Doing Business in Poland

2012
Contents

I. POLAND IN BRIEF 3
1. Administrative Divisions 4
2. Metropolitan Areas 4

II. ECONOMY INSIGHTS 5
1. Macroeconomic Data 5
2. Labour Market 6
3. International Trade 7

III. DOING BUSINESS IN POLAND 8
1. Foreign Investment 8
2. High Potential Sectors of the Polish Economy 10
3. Automotive Industry 12
4. Pharmaceuticals 12
5. Electronics 12
6. Machinery and Steel 12
7. Privatization opportunities 13
8. Aviation 14
9. SSC/BPO 14

IV. HOW TO INVEST IN POLAND 14
1. Investment Climate 14
2. Investment Incentives 16
3. Infrastructure and Environment 2007-2013
4. Human Capital Program 17
5. Innovative Economy 17
6. Development of Eastern Poland 18
7. Regional Operational Programs (RPO) 18

V. LEGAL ISSUES 18
1. Setting up 18
2. Registering a company 19
3. Taxation 19
4. Corporate Income TAX 20
5. Value added tax 21
6. Local taxes 22
7. Transfer tax (PCC) 22
8. Non-wage labor costs 22

VI. INFRASTRUCTURE 23
1. Transportation 23
2. Highways 24
3. Railways 24
4. Air transport 24
5. Construction market in Poland 25
6. Road Construction 25
7. Railway Construction 26
I. POLAND IN BRIEF

Poland is a country situated in the northern part of Central and Eastern Europe by the Baltic Sea. The northern part of the country is made up of lowlands, while the Carpathian Mountains (including the Tatry range) shape the southern border. The Masurian region is the largest and most-visited lake area in Poland. Poland shares borders with:

- Germany to the west,
- Czech Republic and Slovakia to the south,
- Ukraine, Belarus and Lithuania to the east,
- Kaliningrad Oblast, a Russian exclave to the north.

In terms of territory our country is one of the largest countries in Europe. The total area of Poland is 312,679.0 km² which makes it the 9th largest country in Europe and the 69th largest in the world (stretching 649 km from north to south and 689 km from west to east).

In Poland you can find a variety of natural mineral resources, such as iron, zinc, copper and rock salt. The famous Wieliczka salt mine that was built in the 13th century includes a whole town below ground with a sanatorium, theatre, church and café. All fixtures, from stairs to chandeliers, are made of salt.

Poland is a member of the European Union (since 2004), NATO (1999), the United Nations, the World Trade Organization and the Organization for the Economic Co-operation and Development (OECD since 1996).

Up to 1998, Poland had 49 voivodeships (provinces). From the 1st of January 1999 to this day there are 16 voivodeships, 379 boroughs, or poviats (of which 65 are cities with poviats status) and 2,478 municipalities (gmina).
Poland has a population of over 38 million people.

The largest Polish cities are:
- The capital, Warsaw (1.7 million) and Łódź (Mazowsze - 0.7 million),
- The Silesian area and the Upper Silesian Coal Basin – over 4.0 million inhabitants, within which Katowice is the largest urban area with 2.7 million inhabitants,
- Kraków with a population of 0.7 million (Małopolska),
- The Tri-city of Gdańsk, Sopot and Gdynia (Pomeranian) – about 1.0 million inhabitants,
- Poznań (Wielkopolska) – about 0.5 million,
- Wrocław (Dolny Śląsk) – about 0.6 million.

The major seaport cities are Gdańsk, Gdynia, Szczecin and Świnoujście.

The coast is a well known holiday location, for both locals as well as people from abroad. Other often visited holiday destinations in Poland is the Mazurian lake district (postglacial lakes) located in the northeastern part of the country.

Moving southward, the majority of the country (western, central and the eastern regions) consists of lowland areas. The Sudety and Carpathian mountain ranges form the country’s southern border.

The Tatry mountain range (in the Carpathian mountain chain) has Poland’s highest peak – the Rysy (2,499 metres).
II. ECONOMY INSIGHTS

1. Macroeconomic Data

Poland is one of the biggest economies in Central and Eastern Europe. With GDP of EUR 354 million in 2010, Poland is the 21st largest economy in the world and the 9th in Europe. GDP per capita index (in PPS) amounted in 2010 to 62 in comparison to the EU27. Ever since the post-communist transformation the Polish economy has been producing positive GDP growth rates. Even during the recent financial crisis Poland maintained steady growth. Moreover, Poland was the only economy in the EU to have escaped the recession in 2009 and noted growth of 1.7%. In 2010 the growth reached the level of 3.9% while in 2011 the growth reached the level of 4.3%.

Polish GDP is generated through services (64.0%), industry (24.6%) and agriculture (3.6%), though GDP per capita varies in the regions. The biggest GDP was generated in Masovia (21.9% of Polish GDP), but the main contributor here is Warsaw, which alone generated approximately 13.0% of Polish GDP. GDP per capita in Warsaw is three times higher than the Polish average.

High GDP per capita is also noticeable in other big cities, including Poznań (twice the national average), Kraków (60% above the national average), Wroclaw and the Tri-city of Gdansk, Sopot and Gdynia (45% above average). The chart on page 6 presents the GDP per capita of the various voivodships.

