accession to the European Union in 2004, its economy has been growing at an average rate of 3.9% per annum. Strong economic fundamentals were evidenced during the recent global financial crisis, when Poland’s economy, unlike many other European countries, did not fall into recession. In fact, Poland is often held up as a role model for economies undergoing transformation.

The country is stably anchored within the European Union and for the last few years has in fact been one of the EU’s main growth engines. With its location in the heart of the European continent and its recently much improved transport links, Poland is today a growing manufacturing hub, attracting companies from numerous production sectors.

The characteristics outlined above have led to Poland becoming an established exporter of industrial products, a convenient location for production of goods and the gateway to the CEE and the European Union.

The Labour Market

Poland offers favourable investment conditions for manufacturers looking to expand in Europe. There are more than 370,000 entities operating in the manufacturing sector across the country, employing more than 2.3 million people.

Polish employees are perceived as highly skilled and motivated. However, the costs of labour and social security contributions are still markedly lower than in the majority of European countries. Poland’s education system is well connected to the labour market, with increasingly higher numbers of technical and vocational schools graduates.

Attractive Public Aid Programs

In addition to the above, manufacturers investing in Poland can choose from a wide range of opportunities for obtaining financial support from both the European Union and domestic sources. Attractive incentives are offered in the form of government cash grants, tax exemptions in Special Economic Zones (SEZ), real estate tax exemptions (RETX) and R&D tax relief.

The Evolving Manufacturing Sector

Thanks to its strategic location in the heart of the continent, adjacent to Germany, Poland is an attractive investment location for European manufacturers. The key drivers of FDI are domestic market growth potential and proximity to European markets, closely followed by infrastructure, logistics and the availability of a skilled labour pool.

Poland also attracts manufacturers from overseas markets as it offers a regional platform to both: the CEE (Central and Eastern Europe) region, with some 100 million consumers, and the wider European Union market of 500 million customers.

Industrial production in Poland is increasingly more advanced, with growing output from the electronics, automotive and aviation sectors, to mention just a few.

A recent study found that investors appreciate Poland as a location for doing business and the vast majority would invest here again.

A Maturing Real Estate Sector

The modern industrial real estate market offers a wide variety of opportunities for manufacturers. The market is transparent and investors can make informed decisions as to whether to own or rent a facility. The permitting process is clear and the amount of prime industrial land available in Poland is increasing.

The market is highly competitive, featuring the presence of many large international developers, who offer high quality manufacturing and warehouse space. The existing supply is no longer restricted to the main industrial clusters and developers have land banks allowing for the rapid development of new schemes in a number of prime and secondary locations.

There are a number of legal structures that can be used for doing business in Poland. Most of them are available to Polish and foreign investors based in the EU or EFTA member countries or countries which have entered into specific international agreements with the EU.
Its large, talented and cost-efficient labour pool is one of the key location advantages of Poland.
The two most important components of employer costs are salaries and social security contributions. The salary ranges for roles typical for manufacturing companies in Poland are presented below.

### Gross Monthly Salary Ranges in PLN for Manufacturing Roles

<table>
<thead>
<tr>
<th>Role</th>
<th>MIN</th>
<th>OPT</th>
<th>MAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant Manager (up 100 FTEs)</td>
<td>13,500</td>
<td>17,500</td>
<td>22,000</td>
</tr>
<tr>
<td>Plant Manager (100-500 FTEs)</td>
<td>16,500</td>
<td>26,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Plant Manager (more than 500 FTEs)</td>
<td>30,000</td>
<td>35,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Production Manager</td>
<td>8,500</td>
<td>12,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Shift Leader (Mroz) (50-100 FTEs)</td>
<td>4,500</td>
<td>7,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Production Planner (3-5 years of exp.)</td>
<td>4,000</td>
<td>6,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Quality Manager</td>
<td>9,500</td>
<td>14,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Quality Process Engineer (3-5 years of exp.)</td>
<td>5,000</td>
<td>6,500</td>
<td>9,000</td>
</tr>
<tr>
<td>Supplier Quality Assurance Engineer (3-5 years of exp.)</td>
<td>5,000</td>
<td>7,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Customer Quality Engineer (3-5 years of exp.)</td>
<td>5,000</td>
<td>7,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Engineering Manager</td>
<td>11,500</td>
<td>14,500</td>
<td>20,000</td>
</tr>
<tr>
<td>Production / Process Engineer (3-5 years of exp.)</td>
<td>5,000</td>
<td>7,500</td>
<td>10,000</td>
</tr>
<tr>
<td>Project Manager</td>
<td>8,500</td>
<td>13,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Project Engineer (3-5 years of exp.)</td>
<td>5,500</td>
<td>8,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Lean Manager</td>
<td>11,500</td>
<td>16,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Black Belt</td>
<td>10,000</td>
<td>14,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Lean Manufacturing Engineer (3-5 years of exp.)</td>
<td>5,500</td>
<td>8,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Maintenance Manager</td>
<td>7,500</td>
<td>12,500</td>
<td>18,000</td>
</tr>
<tr>
<td>Maintenance Engineer (3-5 years of exp.)</td>
<td>5,000</td>
<td>7,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Tooling Engineer (3-5 years of exp.)</td>
<td>7,000</td>
<td>9,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Electrician (3-5 years of exp.)</td>
<td>4,500</td>
<td>6,000</td>
<td>7,500</td>
</tr>
<tr>
<td>Mechanic (3-5 years of exp.)</td>
<td>4,500</td>
<td>6,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Design Engineer (3-5 years of exp.)</td>
<td>5,000</td>
<td>7,000</td>
<td>10,000</td>
</tr>
<tr>
<td>EHS Manager</td>
<td>8,000</td>
<td>11,500</td>
<td>18,000</td>
</tr>
<tr>
<td>EHS Specialist (3-5 years of exp.)</td>
<td>5,000</td>
<td>7,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Purchasing Manager</td>
<td>9,000</td>
<td>14,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Purchasing Specialist (3-5 years of exp.)</td>
<td>4,500</td>
<td>6,500</td>
<td>9,000</td>
</tr>
<tr>
<td>Commodity Buyer</td>
<td>7,500</td>
<td>10,500</td>
<td>15,000</td>
</tr>
<tr>
<td>Project Buyer</td>
<td>7,500</td>
<td>9,500</td>
<td>12,000</td>
</tr>
<tr>
<td>Logistics Manager</td>
<td>8,500</td>
<td>13,500</td>
<td>18,000</td>
</tr>
<tr>
<td>Logistics Specialist (3-5 years of exp.)</td>
<td>4,500</td>
<td>6,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Warehouse Manager</td>
<td>6,000</td>
<td>8,500</td>
<td>13,000</td>
</tr>
<tr>
<td>Transport Manager</td>
<td>6,000</td>
<td>9,500</td>
<td>13,000</td>
</tr>
</tbody>
</table>

### Changes in Total Labour Costs Since 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>158.7</td>
<td>139.4</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>139.4</td>
<td>143.4</td>
</tr>
<tr>
<td>Estonia</td>
<td>128.5</td>
<td>128.4</td>
</tr>
<tr>
<td>Slovakia</td>
<td>128.4</td>
<td>125.7</td>
</tr>
<tr>
<td>Poland</td>
<td>125.7</td>
<td>120.7</td>
</tr>
<tr>
<td>Hungary</td>
<td>120.7</td>
<td>119.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>119.9</td>
<td>117.7</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>117.7</td>
<td>119.6</td>
</tr>
<tr>
<td>Slovenia</td>
<td>119.6</td>
<td>116.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>116.6</td>
<td>115.3</td>
</tr>
<tr>
<td>Austria</td>
<td>115.3</td>
<td>114.4</td>
</tr>
<tr>
<td>Finland</td>
<td>114.4</td>
<td>113.6</td>
</tr>
<tr>
<td>Germany</td>
<td>113.6</td>
<td>113.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>113.5</td>
<td>112.1</td>
</tr>
<tr>
<td>France</td>
<td>112.1</td>
<td>111.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>111.9</td>
<td>111.8</td>
</tr>
</tbody>
</table>

Source: Hays analyses based on Eurostat, 2014
particular area. This is why the highly industrialised Śląskie and Dolnośląskie regions have average salaries within the manufacturing sector that are up to 20% higher than the poorer and less developed regions of eastern Poland, such as Lubelskie and Podkarpackie (according to data from GUS for Q1 2015).

The second element of total labour costs are social security contributions. The average level of those in Poland is approximately 20% of gross annual salary. The final amount depends on the company’s type of activity (that influences the size of the contribution to the Injury Fund) and the employee’s salary (the contributions are significantly lower after crossing the threshold of PLN 121,650 of annual salary).

The amounts of the contributions to various Funds is presented in table above.

It is also worth noting that Social Security Contributions are significantly lower in Poland that in other CEE countries, such as Slovakia (35.2 %), the Czech Republic (34%) and Hungary (28.5%).

The Inexperienced Talent Pool

Many businesses co-operate with universities by offering traineeships to both students and graduates. Some companies decide to extend this co-operation and become involved in the educational process by organising courses or sponsoring industry-related events held at universities. Businesses from the manufacturing sector are happy to employ graduates with no professional experience. Possible gaps in skills and knowledge can be quickly dealt with by additional in-company training courses. Graduates are most often expected to be open to new experiences, to be ready to learn and be involved.

Secondary School Graduates

Vocational and secondary technical education was in decline for a few years following accession to the EU, so in 2012 the government introduced reforms to make them more attractive to potential students and also to bring the elements of such education closer to the needs of the labour market.

One of the highlights of the reforms was the introduction of qualification frameworks, where qualifications are put together to make up the vocation. This made the system more flexible and enabled schools to create new programs in response to changes in the labour market. In the school year 2013/2014 more than 535,000 young people were studying at technical secondary schools and there were more than 185,000 students at vocational schools. These schools have various educational profiles and the numbers of students for each of the profiles are presented below. The most relevant fields of study for the manufacturing sector are Engineering and Manufacturing & Processing, which were chosen by more than half of vocational school students and more than a quarter of secondary technical school students.
Tertiary School Graduates

Technical studies are also becoming increasingly popular in Poland, thanks mainly to growing awareness among future students and some government programs. In 2014, the four most popular higher education institutions (in terms of the number of applications) were technical universities. Warsaw University of Technology was the most popular one, with 7.9 applicants for every place. The number of graduates has also been growing, as shown in graph below.

What is worth noting is that the total number of graduates in Poland is declining and thus the share of engineering graduates in the total number of graduates is growing. In 2014 it was 7.0%, up by 0.6 percentage points compared to 2013.

Knowledge of Foreign Languages

Candidates for engineering positions are almost always required to speak at least one foreign language, usually English. However, increasingly often technicians are also required to be able to read and write in English as more and more technical documentation is only available in that language. In recent years, Hays Poland specialists have also observed a growing demand for German speakers, especially in the western Polish regions such as Dolnośląskie and Wielkopolskie.

The graph below shows the self-declared levels of language proficiency for engineering students and pupils at secondary technical and vocational schools in Poland.

It is worth noting that the level of German is higher among pupils than among students. One possible explanation is the growing awareness among pupils of the importance of foreign languages – German as a language of choice reflects the strong ties of Polish industry to that of our western neighbour.

Experienced Candidates

In 2014 there were over 370,000 organisations operating in the manufacturing sector in Poland, employing more than 2.3 million people, in excess of a quarter of whom were working in the Mazowieckie and Ślaskie regions alone. Other important manufacturing regions in Poland are Wielkopolskie and Dolnośląskie, as shown on the map below.

The largest manufacturing sector in Poland in terms of employment is the food & beverages industry, which in 2014 employed almost 440,000 people. The second largest is the metal industry (including arms industry) and the third is the automotive sector, which also has the largest average number of employees per company – 34 in one entity.
Employment in the Manufacturing Sector by Industry in 2013

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>18%</td>
</tr>
<tr>
<td>Rubber and plastic products</td>
<td>7%</td>
</tr>
<tr>
<td>Textiles</td>
<td>6%</td>
</tr>
<tr>
<td>Wood products</td>
<td>5%</td>
</tr>
<tr>
<td>Basic metals</td>
<td>3%</td>
</tr>
<tr>
<td>Metal products</td>
<td>12%</td>
</tr>
<tr>
<td>Furniture and wood products</td>
<td>6%</td>
</tr>
<tr>
<td>Other non-metallic products</td>
<td>5%</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>5%</td>
</tr>
<tr>
<td>Paper and paper products</td>
<td>2%</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>5%</td>
</tr>
<tr>
<td>Automotive</td>
<td>9%</td>
</tr>
<tr>
<td>Electronics and electrical equipment</td>
<td>6%</td>
</tr>
<tr>
<td>Machinery</td>
<td>5%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>3%</td>
</tr>
<tr>
<td>Printing and reproduction of recorded media</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Hays analysis based on Central Statistical Office

Unemployment

At the end of October 2015 Poland’s unemployment rate was 9.6%: 0.1 percentage points lower than in September 2015 and 1.7 percentage points lower than the same month in 2014.

Average Unemployment Rate in Poland in Q1-Q3 2015 by Region

Source: Hays analysis based on Central Statistical Office

The total number of registered unemployed persons in Poland at the end of Q4 2015 was over 1.55 million. This represents a significant readily-available talent pool. Polish employers are also able to obtain partial refunds for the costs of training for newly-hired staff previously registered as unemployed (the maximum amount is 50% of the total training cost but no more than the national average wage; for individuals aged 45 and above, it is up to 80% but no more than 300% of the national average wage).

When analysing the Polish unemployment map, the differences between regions are significant. The more developed regions, such as Wielkopolskie, Mazowieckie and Śląskie, have an unemployment rate of below 10%, while in some less developed regions, such as Warmińsko-Mazurskie and Kujawsko-Pomorskie, this rate is often above 15%.

As mentioned previously, the unemployment map can show the parts of the country where there is an accessible labour force, although it is worth considering that there are certain sub-regions in some of the most developed regions that also have high unemployment rates (such as Radomski, near Warsaw, and Bytomski in Śląskie). These regions can enable an investment to be made near a major hub, such as Warsaw, whilst also providing easy access and cheaper costs of the labour force, particularly when hiring blue-collar workers.

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Andrzej Dąbrowski
Operations Manager at SGX Europe Sp. z o.o.

“SGX Europe is a part of SGX Sensortech global high technology company. The business entity was set up in Katowice in August 2015. Our main focus was to build a team, which will serve as a key point for our development.

In Poland, our employees are motivated, well-educated and open to new challenges. High technology solutions delivered by SGX Sensortech as well as the engagement and creativity of Polish employees ensure the success of our business.

The aspects that make Poland an attractive localisation for investments are the considerable size of dynamically growing market, complex investment portfolio, the availability of potential suppliers and the support of local authorities.”
Investors can choose from a wide spectrum of public aid programs, particularly developed to support the manufacturing sector.
Grants & Incentives

Introduction

Choosing the appropriate location for an investment requires a thorough analysis of the potential costs and benefits of the sites. One of the key factors influencing decisions on location is often the availability of state aid.

There are many opportunities for companies to obtain financial support for projects in Poland from both European Union funds and domestic sources. In this publication we focus on the most popular of the aid schemes available for investors from the manufacturing sector. But one should note that when considering a new investment in Poland, it is important for each case to be analysed individually – various sources and types of support may be available, depending on the scope of a given project, size of enterprise and timing of calls for application.

Investors from the manufacturing sector take the above into consideration as they can benefit from different types of state aid in Poland, including, among other incentives, corporate income tax exemption in Special Economic Zones (‘SEZ’), governmental cash grants (formerly the Multi-Annual Support Programme – MASP) and real estate tax exemption (RETax). However, it is worth to notice, that governmental cash grant programme is at present subject to review and update.

The decision regarding location may be determined not only by the forms of state aid available to the investor, but also by the complexity of the procedures regulating the application for a particular form of support in different regions of Poland. The selected location of an investment is conditioned by the amount of support available. Also, the maximum level of state aid is connected with the location of the investment and the size of the investor (small / medium-sized / large company). For the percentages of “maximum aid intensity” applicable in a given region where a project is to be located – please see on the map below.

Special Economic Zones

Special Economic Zones are parts of Poland set up for a specific period of time (until 31 December 2026) where companies’ operations are governed by specific rules. At present, there are 14 SEZs in Poland (as indicated on the map on the left below). Each SEZ consists of several sub-zones which are located in different places, not necessarily next to each other.

The CIT exemption in SEZs is granted under Polish law for companies which have obtained a SEZ permit. That permit specifies the following conditions which the investor must meet:

- value of the planned investment;
- intended level of employment;
- date of commencing the business activity; and
- deadlines for fulfilling all of the obligations mentioned in the permit.

SEZ permit also specifies (by reference to Polish statistical classifications) the activities to be performed in the SEZ which qualify for tax exempt income (revenues from activities not explicitly mentioned in the SEZ permit are taxable under standard rules, i.e. CIT – at a 19% rate). There is a list of activities which cannot be covered by a SEZ permit. Each permit is valid until the end of the SEZ’s existence in 2026 (according to currently effective law).

Map of Regional Aid Intensities in Poland, 2014-2020

Source: Council of Ministers’ Regulation dated 30 June 2014 setting out the regional aid map for years 2014-2020 (Dz.U.2014.878)
Income generated from business activities carried out by an investor in a SEZ is CIT-exempt up to the level in accordance with the below formulas:

- (maximum aid intensity) x eligible investment costs; and
- (maximum aid intensity) x two year employment costs of the newly-created jobs.

It is important to note that, in principle, investment activities may start only after a SEZ permit has been issued.

In order to receive a SEZ permit an investor may either:

- set up in an existing SEZ (i.e. plan an investment on land already covered by SEZ status); or
- apply for a SEZ extension (i.e. request that a SEZ status is granted to new land and then apply for an SEZ permit).

This decision is crucial, as it may affect the project implementation schedule. One should keep in mind that while entering the existing SEZ can be completed within six to eight weeks, SEZ extension can take from six months to a year. As there is not always a suitable location with SEZ status, SEZ extension is sometimes worth considering.

**Governmental Cash Grants**

Polish government grants (formerly the Multi-Annual Support Programme – MASP) come from a regional aid scheme financed from the State budget and dedicated to supporting large investments considered vital to the Polish economy. Support from the MASP may be granted to:

- investments in the “priority sectors”; i.e. the automotive, electronics, aviation, biotechnology, food processing and agriculture; and R&D sectors; and
- “significant” investments in other sectors.

As a rule, support cannot be granted if the local unemployment rate is lower than 75% of the national average, unless:

- the investment is conducted in the modern services or R&D sector; or
- the investment is located in the Warmińsko-Mazurskie, Podlaskie, Lubelskie, Świętokrzyskie or Podkarpackie voivodships or
- the levels of eligible costs and new jobs meet the thresholds for “significant” investments.