<table>
<thead>
<tr>
<th>Projected GDP growth</th>
<th>Country/Year</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU (27 countries)</td>
<td>1.6%</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>EU (15 countries)</td>
<td>1.5%</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>2.2%</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2.2%</td>
<td>2.3%</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1.8%</td>
<td>0.7%</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>1.2%</td>
<td>1.4%</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>3.0%</td>
<td>0.8%</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>8.0%</td>
<td>3.2%</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>1.1%</td>
<td>1.1%</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>-5.5%</td>
<td>-2.8%</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>0.7%</td>
<td>0.7%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>1.6%</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>0.5%</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>0.3%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>4.5%</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>6.1%</td>
<td>2.4%</td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1.6%</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>1.4%</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>Malta</td>
<td>2.1%</td>
<td>1.3%</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.8%</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>2.9%</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>4.3%</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>-1.9%</td>
<td>-3.0%</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>-1.7%</td>
<td>2.1%</td>
<td></td>
</tr>
<tr>
<td>Slovenia</td>
<td>1.1%</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>2.9%</td>
<td>1.1%</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>3.1%</td>
<td>1.4%</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>4.0%</td>
<td>1.4%</td>
<td></td>
</tr>
</tbody>
</table>
After hyperinflation in the early transformative years, Poland managed to reduce inflation and is on track to reach European standards. The CPI index in 2010 was 2.6% in comparison to 3.5% in 2009, while in 2011 it increased to 4.8%. CPI is still above the EU average, however diminishing inflation trends together with economic growth provides a good environment for introducing the common European currency, which is planned for 2015. Selected macroeconomic data are presented in the following chart.

Source: Polish Statistical Office

Labour Market

Poland is attractive for Foreign Direct Investment (FDI) due to low labor costs, a well-educated workforce and competitive productivity. The age structure of Polish society, with 24 million of the population of working age and 7 million of pre-working age shows huge potential for labor market development.

The average monthly salary in Poland amounted to PLN 3646.09 (approx. EUR 844) in the first quarter of 2012. Labor costs in Poland remain much below the European average and together with a well-educated workforce provide Poland with a competitive edge.

Source: http://www.paiz.gov.pl

Unemployment rate in 2011 amounted to 9.9% while average rate for EU27 was 9.8%.
3. International Trade

In 2010 Poland imported goods worth EUR 134.2 billion, exported EUR 123.7 billion and achieved the trade balance was EUR -13.8 billion. Imports and exports in 2010 increased in comparison to 2009. The trade balance improved in comparison to previous years. Poland has been reporting negative net balance ever since the early transformative period due to increased capital goods imports.

Poland’s main trade partners are EU countries, Russia and China. Within Europe, the main trade partner of Poland is Germany, both where imports and exports are concerned. Other crucial import and export directions are: Russia, China, Italy, France and Czech Republic. Detailed information can be found on the following chart, which highlights international trade balances.

In 2010 Poland exported mainly:
- Machinery and transport equipment (41.4%)
- Manufactured goods classified by material (20.3.5%)
- Miscellaneous manufactured articles (12.8%)
- Food and live animals (9.2%)
- Chemicals and related products (8.6%)

The chart on the right presents Polish export structured by destination in 2011.
Other reasons for foreign investors to enter Poland’s market are:

- costs (incl. labor costs and costs of living) and the possibility of decreasing them. The costs of conducting business in Poland are lower than in Western European countries, but the quality of services offered is comparable,
- the size of the Polish market,
- human capital – availability of a highly qualified and well educated workforce,
- a political and economic environment favorable to foreign investors; beneficial tax rates – Corporate Income Tax rate of 19% of taxable base, Personal Income Tax at 18% and 32%

from 2009 onwards (reduced from 19%, 30% and 40%); a stable inflation rate; a strong orientation towards joining the Euro zone.

Over twenty years after the implementation of economic reforms, Poland is one of the leading countries in the CEE region in terms of foreign direct investment. Such investments mean that new companies currently establishing themselves or enterprises that already exist in the Polish market being taken over. Today, the majority of capital coming into the country comes from OECD countries. In 1993 the value of investments from EU countries was about 47% of the total invested by foreign companies, while in 2005 it was 82%.  

III. DOING BUSINESS IN POLAND

1. Foreign Investment

EU, NATO and OECD membership makes Poland a trustworthy and reliable partner for international business. Crucially, Poland’s EU membership creates new investment opportunities for global entities, such as:

- access to the single market of potential 492.8 million consumers (EU-27),
- the single largest beneficiary of EU aid among the member countries,
- further harmonization of Polish and legal environment fully compatible with Western values,
- stability and dynamic development of Poland’s economy guaranteed by EU membership.
In 2011 EUR 5,702 million (85%) came from the EU states and in 2009 it was over 77%. The inflow of FDI in 1994-2011 is presented in the following chart:

A constantly high inflow of foreign direct capital is evidence of the country's attractiveness to foreign investors (especially despite the worldwide economic downturn in 2008).

The main sources of FDI to Poland in 2010 were:
- Luxembourg (EUR 1,945 million)
- Germany (EUR 1,627 million)
- Italy (EUR 1,020 million)
- Cyprus (EUR 843 million)
- Switzerland (EUR 510 million)
- Great Britain (EUR 396 million)
- Sweden (EUR 343 million)
- Austria (EUR 327 million)
- Spain and Portugal (EUR 504 million)
According to the National Bank of Poland (NBP), the inflow of FDI to Poland in 2011 (from January to October) was EUR 9 000 million. The amount comprised of:

- EUR 1 711 million in investment in food processing,
- EUR 1 644 million in real estate and business services,
- EUR 1,617 million in financial intermediation,
- EUR 948 million in trade and repairs,
- EUR 856 million in electricity, gas and water supply,
- EUR 524 million in transport equipment manufacturing.

PAIiIZ (Polish Information and Foreign Investment Agency) completed 52 investment projects that jointly were worth EUR 1.2 billion and generated 10,184 jobs. The greatest amount of money was invested by Japanese. The biggest number of jobs (2,853) was generated by Chinese investments supported by PAIiIZ.

As of December 2011, PAIiIZ had been working on 156 projects worth jointly EUR 5.7 billion and with the potential to generate 40,710 jobs. That's over 20 projects more than at the same time a year ago. In contrast to 2009, 2010 saw a surge in the number of projects from the modern services sector.