Support may be based on the two-year employment costs of new staff hired or eligible investment costs. Depending on the type of eligible costs, there are different entry criteria for projects.

There are no calls for proposals. Companies can submit applications at any time during the year.

**Entry Criteria for Support Based on Eligible Investment Costs**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of jobs</th>
<th>Eligible investment cost (PLN million)</th>
<th>Level of support</th>
</tr>
</thead>
<tbody>
<tr>
<td>priority sectors, i.e. automotive, electronics and household appliances, aviation, biotechnology, food processing and agriculture</td>
<td>50</td>
<td>160</td>
<td>1.5%-7.5% of investment value (depending on location)**</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>35*</td>
<td>10</td>
<td>6%-10% of R&amp;D investment (depending on location)</td>
</tr>
<tr>
<td>significant production investment in other sectors</td>
<td>200</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Source: EY own elaboration, * People with university degree ** In the case of Eastern Poland the level of support is additionally increased by 5 p.p.

**Entry Criteria for Support Based on Eligible Employment Costs**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of jobs</th>
<th>Eligible investment cost (PLN million)</th>
<th>Level of support</th>
</tr>
</thead>
<tbody>
<tr>
<td>priority sectors, i.e. automotive, electronics and household appliances, aviation, biotechnology, food processing and agriculture</td>
<td>250</td>
<td>40</td>
<td>PLN 3,200 - 15,600 per each new job (~EUR 727 - 3,545) + extra 20% for investments in Eastern Poland</td>
</tr>
<tr>
<td>modern services</td>
<td>250</td>
<td>1.5 (investment in fixed assets; lease is excluded)</td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>35*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>significant production investment in other sectors</td>
<td>200</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500</td>
<td>500</td>
<td></td>
</tr>
</tbody>
</table>
| Source: EY own elaboration, * People with university degree, ** For manufacturing - aid is not granted if unemployment rate in location (powiat) is below 75% of the national average unless Eastern Poland

If they fulfil the entry criteria, projects are evaluated against additional detailed criteria, including:

- number of new jobs created;
- ratio of capital expenditures per each new job created;
- level of capital expenditures;
- industry represented by an investment;
- percentage of employees with an university degree;
- investment location;
- cooperation with local suppliers;
- level of exports;
- other (e.g. co-operation with universities, the company's reputation, innovativeness of technology to be applied, unique operations performed).
Real-Estate Tax (RETAX) Exemption

RETAX exemption may be available in form of either regional aid or de minimis aid.

In order to benefit from RETAX exemption the following conditions need to be satisfied:

• a resolution of a relevant municipal council establishing RETAX exemption within its jurisdiction must be in place,
• the planned new investment must meet the conditions set in the resolution (i.e. minimum value of eligible costs, number of new jobs and/or other conditions,
• the company needs to notify the municipal council of its intent to benefit from the exemption (before the start of the investment).

The conditions for RETAX exemption depend on a particular city council in each location and thus may differ. However, the maximum value of potential RETAX exemption:

• cannot be higher than that resulting from the map of regional aid intensities (in the case of regional aid); and
• cannot be higher than €200,000 over a period of three fiscal years (in the case of de minimis aid).

According to the current binding Notice of the Ministry of Finance, the maximum annual rates in 2016 apply as follows:

• with respect to land used for business activity purposes - based on surface area and are PLN 0.89 (€0.20) per m²;
• with respect to buildings or their parts used for business activity purposes - based on usable surface and are PLN 22.86 (€5.20) per m²;
• with respect to constructions, based on the value thereof and are 2%.

Cash Grants from EU Funds

EU member states are currently implementing the 2014-2020 financial perspective, i.e. the seven-year framework for EU spending. Over this period Poland is to receive the largest amount of aid from EU funds of all EU members. In total, €82.5 billion has been allocated for various operational programs to be distributed among defined beneficiaries, including commercial companies.

Operational programs set out the general terms and conditions for projects for which aid will be granted. In the case of companies registered in Poland aid will focus on R&D development projects and R&D infrastructure but other activities can also receive support, e.g.:

• innovative new investments, by SMEs which use new technologies;
• energy efficiency projects;
• production of energy from renewable sources.

In order to be eligible for a cash grant from EU funds, an application has to be filled within a call for proposals.

When applications are submitted they are thoroughly evaluated in accordance with specified criteria. The assessment process takes approximately four to five months and covers a formal and content evaluation including presenting the project during panel session with evaluation experts. In the content evaluation the application needs to be awarded a minimum number of marks to secure the right to receive a grant. However, in the most popular aid schemes the minimum number of points can be insufficient to actually receive a grant, due to the limited budget and high competition; if this is the case, cash grants go to applicants with the highest scores.

This aid may be granted for:

1. R&D projects – these involve the carrying out of industrial research and/or experimental development works aimed at creating innovative products / technology;
2. R&D infrastructure - required for the setting up or developing of an R&D unit (centre). Additionally, a company must present an R&D agenda for which the R&D infrastructure is required. Non-fulfilment of the R&D agenda in the future may result in a proportional return of aid granted.

The Status of an R&D Centre

The status of an R&D centre may be granted to entities with income generated on sales of goods and products and on financial operations of at least €1,200,000, where a minimum 20% is generated from sales as a result of their own R&D activity (in the year prior to the one of filing the application). Additionally, there is a requirement for them to hold no outstanding tax and social security liabilities. These conditions must be met annually in order to maintain the R&D centre status. The centres may create what are referred to as “innovativeness funds” – up to 20% of their monthly income can be allocated to such fund and recognised as tax deductible costs for CIT purposes. The requirement necessary to create such fund is that its resources must cover expenses linked with own R&D activity.
A project can be started after submitting the application, but it needs to be very well thought and prepared beforehand. The subject of R&D work that is planned to be carried out has to be justified both in terms of market needs and from a financial perspective. The results of the R&D work need to be commercialised internally or externally (if justified economically), preferably in Poland.

Depending on the aid scheme, a minimum level of eligible costs for R&D projects may be required. Eligible costs of R&D projects include mainly operational costs (such as remuneration, depreciation, external R&D services, materials) while in the case of R&D infrastructure eligible costs include investment expenditures, construction costs and purchase of machinery and equipment.

The maximum aid support for large companies carrying out industrial research and experimental development works is 65% and 40%, respectively of eligible costs (provided that certain conditions are met). Support for R&D infrastructure is calculated according to the map of regional aid intensities.

**R&D Tax Relief**

R&D tax relief is available under Polish tax law from 2016. It is a tool to enhance activities connected with research and development. Companies performing such activities may deduct from their tax base increased amount of costs for remuneration and expenditures falling within the statutory defined R&D categories. The level of additional income tax write-off can reach:

- 30% for costs of wages and social contribution of R&D staff;
- 20% for SME and 10% for large companies for remaining R&D costs.

Such R&D costs include:

- purchase of raw materials used for the R&D works;
- expertise, researches, opinions and advisory services;
- payments for usage of research equipment;
- depreciation of fixed assets and intangible assets used for R&D works excluding passenger cars, buildings and constructions.

### Call for Proposals

| Submeasure 1.1.1 – Fast Track | R&D works | Large enterprises | III Q 2016 | 1,000 |
| Submeasure 1.1.2 – Demonstrator | Development (demonstration / pilot phase) | Large enterprises | IV Q 2016 | 500 |
| Measure 1.2 – Sectorial R&D programmes – INNOTEXTILE (textile sector) | R&D works | Enterprises and consortia | II Q 2016 | 60 |
| Measure 1.2 – Sectorial R&D programmes – INNOSBZ (unmanned systems sector) | R&D works | Enterprises and consortia | II/III Q 2016 | 50 |
| Measure 2.1 – Enterprises R&D infrastructure | Investment | Enterprises | 1st call for proposals: March 1, 2016 – April 29, 2016 2nd call for proposals: September 1, 2016 – October 31, 2016 | 1,460 |
| Submeasure 3.2.1 – Research to market | Investment (R&D results implementation) | SME | June 1, 2016 – August 31, 2016 | 1,000 |
| Submeasure 3.2.2 – Innovative technologies loan | Investment (R&D results implementation) | SME | July 2016 – September 2016 | 803 |
| Submeasure 4.1.4 – Application projects | R&D works | Consortia | IV Q 2016 | 200 |

*Total budget for 2016 (on the date of March 1, 2016)*

For more information please follow the link below:

http://www.ey.com/Pl/pl/Services/Tax/Grants-and-Incentives/program-poir-ey
For the last decade Poland has been one of the main recipients of FDI in CEE, markedly raising its manufacturing capacity.
Manufacturing Sector is Evolving

Poland is an attractive FDI destination not only for European companies but also manufacturers from overseas for markets as it offers a regional platform to both the CEE (Central and Eastern Europe) region, with some 100 million consumers, and to the wider EU market of 500 million customers. US and Asian manufacturers are responsible for a large number of FDI projects in Poland.

A substantial shift from western and northern Europe to CEE took place over the past two decades. While western Europe is still a stronghold for manufacturing, CEE countries have taken the lead in terms of the number of FDI manufacturing projects. Thanks to its highly skilled workforce and steadily growing R&D expenditure, Poland is increasingly competing for higher value-added manufacturing projects.

The key location drivers for manufacturers engaging in FDI are domestic market growth potential and proximity to markets and customers, closely followed by infrastructure, logistics and the availability of a skilled labour force. Poland is one of the fastest growing economies in Europe, offering a large domestic market, an available talent pool and a transparent real estate market (which will be outlined in detail in the next chapters). All of those factors combine to make Poland a highly attractive location for manufacturing.

Expanding Sectors in Poland

The output of the services sector accounted for 64.3% of GDP in 2014, as shown in the graph below, followed by industrial production (manufacturing, utilities and extraction). Agricultural output accounted for 3.7% of GDP in 2014.

The total value of industrial production sold in 2013 was PLN 1,149 billion.

Between 2011 and 2021, industrial production in Poland is expected to be growing by 3.7% per year on average according to data from Oxford Economics.

Poland’s Economic Structure in 2013

Manufacturing output growth over the next decade is forecasted to be higher than GDP growth, rising to an annual average of 4.3% by 2021.

The services sector, which is dominated by distribution, transport, storage and communication, is expected to be growing by an average of 2.7% annually until 2021.

Construction output is expected to be rising by an average of 4.0% annually until 2021.

From the various different manufacturing sectors, four (Food processing, Domestic Appliances and Electronics, Automotive and Aviation) are outlined in more detail below. However, great potential also exists in many other sectors.

2. Output is measured in value-added terms at 2005 prices.

Sebastian Arana
Managing Director at 3M Poland

"Our plan is to make Poland a key country for 3M, the country which will produce the majority of products exported to the markets of Central and Eastern Europe. 3M, which has been present in Poland for 20 years now, currently having nine production plants, six of which are located in Wroclaw. Wroclaw plays a critical role into the overall growth of 3M in Poland.

It also reflects our key values, which are based on customer collaboration, combined with the imagination and the creativity of our employees and supported by the best technologies available."

Key Manufacturing Sectors in Poland
Food Processing Sector

Poland is the seventh largest food producer in the EU, with total sales of around €37 billion and the food industry is one of the biggest industrial sectors in Poland. According to 2014 data from the Central Statistical Office (GUS) the food industry accounted for 20.8% of total manufacturing production and its share in terms of employment was around 18.5%. It is a mature and well established sector facing stable demand conditions. It is also one of the most attractive Polish sectors from the point of view of foreign investors.

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

Poland as a Net Exporter of Food-Related Products

Food processing in Poland is characterised by high international competitiveness and an ability to increase exports even in adverse international economic conditions, which has resulted in strong acceleration in international trade volumes. Poland has been a net exporter of food-related products since its accession to the EU. This positive balance grew from €0.5 billion in 2003 to €6.56 billion in 2014 (with total exports of €21.35 billion and total imports of €14.79 billion). 79% of Poland’s exports are destined for EU markets.

Constant quality improvement is one of the main competitive strengths of the Polish food industry. Its competitiveness has also been continuously improving, thanks to increasing efficiency of production organisation leading to increased labour and capital productivity. The overall productivity of the sector has grown by 35% since 2008. Gross profitability in 2013 was 3.8%, while net profitability was 3.2%.

The success of the Polish food industry is also a result of the large supply of well-educated employees. More than 3,000 students graduate every year from faculties directly related to this industry such as Food Sciences and Bioengineering of Food Production.

EU Opportunities for Poland:

- Polish food processing companies are now targeting more than 500 million consumers in the EU.
- EU funds allow easier restructuring and modernisation of the local food industry – Poland’s food sector companies spent €1.5 billion on investments in 2013, €160 million more than in 2010.
- The EU market accounted for 79% of Poland’s food exports in 2014 – exports have been one of the main drivers of the food sector growth since the EU accession.

According to the most recent data from the NBP (Poland’s central bank), the food and beverage sector is one of the most attractive for foreign investments in Poland. The current stock of food-related investments is close to USD 14 billion and accounts for 19% of total manufacturing FDI to Poland.

The Largest Investors in the Food Processing Sector in Poland

<table>
<thead>
<tr>
<th>Company</th>
<th>Type of Production</th>
<th>Net Sales in 2013 (PLN M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cargill Polska Sp. z o.o.</td>
<td>edible oils, isoglucose, animal fodder</td>
<td>4,406</td>
</tr>
<tr>
<td>Animex S.A.</td>
<td>meat processing</td>
<td>4,078</td>
</tr>
<tr>
<td>Unilever Polska S.A.</td>
<td>margarine, vegetable oils, ice-creams, frozen food, cleaning products</td>
<td>3,443</td>
</tr>
<tr>
<td>Mlekpolsa S.A.</td>
<td>milk products</td>
<td>3,545</td>
</tr>
<tr>
<td>SM Mlekovita</td>
<td>milk products</td>
<td>3,503</td>
</tr>
<tr>
<td>Maspex</td>
<td>meat processing</td>
<td>3,087</td>
</tr>
<tr>
<td>Sokolow S.A.</td>
<td>meat processing</td>
<td>3,150</td>
</tr>
<tr>
<td>Ferrero Polska Sp. z o.o.</td>
<td>chocolate confectionery</td>
<td>2,983</td>
</tr>
<tr>
<td>Nestle Polska S.A.</td>
<td>confectionery</td>
<td>2,762</td>
</tr>
<tr>
<td>Krużwiaka S.A.</td>
<td>margarine, oil</td>
<td>2,669</td>
</tr>
</tbody>
</table>

Source: XXX, PAIiIZ, 2015
Economy

Poland – Facts and Figures

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (a)</td>
<td>38,478,602 (6)</td>
</tr>
<tr>
<td>Territory km² (a)</td>
<td>312,685 (6)</td>
</tr>
<tr>
<td>GDP Volume in million (b)</td>
<td>€389,695 (8)</td>
</tr>
<tr>
<td>GDP Per Capita (b)</td>
<td>€10,100 (67.8 of EU28 average) (22)</td>
</tr>
<tr>
<td>Consumer Price Index in 2016 (c)</td>
<td>1.4% (16)</td>
</tr>
<tr>
<td>Unemployment Rate (c)</td>
<td>7.2% (12)</td>
</tr>
<tr>
<td>Government Gross Debt (as % of GDP) (d)</td>
<td>50.1% (10)</td>
</tr>
<tr>
<td>Exchange Rate €/PLN</td>
<td>4.4</td>
</tr>
<tr>
<td>Exchange Rate $/PLN</td>
<td>3.9</td>
</tr>
</tbody>
</table>


Largest Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Population in agglomeration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warsaw</td>
<td>2,559,949</td>
</tr>
<tr>
<td>Katowice</td>
<td>2,161,382</td>
</tr>
<tr>
<td>Kraków</td>
<td>1,034,843</td>
</tr>
<tr>
<td>Gdańsk</td>
<td>1,031,661</td>
</tr>
<tr>
<td>Łódź</td>
<td>973,323</td>
</tr>
<tr>
<td>Poznań</td>
<td>824,006</td>
</tr>
<tr>
<td>Wrocław</td>
<td>789,761</td>
</tr>
<tr>
<td>Szczecin</td>
<td>553,842</td>
</tr>
<tr>
<td>Lublin</td>
<td>448,122</td>
</tr>
<tr>
<td>Bydgoszcz</td>
<td>434,197</td>
</tr>
</tbody>
</table>

Source: Central Statistical Office December 2014, agglomerations' definitions by JLL

Transport Infrastructure

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Motorways and Expressways</td>
<td>ca. 2,900 km</td>
</tr>
<tr>
<td>Under construction</td>
<td>ca. 1,080 km</td>
</tr>
<tr>
<td>Major Seaports</td>
<td></td>
</tr>
<tr>
<td>Gdańsk, Gdynia, Szczecin and Świnoujście – Frequent connections to the Baltics, Scandinavia, major Northern European Ports, Asia including China, Malaysia, Singapore and South Korea</td>
<td></td>
</tr>
<tr>
<td>Airports</td>
<td>15 international airports</td>
</tr>
</tbody>
</table>
Domestic Appliances Sector

The production of domestic appliances in Poland has a long history. Thanks to numerous foreign investments since the 1990s, products from the Polish domestic appliances sector have become more competitive, not only domestically but also on the European market.

Experts estimate that the sales of domestic appliances in Poland increased by more than 6% in 2014, to an estimated of €1.9 billion. According to data from Eurostat, the value of the sector’s production stood at €4.4 billion and is comparable with the biggest producers in Europe. This means that the Polish market is likely to become a European leader in the domestic appliance sector (according to estimates from Euromonitor International research company).

Data compiled by Eurostat and CECED Poland (the European Committee of Domestic Equipment Manufacturers) shows that exports of domestic appliances in the first quarter of 2015 were 3% higher than in the same period of 2014.

Domestic Appliances Map
Electronics

According to experts at Business Monitor International (BMI), the value of the Polish electronics market will be gradually increasing, reaching approximately €10 billion in 2019. This increase is driven mainly by growing demand for electronic consumer goods, falling prices and increasing salaries. The total production of the sector amounted to €13.8 billion in 2014.