The majority of investments in 2011 were in the following sectors:

- The automotive sector (EUR 2011 million),
- The engineering industry (EUR 657 million),
- Services sector (EUR 26 million),

Investors’ motivation in undertaking cross-border direct investment is usually either to gain access to new and growing markets, or to diminish costs. Poland scores on both counts, representing a dynamic marketplace – the largest one among the new EU members, as well as a lower cost base comparing with the “old” EU members. Moreover, Poland’s strategic geographical location makes the country a crucial participant in the EU trade system.

### Major PAIiIZ serviced investments in 2011

<table>
<thead>
<tr>
<th>Investor</th>
<th>Country of origin</th>
<th>Business activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pilkington</td>
<td>Japan</td>
<td>Automotive</td>
</tr>
<tr>
<td>Fiat</td>
<td>Italy</td>
<td>Motor vehicles, insurance, banking</td>
</tr>
<tr>
<td>Uflex</td>
<td>India</td>
<td>Packaging</td>
</tr>
</tbody>
</table>


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2. High Potential Sectors of the Polish Economy

According to the data released by the National Bank of Poland, foreign direct investments inflow to Poland as of October 2011 was EUR 9 000 million. In 2009, during the global economic crisis, FDI to Poland fell by only 16 percent year on year, amounting to EUR 8.4 billion (comparing to EUR 9.9 billion in the previous year). “The majority of economies that provide investment capital have not exited the crisis yet,” said PAIiIZ.
Doing Business In Poland 2012 - 11

president Sławomir Majman. "That is why I think that a slight increase of capital inflow to Poland compared to 2009 is the most realistic prognosis. Despite the fact that the economy is growing at a slow pace, Poland offers a product sought-after in times of crisis - economic stability," Mr Majman added. "We see [interest from] investors who would never have thought of investing in Poland before."

In addition, Poland is currently on the 6th position among European countries in AT Kearney’s 2010 Foreign Direct Investment Confidence Index, an annual measure of sentiment among global senior executives. This Index gives a distinctive point of view of the present and future prospects for international investment flows. Companies that take part in the survey cover more than USD 2 trillion in annual global revenue.

Polish economic sectors with the highest investment potential are:
• Automotive
• Pharmaceuticals
• Electronics
• Machinery and steel
• Aviation
• SSC/BPO

"Poland is on the 6th position among European countries in AT Kearney’s FDI Confidence Index"

3. Automotive Industry

In 2009 Poland was a focus of interest for automobile manufacturer General Motors, which started production of the new Opel Astra IV in Gliwice. In addition, such suppliers as BorgWarner, Nidec Corporation, Hoerbiger and Keiper had a positive impact on the Polish automotive industry. Moreover, the Fiat plant located in Tychy became one of the largest motor vehicle producers in Europe. The main sites involved in mobile manufacturing are Upper Silesia, Wielkopolska and Lower Silesia voivodships. Investors are interested in these areas because they are characterized by:

- their strategic location,
- good transport accessibility,
- the availability of qualified human resources.

In addition to new investors, other foreign companies that already operate on the Polish market gain more importance in the implementation of new investments. Those investors, taking into account the quality and effectiveness of our labor market, often decide to reinvest their profits into new investment projects in Poland.

4. Pharmaceuticals

The pharmaceutical sector has had one of the best results in the Polish economy, especially during the financial crisis. Both employment and the sale of medicines are growing at an impressive pace and this trend is expected to continue in the near future. International as well as national companies are present in the Polish pharmaceutical sector. Foreign companies such as GlaxoSmithKline, Sanofi-Aventis, and Teva have been shaping the Polish pharmaceutical market for many years. The pharmaceutical market will also be defined by the future development of Poland’s biotechnology sector.

5. Electronics

Due to many foreign investments Poland’s electronics sector has become one of the most significant in Europe. Poland is the largest producer of LCD screens and the second largest producer of appliances in the EU. Many international manufacturers like LG, Sharp, Toshiba, Bosch, Electrolux, Indesit and Whirlpool have their plants located in Poland. Recent investments by Samsung and Jabil has proved that Poland is a very competitive market and we have attracted new investment projects which provide many opportunities for the country.

6. Machinery and Steel

Despite the global economic slowdown in 2009, Poland’s machinery industry developed due to Poland’s economy growth. Foreign investors have been attracted by an increasing number of wind farms and are increasingly likely to start manufacturing in Poland. They are mainly represented by ABB, Alstom and ArcelorMittal. Moreover, the machinery industry is expected to develop due to major infrastructure investments related to the Euro 2012 football championship.
7. Privatization opportunities

In 2008 the Council of Ministers adopted a document titled “Privatization Program for the years 2008-2011”. According to this document 740 state-owned entities are going to be sold to domestic and foreign private investors. In 2009, the government extended the list of companies to 802 entities.

In order to facilitate the privatization process during 2008-2011, some changes have been necessary to modify legislation prepared by the Ministry of Treasury concerning commercialization and privatization. These changes are as follows:

- increase the openness and transparency of the privatization process,
- allow the free transfer of stocks and shares owned by the Treasury to local government authorities,
- authorize the sale of stocks/shares of companies by public auction,
- simplify privatization procedures,
- lower privatization costs,
- shorten the length of privatization processes.

The privatization plan covers companies from key finance, energy, chemical and petroleum sectors where privatization has already started or will commence, as well as the following industries: machine, metal, electronic, electro-technical, spirits, food, wood and paper, furniture, clothing and clothing raw materials, transport and freight, trading, service companies as well as minority shares (the residues) or companies from the NFI Program (National Investment Funds Program).

It was estimated that by 2011 the total proceeds from privatization will amount to PLN 30 billion. These budget revenues will be used in particular to support restructuring processes in various enterprises, key social programs (including scholarships for young scientists) and to provide compensation for individuals who lost their real estate during WWII or in the post-war period.