<table>
<thead>
<tr>
<th>Company</th>
<th>Type of Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcatel-Lucent</td>
<td>Telecoms equipment</td>
</tr>
<tr>
<td>Dell</td>
<td>Desktop PCs</td>
</tr>
<tr>
<td>Flex</td>
<td>Telecommunications components and products</td>
</tr>
<tr>
<td>Humax</td>
<td>Radio and TV appliances</td>
</tr>
<tr>
<td>Jabil</td>
<td>TV sets and electronic components</td>
</tr>
<tr>
<td>Kimball</td>
<td>Electronic components for the telecommunications and automotive industries</td>
</tr>
<tr>
<td>LG</td>
<td>TV sets and other consumer equipment</td>
</tr>
<tr>
<td>Compal</td>
<td>LCD tv sets</td>
</tr>
<tr>
<td>TPV Displays</td>
<td>LCD displays</td>
</tr>
</tbody>
</table>

Source: PAIiIZ, 2015

The rationale for the development of the **electronics industry** in Poland results from:

- The long-standing traditions of the electronics sector;
- The presence of international companies, manufacturing electronic equipment;
- A highly-trained labour force offering the highest standards of knowledge in their fields;
- The well-developed base of suppliers: small and medium sized enterprises are well prepared to work with large corporations;
- Clusters: continuously developing technological parks that co-operate closely with research centres;
- Increased investments: new investment projects that generate demand for products and services of suppliers from the electronics industry;
- Investment incentives for the electronics sector.

Electronics Map

Source: PAIiIZ, 2015
Automotive Sector

Poland is a leading market in CEE for passenger and commercial vehicle manufacturers and suppliers. The outstanding ratio between the quality and cost of labour, the vast presence of key automotive sub-suppliers, and appealing investment incentives all combine to make Poland a superb location for investments. The examples of Fiat, GM, Volkswagen, MAN and Toyota give only a taste of the well-known brands which are operating here.

Three major passenger car OEMs, several bus manufacturers and hundreds of tier 1 and 2 manufacturers make for a solid industrial base. According to the Central Statistical Office and the Polish Association of Automotive Industry, 600 thousand vehicles were produced in Poland in 2014. The leading manufacturer is Fiat (with its plant in Tychy), followed by Volkswagen (in Poznań) and GM-Opel (in Gliwice). MAN is the only manufacturer of trucks in Poland, but produced some 9,204 in 2014. With 4,117 buses manufactured in 2014, Poland is the third largest bus manufacturer in the EU. Research company JMK Bus Market Analysis has written that in 2014 the top three bus manufacturers in Poland were Man, Solaris and Volvo, followed by Scania, Autosan and others.

In addition to vehicle production, Poland is also well positioned as a supplier of components. One of the most important factors with regard to Poland's competitiveness is its very attractive cost-to-quality ratio. While the quality of production is comparable to, and often higher than, that found in western European countries, the cost of production in Poland is still much lower.

Even during the financial crisis of 2008, the automotive sector has significantly contributed to the continuous growth of Poland's national economy. Thanks to the flexibility and creativity of Polish workers, and growing demand for automotive parts, the industry has emerged from the turbulent times almost unscathed, attracting numerous foreign investors.

To give one example, Japanese Boshoku Automotive Poland decided to increase production capacity in Tomaszów Mazowiecki (in Central Poland): new €13 million production lines will produce upholstery parts for leading premium vehicle manufacturers, with 250 new jobs being created. Another example, Japanese tyre manufacturer Bridgestone decided to increase production capacity in Poznań and Stargard Szczeciński.

The Key Features of the Polish Automotive Sector:

- the largest domestic market in CEE;
- automotive clusters in Upper and Lower Silesia and in Poznań area;
- more than 900 companies, of which 300 have foreign shareholders;
- 350 Tier 1 & 2 operations of Polish origin;
- over 500 suppliers with ISO/TS 16949 certificates;
- high profile expertise from automotive faculties at technical universities in the biggest cities (Warsaw, Gliwice, Wrocław, Poznań & Krakow);
- €82.5 billion in cash grants from EU funds for 2014 to 2020 supporting, i.a. R&D activities, innovative investment projects;
- long-standing industrial traditions within the automotive industry dating back to 1920s.

Volkswagen Expands in Poland

During the decision process, a number of potential locations for a new Volkswagen Commercial Vehicle plant were taken into consideration. In the last phase the scales tipped towards Poland and a few further locations were considered. The final choice was made for Białezyce, near Wrzesnia, 50 km east from Poznan and it is a significant investment for the region. The new plant will be the fourth production centre of VW Poznan, operating under the Volkswagen Commercial Vehicles brand. The site covers 220 hectares and there are over 2000 workers of the building crews participating in the construction process. The new generation of the Volkswagen Crafter will be produced in the newly established factory. Within the factory area there will be the car body construction unit, the paintshop and the assembly line located, along with the suppliers' park and logistics area. The total cost of investment is approximately PLN 3.4 billion.

Ultimately the production capacities are planned to total 100,000 cars per year. It is expected that 3,000 new workplaces are going to be created. The start of production is planned for the autumn of 2016. The investment in the Crafter plant will result in further jobs being created at suppliers and service providers.

Jens Ocksen
CEO Volkswagen Poznań Sp. z o.o.

„As a result of this investment the number of employees in the companies belonging to the VW Group in Poland will reach up to 18,000 people in 2018. This will increase the importance of Poland as an international automobile location.“ - said Jens Ocksen during the foundation stone ceremony in November 2014.
Aviation Sector

The Polish aviation industry offers a wide range of technologically advanced products. Almost every passenger aircraft in the world contains at least one part manufactured in Poland.

The competitive edge of Polish aviation companies is based on high quality of products (due to expertise in the treatment of materials, casting, mechanical engineering and electronics) and competitive labour costs. Companies which have recently invested in Poland (such as Hamilton Sunstrand, Hispano Suiza, Airbus, GE Aviation, UTC Aerospace Systems, MTU Aero Engines) are already planning further expansion.

Poland also has a strong base of SMEs constituting a wide chain of suppliers for Boeing, Airbus and Embraer, as well as producers of light aircraft and gliders, which are well regarded all over the world.

Aviation is one of the most innovative sectors of the Polish economy, thanks both to aviation companies making significant expenditure on R&D, working closely with research centres, and taking part in international projects, and to Poland’s human potential and rapidly developing clusters.

The advanced level of processes used in the Polish aerospace sector is well illustrated by its participation in different international projects for example: the development of innovative engines such as PurePower PW1000G (GTF), GEnx and LEAP.

Polish participation in such projects may increase still further thanks to a strong financial backing from the National Centre for Research and Development (NCBR). The NCBR will invest €75 million between 2013 and 2017 in scientific research, development work and knowledge transfer to the aviation industry.

Poland also has a presence in space exploration. We are the 20th member of the European Space Agency, which has an annual budget of €4 billion. This membership enables Polish companies and researchers to fully participate in many European space programs and missions. We may observe a technological jump among Polish companies and an increase of the presence of foreign companies in Poland.

Opportunities for the Aviation Sector:

- growth in production during the economic boom
- increasing co-operation between small and large companies
- further development of the supply chain in Poland due to foreign companies
- development of R&D activity
- investment in engineering and services centres
- development of aircraft engines
- construction of new helicopters and light aircraft including unmanned ones.

The strengths of the Polish Aviation Industry:

- long-standing tradition;
- well-developed supplier network;
- high quality workforce and products;
- competitive production and labour costs;
- constantly developing R&D, educational and training activity;
- aviation and space clusters.

source: sylvaine-thomas-Fotolia.com
Investment Climate in Poland

Investors Are Satisfied with Doing Business in Poland

As many as 98% of foreign investors in Poland would invest here again according to the eighth edition of a survey conducted by PAiiIZ in co-operation with consulting firm Grant Thornton and global bank HSBC.

Investors who took part in the survey were asked to assess Poland as a place to do business. On a scale of 1 to 5, where 1 means “very bad” and 5 is “very good”, investors gave Poland an average of 3.7 points. This is the best result since 2007 (the earliest year for which comparable data are available).

Poland is appreciated the most by investors from Switzerland (who gave an average of four points), followed by Denmark, France and the Netherlands (3.8 points). Big companies, employing more than 250 people and medium-sized (50 to 249 people) assess Poland slightly better (3.83 and 3.81 points respectively) than smaller investors.

The authors of the study set out 26 factors that have the biggest effect on the investment attractiveness of the country. In the opinion of investors, the greatest asset of Poland as a place to do business is its economic and political stability and the large domestic market that makes Poland a ‘self-sufficient’ country.

Investors also greatly appreciated the competence of Polish employees. “The business spirit deeply rooted in Poles, the business skills of employees and the stable development of the country are magnets for numerous multinational companies,” said Sławomir Majman, the president of PAiiIZ.

The lowest rated area is the administrative dimension of doing business in Poland: the extensive and unclear bureaucratic procedures related to, for example, economic judiciary, taxes or obtaining various licences. However, even these factors are generally assessed at 2.5 to 3 points, which is close to the middle of the scale.

Compared to the previous editions of the survey, the assessment of the quality of Polish transport infrastructure has improved the most. Eight years ago it was one of the worst evaluated factors (an average 1.6 points), but now is close to the average for all 26 factors.

The survey on investment climate in Poland was conducted between 28 September and 16 October 2015 using questionnaires completed by 100 foreign investors representing 21 countries from different parts of the world.

98% of foreign investors in Poland would invest here again.

The investment climate in Poland is improving, the latest assessment is the best result since 2007.

Summary of the survey on investment climate in Poland

Economic stability is Poland’s greatest asset, and bureaucracy the biggest drawback.

Development of transport infrastructure is Poland’s greatest achievement in the last 8 years.
With 10 million m² of warehouse and production stock, Poland’s industrial real estate market is the eighth largest in the EU, and certainly one of the most modern.
The industrial real estate market in Poland has developed rapidly over the last decade, initially boosted by EU accession in 2004. The growing number of foreign and national manufacturers and the expanding regional and national distribution network have pushed the construction of modern manufacturing facilities and warehouses.

The total industrial stock which is offered on the letting market currently stands at approximately 10 million m² and consists of new, high quality buildings that meet the highest international standards. This also enables distribution space to be converted for light manufacturing purposes.

The largest amount of industrial stock is situated in the vicinity of major cities such as Warsaw, Katowice, Poznań, Łódź, Wrocław, which account for 90% of the national supply, and the main Polish seaports of Gdańsk, Gdynia and Szczecin, which have lately been increasingly gaining importance. The attention of developers has also recently focused on less obvious locations in eastern Poland such as Rzeszów and Lublin.

Today’s real estate market is very competitive. The main developers of industrial buildings are large international groups, such as Panattoni, Prologis, Segro, Goodman, Valad and P3, plus, strong domestic players, such as MLP and BIK, which have long track records of building distribution centres and turn-key projects for manufacturers. In addition, a number of existing industrial projects are owned by large institutional investors such as Logicor (Blackstone), Hines, WP Carey and Hilwood among others.

Poland’s main advantages include lower operating costs compared to those in well-developed countries. The second important factor is the geographical distance to end-markets, which coupled with the salary levels in Poland is often perceived as very favourable. Poland is Germany’s neighbour, hence companies seek opportunities to take advantage of cheaper location, and at the same time, proximity to a well-developed area. Political and economic stability is also of great value.

All these factors contribute to the positive perception of Poland, as a country with good prospects for investing capital. This is confirmed by a number of our projects: an intelligent production facility of 45,000 m² for GE Industrial Solutions (NYSE: GE), which will house a state-of-the-art production plant and customer service facilities; the three extension phases of the Piklington Automotive Poland plant in Chmielów and the 12,000 m² extension of the Faurecia’s production facility, which was initially completed at the turn of 2011/2012.

The amount of industrial land available in Poland is increasing, thanks to the construction of new motorways and motorway junctions, which generate new industrial locations and are putting a downward pressure on land prices. Municipalities are eager to issue local master plans for such plots of land in order for investors to start industrial projects. The supply of industrial land has also been increased by the Special Economic Zones, as one of their typical tasks is preparing new investment sites for development.

Developers have ‘virtual’ land banks or, in other words, have an option to buy plots of land when a manufacturer is interested in a given site. This enables developers to obtain all necessary permits beforehand, in order to start the development as soon as a manufacturer signs a lease contract. Legislation is widening in terms of public grants. It is not necessary to be the owner of a building in order to receive public grants, which means that tenants can also receive state aid. Such financial support paves the way for new developments. Manufacturers can choose between buying or renting an existing facility or built-to-suit projects. These options will be described further on the following pages.
Rent or Buy? That’s the First Question to Ask!

Introduction

The decision to rent or buy a production facility is one of the first decisions which should be taken in terms of real estate. This decision largely depends on the goals of the manufacturing company, the time needed to be operational, expansion plans, and the desired flexibility. Consideration must also be given to tax implications, the cashflow position and the availability of real estate in a specific location.

Three rental and three purchase methods for real estate are described in this chapter, as well as their implications and timeframe.

1. Built-to-Suit Facility on a Greenfield Site

Built-to-Suit (BTS) is a dedicated building developed specifically to suit the particular needs of a given investor.

The entire investment process is led by the developer, who:
- presents the site offers;
- proceeds with the ‘due diligence’ of the selected site;
- purchases the chosen site (subject to a binding agreement with the investor);
- finances and supervises the entire development process;
- hands over the building to the investor in the form of a leasehold.

The investor acquires a building:
- in the form of a leasehold, based on a lease agreement (typically a minimum lease of seven to ten years; a rent-free period is usually negotiated);
- designed and constructed according to the investor’s requirements (location, technical specification, shape of the building, purpose of the facility – e.g. heavy production, light production, warehouse-sorting plant, etc.).

In this scenario the investor:
- does not have to commit any funds for the purchase and there are no initial payments;
- can benefit from additional incentives such as being located in a Special Economic Zone.

2. Built-to-Suit Facility in a Warehouse Park

Built-to-Suit (BTS) in a warehouse park is a specific form of BTS project, where the specially designed facility is developed as a part of an existing or planned warehouse park.

The main differences between a ‘classic BTS’ and a BTS in a warehouse park are:
- shorter timeline for the process;
- the selection of the site is determined by the developer’s portfolio;
- the construction of the premises can start almost immediately, as the site is typically equipped with the necessary infrastructure and connections. Usually the developer already holds all environmental and building permits required.

The location of the BTS project:
- is determined by the developer’s site portfolio;
- is limited to the logistics hubs/main industrial regions in Poland, next to motorways, national road junctions and by-passes, however, that does improve the transport connectivity.

3. Leasehold of an Existing Building

In this scenario the investor becomes the lessee of a building in one of the parks located in the main logistics regions in Poland.

- The investor signs a lease agreement, with the typical lease length being 3-5 years.
- The use of the space is determined by the developer (storage space, light production, etc).
- The leased premises have a standard technical specification.
- The space can be adapted to the lessee’s needs, although the scope of such change is limited.
- Adaptations can be financed by the lessee or by the developer; the cost may be paid as additional rent or offset against incentives.
- In most cases, in order to benefit from tax exemptions, Special Economic Zone status has to be granted to the location, subject to meeting formal criteria.

This option is preferable for investors who:
- need the space as soon as possible;
- only require a small amount of production space;
- can conduct their manufacturing services in a standard A-class warehouse which has been adapted to their needs.
Buy a Facility? Three Main Options

**Fee Development**

Fee development is a form of cooperation between an investor and a developer, where the developer takes all of the responsibility in the development process and provides the investor (i.e. the future owner) with a facility built on the Investor’s site and according to the investor's technical specification.

**The developer:**
- proceeds with the due diligence of the site (which has already been purchased by the investor or is purchased by the Investor as part of the process);
- incorporates the site into the Special Economic Zone (if necessary);
- is responsible for financing and leasing the entire investment process;
- negotiates with the general contractor, provides all environmental and building permits, telecom connections, road access, construction, permit for use and all paperwork for authorities and contractors;
- delivers the building according to the exact timing and technical specification required by the investor;
- having finished the development, hands over the building to the investor in the form of a freehold title.

**After the completion of the whole process, the investor:**
- is the owner of the site and the building;
- operates in a building, which has been designed and constructed according to the investor’s specific business requirements;
- can benefit from Special Economic Zone CIT exemptions.

---

**Own Development**

The investor leads the whole development process. This involves:

- proceeding with the due diligence and purchasing the land (preferably within a Special Economic Zone);
- determining the technical specifications for the premises;
- being responsible for all paperwork and permits with regard to authorities and contractors;
- organising the tender for an architect and negotiating the conditions;
- organising the tender from general contractor among construction companies and negotiating conditions;
- supervising the whole development process.

The funding of the project is the responsibility of the investor. The investor is the owner of the site and constructed building. The length of the project development is dependent on the investor.

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**Acquisition of an Existing Building**

In this scenario the investor acquires an existing building, and the land it is on, according to technical specification and location preferences.

The building can be adapted to meet all of the investor's requirements and the Investor bears all the costs regarding any improvements.
Overview of the Permit Process

Once the decision has been made as to how the property will be acquired, it is necessary to go through the steps of the various legal and technical procedures in order to obtain an occupancy permit and to be allowed to operate the constructed or refitted facility. The standard project delivery procedures are outlined in table below, with the stated average duration of each step being based on a typical project in a typical location.

The first step consists of the technical due diligence of the site and the investigation of whether the property is contained in the valid local master plan or, if a planning decision will be required. In addition, utilities connections and various consents relevant to the development need to be obtained together with an environmental decision.

The second step is drawing up a building design suitable for the building permit in order to obtain a valid building permit which will allow the construction of the facility. In the case of agricultural land, once a design is in place, a further step required is the obtaining of a permit to exclude the given area or a part thereof from agricultural production. This is subject to a statutory fee, paid annually for 10 consecutive years. This concerns all agricultural land including that located within city limits.

Finally, the commissioning and occupancy permit procedure should be followed in order to receive the final, valid occupancy permit which will allow the operation of the facility.

How Quickly Can We Be Operational?

This largely depends on the option chosen, which is discussed in the previous chapter. The options involving BTS for renting or fee development or own development of a facility in a greenfield are the longest processes to realise and have to go through all four steps which are described in the table below. This takes approximately 62 to 92 weeks from the selection of the greenfield site to an occupancy permit being issued.

Time Frame of the Different Rental and Sales Options

The process of renting a facility that will be constructed according to the manufacturer’s needs (BTS) but is located in an existing park will take less time (33 to 65 weeks), as the different permits or work may, in many cases, already be available, including infrastructure work and environmental decisions. The building permit can also be obtained beforehand, so work can start as soon as the decision as to the particular site has been taken and, in parallel, the modification to the existing building permit will be requested so as to incorporate the specific building requirements of the investor/manufacturer.

Renting or acquiring an existing facility is the fastest way to become operational in the market. Only the modification of the existing premises (up to ten weeks) and/or a request for an occupancy permit will be needed.

Permit Process and Estimated Timing

<table>
<thead>
<tr>
<th>Site Selection</th>
<th>Technical due diligence (audit) of the plot (2 to 5 weeks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1</td>
<td>Zoning (Planning Decision required if there is no Local Master Plan) (3 to 6 months)</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td>Step 2</td>
<td>Obtaining a valid building permit (3 to 6 weeks)</td>
</tr>
<tr>
<td>Step 3</td>
<td>Construction (20 to 40 weeks)</td>
</tr>
<tr>
<td>Step 4</td>
<td>Obtaining a valid occupancy permit (3 to 6 weeks)</td>
</tr>
</tbody>
</table>

The above durations represent observed actual times of delivery for a typical project in a typical location. In more complex situations the given forecasts might not be sufficient to complete the particular activity.