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Treasury stake %</th>
</tr>
</thead>
<tbody>
<tr>
<td>PZU</td>
<td>finances</td>
<td>25</td>
</tr>
<tr>
<td>PKO BP</td>
<td>finances</td>
<td>25</td>
</tr>
<tr>
<td>PGE</td>
<td>energetics</td>
<td>61.89</td>
</tr>
<tr>
<td>TAURON Polska Energia S.A.</td>
<td>energetics</td>
<td>30.06</td>
</tr>
<tr>
<td>PHN S.A.</td>
<td>real estate</td>
<td>100</td>
</tr>
<tr>
<td>Krajowa Spółka Cukrowa S.A.</td>
<td>food processing</td>
<td>79.55</td>
</tr>
</tbody>
</table>

Source: Moore Stephens Central Audit Research
8. Aviation

The difficult situation in the world’s aviation market in 2009 had a negative impact in Poland. Many multinational corporations are present in the Polish aviation market. 90 percent of their production is exported. Poland proved to be a very attractive location for such investors as:

1. Privatization:
   - Pratt & Whitney,
   - EADS,
   - AgustaWestland,
   - Sikorsky and Goodrich,
   - Greenfield Projects:
     - Avio,
     - Hispano-Suiza,
     - GE,
     - MTU.

Those investors lead such projects as:

- Avio – design and implementation of a new component for the new GEnx-2B engine;
- PZL Mielec, Sikorsky – the Black Hawk helicopter production;
- PZL – Świdnik, AgustaWestland – fuselage and wings assembly for the PC-12 Pilatus.

Moreover, Poland has also a wide range of small and medium enterprises which are suppliers for companies such as Boeing, Airbus and Embraer.

9. SSC/BPO

The world economic crisis resulted in a reduction in the manufacturing sector. Simultaneously it caused an increase in demand for cost-optimization services. Not only big international corporations were interested in establishing a Shared Services Centers in Poland (for instance, in finance & accounting, HR or IT support), but also many medium-sized companies. More and more companies are willing to transfer more sophisticated services to Poland, especially in the field of IT and R&D activities. So it is believed that growth will continue in the near future.

Main locations for SSC/BPO centers in Poland are Warsaw, Kraków and Wroclaw. The companies that decided to place their activity in Poland are Lufthansa, IBM, Google, Shell, Philips Morris and International Paper.

IV. HOW TO INVEST IN POLAND

1. Investment Climate

Poland’s attractiveness for foreign investors is based mainly on a large domestic market (38 million consumers), dynamic development, a stable political situation, accessibility and a competitive workforce. Moreover, central and local government provide investors with wide range of incentives, tax exemptions and funding.

Poland successfully introduces EU funding programs and encourages entrepreneurial activity. It took 8th place in an FDI attractiveness survey concerning non-European investors in Europe (published in June 2010 by Ernst &Young). In 2009 FDI generated approx 7.5 thousand new work positions, which is approx. 50% of work-
places established by FDI the previous year. Still the FDI flow to Poland is stable during the crisis period.

There are more and more investors planning to establish service centers in Poland. Multi-national companies put Poland on a shortlist of possible locations for non-production branches like accounting services and call centers. Google, Faurecia and First Data Corporation are just a few investors who have already moved their divisions to Poland. Investors tend to claim that it not only competitive labor costs, but also the high quality of the workforce that enticed them to invest in Poland a growing number of outsourcing.

Investment projects make it evident that Poland is developing into a new European service centre. Of course the international financial crisis has influenced foreign entrepreneurs, who have put their investment plans on hold. However, it is appreciated by investors that Poland has managed to retain positive GDP growth in the recession period.

Growing attractiveness for capital investors is visible in stock exchange quotations. In 2011 there were 426 companies listed on the Warsaw Stock Exchange, of which 39 were foreign enterprises.

After the downturn in 2008 and 2009 Poland’s stock market continues to grow dynamically.

In order to attract foreign investors Polish authorities created Special Economics Zones (SEZ), where investors are provided with favorable tax conditions. Authorities exempted investors running their businesses in SEZ from Corporate Income Tax.

Moreover, companies investing in SEZ are offered:
• plots fully prepared for investment,
• free support by all legal procedures connected with the investment process
• local real estate tax exemption.

Investments located in SEZ are entitled to public support for new investments or establishing new workplaces, which could amount up to 50% of expenditures.

The map on page 16 shows locations of Special Economic Zones in Poland. Shading marks the density of SEZ in the voivodeship.
2. Investment Incentives

One of the biggest investment incentives in Poland is possibility to gain additional funding from EU sources. Within the budgetary period 2007 - 2013 Poland should receive EUR 67.3 billion in EU funds for conducting various projects in following areas:

- Improving the functioning standard of public institutions and development of partnership mechanisms;
- Improving the human capital quality and enhancing social cohesion;
- The establishment and modernization of technical and social infrastructure crucial for improved competitiveness;
- Improving the competitiveness and innovativeness of enterprises, in particular the manufacturing sector with high added value and development of the services sector;
- Increasing the competitiveness of Polish regions and preventing their social, economic and territorial marginalization;
- Balancing growth opportunities and supporting structural changes on rural areas.

EU funds are divided into several operational programs financing sectors crucial for Polish economy:

- Infrastructure and environment (41.9% of all funds, EUR 27.9 billion)
- 16 Regional Programs (24.9% of all funds, EUR 16.6 billion)
- Human Capital Program (14.6% of funds, EUR 9.7 million)
- Innovative Economy (12.4% of all funds, EUR 8.3 billion)
- Development of Eastern Poland (3.4% of all funds, EUR 2.3 billion)
- Technical Assistance (0.8% of all funds, EUR 0.5 billion)
- European Territorial Co-operation (EUR 0.7 billion).
3. Infrastructure and Environment 2007-2013

Infrastructure Incentives

The program is aimed at improving investment attractiveness by infrastructural and environmental projects.

Within the Program local authorities, PPPs and entrepreneurs can gain funding for projects in the following areas:

- Water and sewage management (EUR 3,275.2 million),
- Waste management and Earth protection (EUR 1,430.3 million),
- Resources management and counteracting environmental risks (EUR 655.0 million),
- Initiatives aimed at adjusting enterprises to the requirements of environment protection (EUR 667.0 million),
- Environmental protection and promotion of ecological habits (EUR 105.6 million),
- TEN-T road and air transport network (EUR 10,548.3 million),
- Environment-friendly transport (EUR 12,062.0 million),
- Transport safety and national transport networks (EUR 3,465.3 million),
- Environment-friendly energy infrastructure and energy efficiency (EUR 1,403.0 million),
- Energy security including diversification of the energy sources (EUR 1,693.2 million),
- Culture and cultural heritage (EUR 576.4 million),
- Health security and improving the efficiency of healthcare system (EUR 411.8 million).

4. Human Capital Program

The program is aimed at increasing human capital potential through education, vocational training, social integration and competent public administration.

The following institutions can gain financing for training and other education related activities:

- NGO’s,
- entrepreneurs,
- local and central authorities,
- educational institutions,
- business environment institutions,
- labor market and social care institutions,
- vocational training institutions.

5. Innovative Economy

The program is aimed at encouraging innovative solutions in business, as well as educational and business environment institutions assisting entrepreneurs in implementing the newest technologies. On the local level the scope of the program is fulfilled within Regional Operational Programs. Within the program investors could receive additional funds for starting innovative businesses, implementing R&D and eCommerce.
6. Development of Eastern Poland

The operational program concerns eastern voivodeships including Lubelskie, Podkarpackie, Podlaskie, Świętokrzyskie and Warmińsko – Mazurskie.

The main objectives of the program are:

- Stimulating development of knowledge based competitive economy,
- Improving access to broadband Internet in Eastern Poland,
- Development of selected metropolitan functions of voivodeship cities,
- Improving accessibility and standard of transport links in voivodeships of Eastern Poland,
- Enhancing the role of sustainable tourism in the economic development of the macroregion.

7. Regional Operational Programs (RPO)

Apart from 5 main national programs there are 16 regional programs providing funds for local investments. RPO’s finance mainly investments in following areas:

- Healthcare,
- Education,
- Municipal development,
- Tourism,
- Information society,
- Regional marketing,
- SME development.

V. LEGAL ISSUES

1. Setting up

EU and EFTA citizens, as well as companies registered in those areas, may run their business activity under the same conditions as Polish citizens. Similarly as Polish entities they can freely choose their legal form according to local regulations.

Apart from registering a new business entity in Poland, foreign investors can establish a branch or a representative office. The branch is obligated to conduct it’s business activity within the scope of the (parent) company’s activities. Moreover, the branch should be registered, similarly to a limited liability company, at National Entrepreneurs Register (KRS).

There is no obligation to register at KRS in case of establishing a representative office. However, each representative office has to be registered at the Ministry of Economy in Warsaw. The scope of activities in case of representative office is restricted to advertising and marketing on behalf of the parent company.

Both braches and representative offices have to follow Polish legal regulations, including Polish Accounting Rules, while branches of foreign companies applying to the IFRS must also follow international accounting standards.

There are a variety of legal entities available within which to establish business activity that complies with Polish regulations. The most popular among foreign investors is probably a Limited Liability Company.
However, the Polish Commercial Companies Code provides six forms of commercial association, which are:

- General Partnership,
- Limited Partnership,
- Professional Partnership,
- Limited joint-stock Partnership,
- Limited Liability Company (LLC),
- Joint-stock Company.

2. Registering a company

The first step in establishing an entity in Poland is to select the appropriate legal form. This step has a substantial effect on subsequent stages of the process. Limited Liability Companies or Joint-Stock Companies are probably the most attractive legal vehicles for foreign investors who are going to run businesses in Poland. The formation of a LLC and Joint-Stock Company is completed in front of a Polish notary and the Articles of Association must be notarized. After registering the company as a legal organization is established. The company in “organization” may, in their own name, acquire rights including ownership of real estate and other rights, incur obligations, sue, and be sued.

The company must also choose their business address. In the registering process, the address is confirmed by the lease agreement or the title to ownership of real estate.

The initial capital of the company must be fully paid by an LLC and at least up to 25% in case of a joint-stock company.

Every company that wants to conduct its business in Poland must open a bank account. The list of required documents depends on the individual requirements of the bank (e.g. articles of association/statute, and the specimen signatures of those authorized to represent the company). It is also possible to open an account for the company in the process of its formation.

The next step is to submit an application to the national court register. Due to recent changes in Polish law when submitting the application to the National Court Register it is necessary to also submit the application for a REGON identification number (statistical number issued by the Office of Statistics), an application to receive a Tax Identification Number (NIP), as well as an application to Social Insurance Institution (Zakład Ubezpieczeń Społecznych).

3. Taxation

Poland’s tax system includes several tax titles subject to special substantive tax law. The notion of tax was defined in Article 6 of the Act of 29 August 1997 - Tax Ordinance as a public, free, compulsory and non-returnable levy towards the State Treasury, voivodeship, poviat, or municipality by virtue of the Tax Act. The provisions of the Tax Ordinance are also applicable to fees and liabilities other than taxes which are payable to the state budget and the budgets of local government units and which are established or specified by the authorized tax bodies, as well as the fees specified in the provisions on taxes and local fees.

The basic tax division is as follows:

1. direct taxes, i.e.:
   - personal income tax,
   - corporate income tax,
   - inheritance and donation tax,
   - tax on civil law actions (transfer tax),
   - agricultural tax,
   - real estate tax,
   - vehicle tax,

2. indirect taxes:
   - value added tax,
   - excise duty,
   - gambling tax.