Source: JLL, 2015
## Market Practice for Leasing or Acquiring Industrial Space

### Leasing Space

| **Lease length** | Typically three to five years; seven to ten years more common for BTS projects. |
| **Rental basis** | Paid monthly in advance with rents denominated in euro but paid in zloty. |
| **Lease agreement collateral** | Bank guarantee or cash deposit equivalent of three to six months’ rent and service charge, all increased by VAT. |
| **Rent increases** | Annually, according to the Harmonised Index of Consumer Prices (HICP). |
| **Repairs** | Internal - tenant; external/structural and common areas - landlord, although recovered through service charges. Common areas – landlord, although recovered through service charge (with the exception of major repairs). |
| **Insurance** | Landlord covers the costs of building insurance (recovered through service charges), tenant covers insurance of its own premises, contents and civil liability. |
| **Agency fees** | 15% to 25% of the annual rent, increased by VAT, depending on the lease length. Fees are paid by the landlord. Remuneration may be also calculated as a percentage of the monthly rent or a percentage of the total value of a lease contact. In the case of renegotiations led on behalf of tenant – remuneration may be paid by tenant depending on the percentage of the savings secured. |
| **Service Charges** | Ranges between 85 and 1.20 eurocents / m² / month. |
| **Reinstatement** | Negotiable lease by lease. |
| **Other developers’ incentives** | • Partial or full fit-out (depending on the transactional volume and lease length); • Rent free periods: common practice on the market - usually in the range of 1.5-2 months per each year of lease. Rent free periods depend on the transactional volume and lease length. However, in the case of exceptionally large deals rent free periods can be even longer. |
| **Rental Cost** | Largely depends on the fit-out requests and lease term, location. Effective rents range from €1.9 to €3.4/ m²/ month. |

### Purchasing Space

| **VAT** | **Asset sale:** 23% VAT on buildings and land (commercial properties) or, in exceptional cases (if a transaction considered as the sale of an enterprise), civil-transaction tax in the amount of 2% of the transaction price. Buyers now more frequently apply for tax rulings, which confirm that VAT can be charged on asset sales and refunded by the tax office thereafter. Rulings take up to three months to obtain, but guarantee no tax office interpretation risk on real estate transactions. **Sale of shares:** 1% of the NAV (net asset value). |
| **Court registration fees** | Real estate transactions are subject to fixed court registration fees, not linked to the volume of the contract, e.g. PLN 200 (approximately €48) for the entering of the right of freehold or perpetual usufruct to the Perpetual Book. |
| **Notarial fees** | Vary according to transaction price, but no more than 6 months’ average salary in the domestic economy for the previous year. |
| **Agency fees** | Typically 1-3% of purchase price, plus VAT at 23%. |
| **Land prices** | Largely depends on the location of the site: if the site is located in the vicinity of a city or within a city, €35 to 75 / m²; if the site is located further away from a city, €10 to 20 / m². |
| **Insurance** | Landlord covers the costs of building insurance (recovered through service charges), tenant covers insurance of its own premises, contents and civil liability. |
| **Agency fees for land acquisition** | 3% of the transaction price, plus VAT at 23%. |
Real Estate Acquisition

How to Acquire a Property as a Foreign Company?

Applicable Rule

As a rule, under current regulations (the Act on the Acquisitions of Real Estate by Foreigners, the “Act”), foreign nationals (individuals and entities) must obtain a permit from the Minister of International Affairs and Administrations if they:

- wish to purchase real estate in Poland;
- wish to purchase shares in a commercial company that has its registered office in Poland;
- execute any other legal transaction involving such shares, if a company that is the owner or perpetual usufructuary or real estate becomes, as result of the purchase or other transaction, a ‘controlled’ company;
- wish to purchase or subscribe for shares in an already controlled commercial company with its registered office in Poland, if the company is the owner or perpetual usufructuary of real estate in Poland and the shares are purchased/subscribed for by a foreign investor that is not a shareholder in that company.

In the Act, a ‘foreigner’ is defined as:

- a person who is not a Polish citizen; or
- a legal person with its registered office outside Poland; or
- a partnership of the persons mentioned in the points above with its registered office abroad, established in accordance with the law of the relevant foreign country; or
- a company or a legal person with its registered office in Poland controlled directly or indirectly by the companies or person/s mentioned in the points above.

The Acquisition of Real Estate by Investors from the EEA and Switzerland

The exception to the above rules is that citizens and entities (including companies) from EEA countries and Switzerland do not have to obtain a permit to acquire real estate or shares in companies which are the owners or perpetual usufructuaries of real estate, unless the real estate comprises forest or agricultural land; this restriction will continue to apply until 2 May 2016, when the 12-year transitional period after Poland’s entry to the EU expires (there are, however, some additional exceptions to this restriction).

The Acquisition of Real Estate by Investors from Outside the EEA and Switzerland

Given the above, the requirement to obtain a permit from the Minister of Affairs and Administration to acquire real estate or shares in a company that is the owner or perpetual usufructuary of real estate currently applies mainly to foreigners from outside the EEA and Switzerland.

What are the Different Types of Property Rights in Poland?

Full Ownership

Full ownership is the legal title which gives the broadest ownership rights, as in all other EU member states. Public owners of real estate (the State Treasury, local authorities, other public bodies) are not privileged over private ones. The transfer of full ownership occurs upon the execution of the relevant sale deed. Sales deeds are drawn up in notarised form and need to be registered in the applicable land and mortgage register. Such registration makes the information about the transfer public and creates the presumption of public knowledge of the transfer.

Perpetual Usufruct

Right of perpetual usufruct is one of the most important property interests regarding land and is specific to Poland, its scope is very close to that of full ownership. The concept arises from the historical reluctance of the state to hand over control of property to full private ownership.

These are transferable, alienable and mortgageable rights to use property. Perpetual usufruct can be granted in relation to real estate owned by the state (and situated within the administrative borders of a city or beyond those borders but within the area included in the development plan for a city) or owned by a local government for a specified period of time of between 40 and 99 years, after which it expires unless extended for another period of between 40 and 99 years. Buildings and other installations situated on land that is subject to a right of perpetual usufruct are owned by the perpetual usufructuary. The usufructuary is required to pay an annual fee to the state or the local government unit. The broad rights granted to the usufructuary result in the rights of the owner (i.e. the State Treasury or local government unit) being limited in that it may neither encumber nor sell the property to a party other than the usufructuary.

Other Titles

Polish law also envisages other real estate interests:

Lease (najem) – the right to use a property for a definite or indefinite period of time subject to payment.

Tenancy (dzierżawa) – the right to use and collect profits from real estate for a definite or indefinite period of time, subject to payment.
What is the Acquisition Process when Acquiring from Private or Public Entities?

The different steps in the process when acquiring real estate (such as warehouse or production facility) or land from a private party, a public entity or a Special Economic Zone are briefly described in this chapter.

Acquisition from a Private Party

This acquisition process is straightforward and comparable to other EU countries. ‘Private party’ refers to a private individual or entity.

<table>
<thead>
<tr>
<th>Process when buying from a private party</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Initial Contact Between the Public Entity and the Investor</td>
</tr>
</tbody>
</table>
Direct contact between the parties where the potential buyer expresses interest in a specific property. |
| 2. Valuation |
The public authority set the initial asking prices based on a valuation by an independent valuation agency. |
| 3. Preliminary Agreement (not obligatory) |
The period between signing the preliminary agreement and signing the purchase agreement can be used to obtain financing. The vendor is required to make certain that the title to the real estate is clear and capable of being conveyed to the buyer. The deposit is between 10% and 15%. |
| 4. Purchase Agreement |
The purchase agreement is signed as a notarial deed. |

Acquisition from a Public Entity

A significant proportion of real estate in Poland is owned by the Polish State, local authorities and state-owned entities. The sale of state-owned real estate is regulated by the Act on Real Estate Management of 21 August 1997. Such real estate can generally only be sold via public tender; however, in certain cases a tender is not required. The Act also provides a list of entities which are vested with the priority right to acquire state-owned real estate and, therefore, must be called to exercise their right before the tender can be announced.

<table>
<thead>
<tr>
<th>Process when buying from a public entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Initial Contact Between the Public Entity and the Investor</td>
</tr>
</tbody>
</table>
Direct contact between the parties where the potential buyer expresses interest in a specific property. |
| 2. Valuation |
The public authority set the initial asking prices based on a valuation by an independent valuation agency. |
| 3. Preliminary Agreement |
The public authority takes a decision on the continuation of negotiations based on the submitted documents. If the decision is positive, the public tender process is started. |
| 4. Public Tender Process |
Publishing of information / Placing of an announcement. A specification of the real estate which is designated to be sold is publicly announced, along with a detailed description of each real estate (legal status, area, purpose, price, etc.). The length of the period, during which the announcement is displayed, as well as the reach of a press title, in which the announcement is published depend on the asking price for a particular property: |
- The sale of properties with asking price below €1,000 must be announced 30 days prior to the tender, in press titles of at least poviats, with editions published at least once a week. |
- The sale of properties with asking price of above €100,000 must be announced two months prior to the tender, in daily press titles of national reach. |
- The sale of properties with asking price of above €10 million must be announced at least twice during the two month period prior to the tender, in daily press titles of national reach. |
In all the above cases the announcement must also be published on websites of respective authority. |

Acquisition from a Special Economic Zone

A Special Economic Zone is a special type of public entity. There are two kinds of procedures for an investor wishing to obtain a permit to start economic activity within a SEZ.