In the following sections we will briefly describe Poland’s major tax regulations.
4. Corporate Income TAX

Corporate income tax is regulated by the Act of 15 February 1992 on corporate income tax. According to the regulations of this Act the taxpayers subject to the corporate income tax are:

- legal persons,
- organizational entities without legal personality,
- tax capital groups (groups consisting of at least two commercial companies with a legal personality, operating in capital relationships and complying with the conditions stipulated in the Act),
- companies without legal personality with the premises or management board in another country, if according to the tax regulations of this country they are treated as legal persons and if in this country their whole income is subject to the taxation irrespective of the place where they receive it.

Taxpayers with the premises or management board in the territory of the Republic of Poland are subject to the taxation of their whole income irrespective of the place where they receive it. Otherwise, the entities are subject to tax obligation only on the income they generate in the territory of the Republic of Poland.

In the latter case, if it is not possible to establish income on the basis of the accounting books, the income is determined by means of calculation using the income index in relation to the revenues, e.g. 5% from wholesale and retail trade, 10% from construction and assembly activity or transport services.

According to the general principles, the object of taxation subject to income tax is the income regardless of the source of revenues, from which the income was received. Income is the surplus of the sum of revenues over costs of income achieved over the fiscal year, whereas if the allowable expenses exceed the sum of revenues the difference is the loss.

If the taxpayer incurred loss over the fiscal year, the amount of the loss may lower the income for five subsequent fiscal years, however, the income may not be reduced by more than 50% of the amount of the loss in any of the five years.

Taxable revenues consist not only of received money but also other values, exchange rate differences, the value of property, rights or other benefits received free of charge or partly charged. Revenues connected with economic activity and activity within particular sectors of agricultural production are also the due revenues, even though they have not been actually received yet, after deducting the value of the returned goods, granted abatement and discounts.

### Tax rates in Poland depending on income source

<table>
<thead>
<tr>
<th>Income source</th>
<th>Tax rate</th>
</tr>
</thead>
</table>
| - business activity (self-employed) unless linear taxation is not declared | 18% up to PLN 85 528
32% up over PLN 85 528
the tax credit amount PLN 556.02                                   |
| - capital company income                                            | 19%                                         |
| - share in capital companies profit, i.e. dividends (withholding tax- exemption in some cases) | 20%                                         |
| - interests                                                         |                                             |
| - business activity (self-employed) - linear taxation               |                                             |
| - non-residents' income due to license dues (withholding tax) and intangible services | 20%                                         |
| - some types of income                                              |                                             |
| - donations                                                         |                                             |
| - income of some entities                                           | exemption                                   |

Source: Moore Stephens Central Audit Research
Taxpayers and tax remitters do not submit tax returns during the fiscal year but are obliged to pay advance payments. This refers also to the income tax collected as a lump sum.

During the fiscal year taxpayers may also pay advance payments of tax under a simplified procedure. Advance payments depend then on the due tax calculated in the tax return concerning the fiscal year two years before the given fiscal year.

Small taxpayers or taxpayers starting their own economic activity have the possibility to pay advance payments of income tax on a quarterly basis. The table below presents binding tax rates depending on income sources.

5. Value added tax

Added Tax is an indirect tax levied on final consumer. VAT is included in sales prices. Current VAT regulations were introduced on 8 January 1993 and amended since then several times due to EU regulations.

Subject of taxation:
- payable delivery of goods and payable providing of services in Poland,
- export and import of goods,
- intra-community acquisition of goods with remuneration in Poland,
- intra-community delivery of goods.

Entity of taxation:
- a legal person,
- an organizational entity without corporate personality,
- individuals that carry out an independent business

VAT payers are also entities who:
- perform intra-community delivery of new transport means,
- perform intra-community acquisition of goods in Poland.

VAT rates in Poland

<table>
<thead>
<tr>
<th>Activity</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>all besides below mentioned</td>
<td>23%</td>
</tr>
<tr>
<td>some goods and services specified in the Act</td>
<td>5% and 8%</td>
</tr>
<tr>
<td>- export of goods</td>
<td>0%</td>
</tr>
<tr>
<td>- intra-community delivery of goods</td>
<td>exempted</td>
</tr>
<tr>
<td>- international transport</td>
<td></td>
</tr>
<tr>
<td>- some used goods</td>
<td></td>
</tr>
<tr>
<td>- financial services</td>
<td></td>
</tr>
</tbody>
</table>

Source: Moore Stephens Central Audit Research

Entities having registered their location, fixed place of business activity or place of residence outside Poland and who are subject to registration as a VAT payer in Poland are obliged to appoint a tax representative. This obligation does not concern entities from any EU member state.

Entities that perform activities mentioned in the ‘Subject of taxation’ are obliged to register as an active VAT payer before undertaking the first taxable activity. From the first activity they have to issue invoices with the proper VAT rate, according to special regulations.

There is the possibility of not registering for VAT if an entity foresees that the volume of a total annual revenue will be lower than PLN 150,000. In this case, an entity is not obliged to tax its turnover, however is also not eligible to deduct input tax from purchases.

An intra-community acquisition and delivery are allowed only for entities that are registered as an EU VAT payer.
A VAT payer has an obligation to submit a monthly tax return until the 25th day of the month following the month in which the VAT obligation arose. In a VAT return, a VAT payer has to show the difference between output tax resulting from sales, and input tax resulting from purchases. In case of a surplus of output tax, a VAT payer is obliged to pay this surplus to a bank account of a tax office within a time limit set forth for tax returns. In case of a surplus of input tax the taxpayer can apply for VAT refund on their bank account or assign it to the next settlement period.

6. Local taxes

Polish regulators have also imposed several local taxes on entities running business activities in Poland. A brief description of local taxes is presented in the enclosed table. The main local taxes concerning vehicles, property, forestry and agriculture are presented below:

<table>
<thead>
<tr>
<th>Tax</th>
<th>Scope</th>
<th>Tax base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property tax</td>
<td>land used for business activity purposes, building or its parts, structure or its parts used to conduct a business activity.</td>
<td>- for land and building area, - for structures value</td>
</tr>
<tr>
<td>Vehicle tax</td>
<td>lorries over 3.5 t trailers buses.</td>
<td>- admissible total weight of a vehicle, - for lorries and trailers, - number of seats for buses.</td>
</tr>
<tr>
<td>Forest tax</td>
<td>activity conducted with using a forecast</td>
<td>- number of hectares resulting from the register of land and buildings.</td>
</tr>
<tr>
<td>Agri-cultural tax</td>
<td>arable land, aree-and bush-covered land on arable land excluding land used for business activity other than agricultural.</td>
<td>- number of hectares resulting from the register of land and buildings, - for farms: amount of hectares taken for calculation purposes, depending on a quality of land, - for other lands: amount of hectares resulting from the register of lands and buildings.</td>
</tr>
</tbody>
</table>

Source: Moore Stephens Central Audit Research

7. Transfer tax (PCC)

Several types of transactions are subject of transfer tax. In some cases, tax is paid to the notary remitting it to the tax office (e.g. purchase/sales of real estate) while in other cases, it has to be calculated and paid by the taxpayer directly to the tax office (e.g. loan). Transfer tax amounts respectively to:
- 2% in case of transactions related to real estate, movable goods, loans;
- 1% in case of transfer of rights (e.g. patents, copyright);
- 0.5% in case of share capital.

8. Non-wage labor costs

Investor employing workers in Poland have to cover not only gross salary, but also have to finance the costs of social security. Apart from wages, social security is one of the highest costs for entrepreneurs establishing permanent workplaces. Only 60% out of the total labor cost is paid directly to the employee. The remaining 40% covers personal income tax and social security charges. Non-wage labor cost overheads differ depending on the type of employment contract. The lowest non-wage labor costs are connected with civil law contracts,
such as “contracts of mandate” or contracts for performing specified task. However, in this case the non-wage labor cost depends on the status of the employee (lower contributions are paid for students).

The table below shows non-wage labor cost simulation for different types of working contacts.

<table>
<thead>
<tr>
<th>Total cost of employment for employer</th>
<th>Employment contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross salary [EUR]</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Social charges:</td>
<td></td>
</tr>
<tr>
<td>retirement insurance (9.76%)</td>
<td>97.60</td>
</tr>
<tr>
<td>pension insurance (6.5%)</td>
<td>65.00</td>
</tr>
<tr>
<td>accident insurance (1.67% - average ratio)</td>
<td>16.70</td>
</tr>
<tr>
<td>Labour Fund and Guaranteed Employee Benefit Fund</td>
<td>25.50</td>
</tr>
<tr>
<td>Total Cost for Employer</td>
<td>1,204.8</td>
</tr>
<tr>
<td>Net wage</td>
<td>763.24</td>
</tr>
</tbody>
</table>

Source: Moore Stephens Central Audit Research

Apart from social security charges paid directly to the state agendas, the employer has to deduct and settle social charges and income tax on behalf of the employee. Income tax and social charges paid on behalf of the employee amount to 24% of their gross salary (another 18% is covered directly by the employer).

VI. INFRASTRUCTURE

1. Transportation

Poland is located in the heart of Europe (CEE region), with established road, rail, air and sea connections to all important European capitals.

The Polish road network is still underdeveloped but continuously expanding. In 2010, it consisted of 406,806 km of roads. Road transport in Poland is the preferred method of transporting goods (75.2% of total transport by weight) and passengers (73.4% of total transport overall).

The most complex road networks are in urban areas, where the density is over 150 km per 100 sq. km, while the average road density is estimated to be 85.8 km per 100 sq. km in 2009.

The table on the left presents the car distance between Warsaw and other cities.

<table>
<thead>
<tr>
<th>Car travel from Warsaw to main cities of Poland</th>
<th>City</th>
<th>Distance</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gdańsk</td>
<td>340 km</td>
<td>4h 30</td>
</tr>
<tr>
<td></td>
<td>Katowice</td>
<td>300 km</td>
<td>3h 30</td>
</tr>
<tr>
<td></td>
<td>Kraków</td>
<td>300 km</td>
<td>4h 00</td>
</tr>
<tr>
<td></td>
<td>Łódz</td>
<td>130 km</td>
<td>2h 30</td>
</tr>
<tr>
<td></td>
<td>Poznań</td>
<td>310 km</td>
<td>4h 00</td>
</tr>
<tr>
<td></td>
<td>Szczecin</td>
<td>524 km</td>
<td>8h 00</td>
</tr>
<tr>
<td></td>
<td>Wrocław</td>
<td>344 km</td>
<td>5h 30</td>
</tr>
<tr>
<td></td>
<td>Olsztyn</td>
<td>213 km</td>
<td>3h 00</td>
</tr>
<tr>
<td></td>
<td>Bydgoszcz</td>
<td>255 km</td>
<td>4h 00</td>
</tr>
<tr>
<td></td>
<td>Lublin</td>
<td>161 km</td>
<td>2h 30</td>
</tr>
</tbody>
</table>

Source: Moore Stephens Central Audit Research
2. Highways

At the end of 2011 746 km of highways and 867 km of expressways had been built. The approved plans extend the highway system to 1,647 km and expressway network to 1,590 km by 2016.