- if the SEZ is not the owner of the land, the negotiation procedure is only related to granting the permit; |
- if the SEZ is the owner of the land, there is a joint tender procedure related with both granting the permit and selling the land, which will be discussed hereunder.

<table>
<thead>
<tr>
<th>Joint Tender procedure when buying from an SEZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Initial contact between the SEZ and the investor</td>
</tr>
</tbody>
</table>
Direct contact to communicate information on the property and specific SEZ conditions. |
| 2. Location proposal by the SEZ |
Proposal based on the initial information provided by the investor. |
| 3. Letter of intent submit by the investor |
The official investment plans of the investor express the wish to start advance talks and procedures. |
| 4. Preliminary Agreements |
The SEZ takes a decision on the continuation of negotiations based on the submitted documents. If the decision is positive, the public tender process is started. |
| 5. Public Tender Process |
Placing of an announcement. The SEZ places an announcement in the national press / website regarding the invitation to the public tender to select an investor. |
| Purchasing terms of the tender. |
Payment of deposit specified in the terms. |
| Submission of an offer by the investor. |
All the requested documents by the investor which receive the required number of points by the commissioning of the tender qualify for further proceedings. |
| Negotiations. |
The commission of the tender negotiates with the investors the final location, the size and price for the real estate, the dates and terms of payment, participations, obligations regarding the amount of investment expenditure, number of new jobs and goods to be produced, terms of the licence to conduct business activity in the SEZ. |
| 6. Signing the Joint Tender agreement |
The SEZ grants the investor a permit to conduct economic activity within the zone |
The SEZ and the investor sign a land sale agreement |

The entire procedure, starting from the day of publishing the invitation in the press, usually does not last longer than two months.
Tax Structure in Poland

Corporate Income Tax (CIT)

Companies residing in Poland (i.e. have either their registered office or place of management in Poland) pay corporate income tax on their worldwide income and capital gains. Non-resident companies are taxed only on income and capital gains earned in Poland, unless a specific double tax treaty (DTT) provides otherwise.

The standard corporate income tax rate is 19%. Corporate income tax is payable annually. However, advance monthly payments usually have to be made when cumulative income in a tax year is recorded (quarterly in the start-up year). In certain circumstances, special rules on simplified advance monthly payments may be applied. The tax year generally consists of twelve consecutive months and usually corresponds to the calendar year. The standard withholding tax rate is 19% on dividends and 20% on interest and royalties. The rate may be reduced, inter alia under a DTT upon presentation of a certificate of tax residence.

Personal Income Tax (PIT)

Individuals who are domiciled (i.e. tax resident) in Poland pay tax on their worldwide income. An individual is deemed a tax resident in Poland if:

- His/her centre of vital interests (personal or economic) is in Poland, or
- He/she stays in Poland for more than 183 days in a tax calendar year.

Limited taxation (e.g. on Polish source income only) applies to those individuals who are not domiciled (tax resident) in Poland. For those who qualify for limited tax liability, income from board duties (under certain conditions) and civil contracts, such as personal services contracts or specific task agreements, may be taxed at a flat rate of 20%. Personal income tax is payable on most sources of income, including cash and in-kind benefits, which are taxable as salary.

Interest income from bank accounts and income from dividends are subject to 19% withholding tax and are not further taxed. Capital gains on the sale of shares are also subject to 19% tax, while gains earned on the disposal of other assets may be taxed as normal income. Current personal income tax rates are as follows:

- income up to PLN 85,528 (€19,438): 18% of assessment basis minus PLN 556.02 (€126);
- income over PLN 85,528 (€19,438): PLN 14,839.02 (€3,372) + 32% of any amount exceeding the threshold.

For some individuals (e.g. the self-employed or members of certain partnerships) a flat 19% tax rate is available if certain conditions are met. An annual return disclosing all income sources and showing any additional tax payable must normally be filed (and the tax due paid) by 30 April of the following year.

Polish employers must withhold tax from their employees’ taxable salary and remit it to the tax office by the 20th day of the month following the month of payment.

Value Added Tax (VAT)

Under Polish VAT regulations, VAT applies to the following transactions:

- supply of goods and services in Poland for consideration;
- supply of goods includes the handing over by a taxpayer of business-related goods for non-business-related purposes, e.g. donations. However, VAT is not payable on a supply of samples and small gifts;
- export of goods outside the EU/ import of goods from outside the EU;
- intra-Community acquisition of goods (from the EU) carried out for consideration in Poland; this includes the movement of goods between different Member States within the same business (i.e. movement of own goods);
- intra-Community supply of goods (to the EU); this includes the movement of goods between different Member States within the same business (i.e. movement of own goods).

Taxable persons are legal entities, unincorporated organisational units, and individuals:

- that independently carry out on business activity, regardless of the purpose or the effect of such activity; or
- that occasionally effect intra-Community supplies of new means of transport.

VAT is also paid by entities performing distance sales to Polish customers in excess of the threshold of PLN 160,000 (€36,363).

Reverse-charge mechanism is applicable to intra-Community acquisitions of goods and import of services as well as:

- supplies of services by foreign entities not having seat or fixed establishment in Poland to the Polish taxpayers;
- local supplies of goods to the Polish taxpayers by foreign entities not having seat or fixed establishment in Poland and not registered for VAT purposes in Poland;
- local supplies of certain fraud sensitive goods, e.g. ferro-alloys, plastic waste, glass waste, etc.; in certain circumstances - tablets, notebooks, laptops, mobile phones and video game consoles.

The standard VAT rate in Poland is 23% from January 2011. There are also reduced rates of 9%, 5% and 0% on certain food, books, newspapers and the supply of a limited number of other services. A flat rate for acquisition of goods from farmers amounts to 7% and 4% for the provision of passenger taxi services. A number of services, such as financial and common postal services, are exempt from VAT.
Setting-up a Business

Introduction

There are a number of legal structures that can be used for doing business in Poland. Most of them are available to Polish and foreign investors based in the EU or EFTA member countries or countries which have entered into specific international agreements with the EU. Below we present the most popular legal forms for setting up a business in Poland.

Joint-stock Company
(spółka akcyjna – S.A.)

The formation of a joint-stock company involves the following:

• execution of the articles of association by the founding members;
• the shares being paid up in accordance with the law;
• appointment of a management board and a supervisory board;
• the company being signed in the commercial register (part of the Polish Court Register).

The articles of association need to be drawn up in the form of a notarial deed and signed by the founding members. All founding members must provide the notary with documents confirming their legal status (e.g. for a foreign corporate shareholder, an excerpt from the appropriate commercial register or a deed of incorporation that usually has to be validated by way of an apostille or in a Polish embassy or consulate, together with a sworn translation into Polish).

The company is then registered by the registration court.

The following documentation must be filed with the court:

• application for registration signed by all members of the company’s management board;
• the company’s articles of association and share subscription statements in the form of notarial deeds;
• a statement signed by all management board members to the effect that the shares have been paid up as provided for in the articles of association and in accordance with applicable law;
• proof that payment for the shares has been made to the bank account of the company in organisation certified by a bank or brokerage house; if the articles of association provide for share capital to be covered by in-kind contributions after the company has been registered, the appropriate statement made by all the management board members must be attached;
• a document showing that the members of the company’s authorities have been appointed, together with a list of their names;
• the relevant permit or evidence that the articles of association have been approved by a competent administrative authority if such documents are required for the company’s incorporation;
• the consent of Management Board members for their appointment.

After the registration in the Polish Court Register the company will automatically receive its own statistical identification number (REGON) and tax identification number (NIP). There is a statutory requirement for a joint-stock company to carry out an annual audit.

The key features of the joint-stock company are:

• Its shareholders are not personally responsible for the company’s liabilities.
• The minimum share capital requirement is PLN 100,000 (€22,727). The value of each share must be at least PLN 0.01 (1 grosz).
• The authorities of a joint-stock company are the shareholders’ meeting, the management board and the supervisory board.

Limited Liability Company
(spółka z ograniczoną odpowiedzialnością – sp. z o.o.)

The incorporation of a limited liability company generally involves the same procedure as the incorporation of a joint-stock company. A limited liability company may have only one shareholder, though it cannot be formed solely by another limited liability company with one shareholder. A limited liability company does not necessarily have to be audited every year.

• The minimum share capital in a limited liability company is PLN 5,000 (€1,136) and it must be paid up in full before registration. The nominal value of one share cannot be less than PLN 50 (€11). A shareholder can hold either one share (when shares are divisible and unequal) or more than one share (when they are indivisible and equal). Preference shares may be issued. The transfer or pledge of a share or part thereof in a limited liability company needs to be made in written form with signatures certified by a notary.
• The authorities of a limited liability company are the shareholders’ meeting and the management board.
• A supervisory board or audit committee is optional, unless the limited liability company has a share capital of more than PLN 500,000 (€113,636) and more than 25 shareholders.

Sole Proprietorship
(indywidualna działalność gospodarcza)

This form of business entity is widely used in Poland, especially for small enterprises. It is not subject to any special regulation except for the Act on the Freedom of Economic Activity. A natural person may conduct economic activity in this form using either his/her name or the name of the enterprise. A person using this form of economic activity is liable for all obligations arising from it with all of his/her personal assets.
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