The following highways are currently under construction:

- A1 North to South, linking Gdansk and Gorzyczki (on the border with the Czech Republic), of a total length of 568 km;
- A2 West to Central East, from the German border through Poznan and Warsaw to the border with Belarus, of a total length of 615 km;
- A4 West to South East, from the German border through Wroclaw, Katowice and Cracow to the Ukrainian border, of a total length of 670 km;
- A6 from the German Border to Szczecin–Wielgowo, of a total length of 21 km already completed;
- A8 Bypass of Wroclaw, from the West and North West of the city, a total length of 35 km already completed;
- A18 from the German border to Krzyzowa, of a total length of 78 km

3. Railways

The total length of railway network covering Poland exceeds 20,228 km of tracks, which translates into a density ratio of 6.5 km/100 km2 (higher than the EU-15 average of 4.6). The railway network includes mainly the standard gauge lines, 60% of which are electric. The only broad gauge (400 km long) connects Ukraine with Silesia enabling the fast transportation of natural resources.

The total length of the railway system in Poland has been progressively declining since the mid-1980s, as it became less economically viable. Railway transport comprises 21.5% of total cargo transport calculated in tonne-kilometres.

The railway tracks system is mostly managed by state-owned PKP PLK.

4. Air transport

The air transport network is being expanded to meet the expectations of clients, concerning travelling as well as transport services. The main carrier is LOT Polish Airlines, which is a member of Star Alliance. The largest airport is Warsaw’s Frederic Chopin Airport, which is also the key domestic and international airport. In 2010 the Frederic Chopin Airport handled 8 million passengers which equals almost 50% of the total passenger traffic in Poland. Furthermore, opening of another airport in Modlin near Warsaw is predicted for mid 2012.

Other domestic airports (some with international connections) include Krakow, Bydgoszcz, Gdansk,

5. Construction market in Poland

The Polish construction industry has managed to withstand the global financial and economic crisis and is expected to remain strong in the future. There is a number of factors influencing the recent and future performance of the sector, as outlined below:

- Strong economy, experiencing 3.9% GDP growth in 2010 and 4.3% in 2011,
Doing Business In Poland 2012 - 25

- European Union funds related to convergence, of which EUR 67 billion is dedicated to Poland’s strategic development plans,
- The European Football Championship 2012, boosting the investments in highways, roads, street reconstruction, stadiums, hotel infrastructure, airports and railway transportation infrastructure,
- The rising affluence of Polish society leading to increased demand for living space and better infrastructure,
- The attractiveness of the country for foreign investors driving the development of office space and industrial related construction,
- The underdevelopment of infrastructure in comparison to other EU countries prioritizing in the first stage the road construction (highways and expressways) and later railway construction projects,
- Capacity expansion and modernization plans of the power industry driven by predominantly outdated power plants as well as environmental protection aspects and growing electricity consumption
- Energy policy implementation in the field of natural gas source diversification and the need to fulfill the EU’s requirements,
- Increasing needs within environmental protection, waste and water engineering due to EU standards compliance.

The structure of construction services is shown on the left.

The growing role of transportation infrastructure development has been recently noted by observers of Poland. On the other hand, residential building construction has been slightly diminished due to the financial and real estate crisis.

6. Road Construction

Road construction works have been the crucial part of construction activity in recent months and these trends are expected to continue for the next 2-3 years. The road construction boom is a consequence of the ambitious plan of the Polish government which aimed to improve the infrastructure before the European Football Championship in 2012. According to the government’s plans concerning EURO 2012 it is expected to build as much as 1,779 km of highways and 2,274 km of expressways in the years 2008 - 2012. The total highway and expressway construction
plan assumes the targeted existence of 2,085 km of highways and 5,466 km of expressways to be built by 2013. Concerning road construction there is also a significant potential in local roads network. The great part of towns and cities do not have bypasses. The local authorities plan to build 54 bypasses in the years 2008 - 2012. The General Directorate for National Roads and Highways (GDDKiA) claims that almost half of the roads in Poland are below satisfactory level (in 2008, 25% unsatisfactory, 21% bad). The GDDKiA plans to have 75% of all the roads in a good state and 10% in a sufficient state by 2012. Small, local road construction projects might be attractive to foreign investors while they are characterized by higher margins than those in highways and expressways (driven down by a tight competitive environment).

7. Railway Construction

Polish railways are underdeveloped compared to other countries. The main problem with railway infrastructure in Poland is its poor technical condition, which results in a reduction of the maximum speed in a substantial part of the network (on more than 33% of the tracks trains cannot go faster than 60 km/h). Consequently, the travel time between a number of important connections is lengthened worsening the competitiveness of rail transport.

Estimated investments in railway construction

<table>
<thead>
<tr>
<th></th>
<th>2007-2013</th>
<th>2014-2020</th>
<th>2021-2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of new lines</td>
<td>0.31</td>
<td>20.79</td>
<td>3.00</td>
</tr>
<tr>
<td>Modernization of existing lines</td>
<td>26.18</td>
<td>22.46</td>
<td>19.12</td>
</tr>
<tr>
<td>Maintenance investments</td>
<td>7.05</td>
<td>7.24</td>
<td>7.00</td>
</tr>
<tr>
<td>Implementation of new control systems</td>
<td>0.28</td>
<td>0.59</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33.82</strong></td>
<td><strong>51.08</strong></td>
<td><strong>30.12</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Infrastructure

In order to eliminate problems with outdated railway infrastructure, the Ministry of Infrastructure has accepted the "Master-plan for railway transport in Poland until 2030". The approved plan embraces the essential investment projects related to construction of new railway tracks (particularly for high-speed trains) and modernization of the existing ones (particularly those connecting Poland with other countries).

One of the most important and expensive investments planned to commence in 2014 with a completion year of 2020 is the construction of a high-speed train connection (360 km/h) between Warsaw, Lodz, Poznan and Wroclaw. The total value of the investment is estimated at PLN 25 billion; thereof PLN 20 billion will be spent on railway track construction only.