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Polish laws on the conduct of business – general information

The most basic rules governing business in Poland are set forth in the Commercial Companies' Code, Freedom of Commercial Activity Act and the Bankruptcy and Recovery Act. Regulations regarding businesses operating in certain specific areas (such as banking, insurance, telecommunications, public transport, and energy) are also found in numerous other acts, including the Banking Act, Insurance Act and the State Enterprises Act. Rules on contractual partnerships are included in the Civil Code. It also regulates matters crucial for any business activity such as commercial proxies, agency, contracts and certain other commercial transactions such as the acquisition of an enterprise through an asset deal (share deals as well as mergers and acquisitions are primarily governed by the Commercial Companies' Code). Regulations establishing certain general "ground rules" on market competition and operation that are of significance for any business are stipulated in the Competition and Consumer Protection Act, Countering of Unfair Competition Act as well as the Preventing Unfair Market Practices Act. More specific consumer and competition protection laws are also regulated in other acts.

The Freedom of Commercial Activity Act sets out an overall framework for businesses of any type in Poland, including laws governing sole traders or representative offices and branches of foreign businesses. The most basic principle enshrined in the Act is, as its name implies, the general freedom to conduct any business activity in any form, which may be limited only by statutory restrictions. Normally, the

only requirement to begin operating as a business is registration with proper authorities. By defining basic rules on regulatory oversight of entrepreneurs in line with the above principles, the Freedom of Commercial Activity Act promotes the freedom of commerce and confirms that all European Union and European Economic Area citizens and businesses can operate according to the same rules as their Polish counterparts. However, this means that domestic Polish regulations apply to foreign investors setting up and operating a business in Poland.

Impact of European Union legislation

Polish citizens and foreign investors greatly benefitted from Poland's accession to the European Union in 2004. Since then, Poland has been subject to European Union legislation (e.g. Treaty on European Union, Treaty on the Functioning of the European Union and a Directive of European Parliament and the Council of 12 December 2006 on services in the internal market), which guarantees and fosters freedom to conduct business throughout the entire Union.



Business vehicles

As in virtually any western country, business in Poland can be conducted in three basic ways: as a sole trader, in a partnership or through an incorporated company. There is a variety of different types of partnerships and companies, but they are essentially similar to those in other countries of continental Europe, especially Germany. Investors have the freedom to choose the legal form for their business, which is only limited by statutory requirements. These usually concern certain types of businesses entailing significant social responsibility or substantial risks such as banking or insurance and which require incorporation as a company.

Practically, Polish statutory language (mostly employed in the Commercial Companies Code and the Civil Code) names both partnerships and corporations as types of a "company" ("*spółka*" in Polish) by referring to the first category as "personal companies" and the second as "capital companies". This is especially important when identifying the legal form of business partners and contractors, as sole use of the word "company" or "*spółka*" does not determine whether they are incorporated or not.

Capital companies, i.e. limited-liability company or joint-stock company, possess separate legal personality and therefore limit liability of investors to the amount of their investment in the company, whereas partnerships generally involve unlimited personal liability of partners with some exceptions. Even though partnerships do not have separate legal personality, they may acquire and own rights in their

own name, including property, contractual claims and the ability to sue and be sued in all courts. The only exception is a civil partnership which is basically a form of contractual cooperation where partners are legally joint owners of a business' assets.

A joint venture ("JV") in the sense of organised commercial cooperation by two or more businesses may involve conclusion of an agreement between businesses in which they undertake to engage in specific actions to achieve a common business purpose. Under Polish law, joint venture agreements are treated as contracts of an unspecified type, which are governed by general provisions of the Civil Code on formation and performance of contracts. In certain instances depending on its content a joint venture agreement can also be treated as a partnership agreement, in which case relevant provisions of the Civil Code on ordinary partnerships will apply accordingly.

A joint venture can also take the form of a company set up by cooperating investors, who become its shareholders or partners. In such cases, JV operations will be governed by relevant provisions of the Civil Code, the Commercial Companies Code, and other laws relevant to the specific corporate form in which a JV operates (there is no separate legal form of a "joint venture company").

When entering into a joint venture, it is necessary to consider the possible impact of competition (anti-trust) law, particularly with regard to restraint of trade agreements.

Companies

There are two types of “capital companies” in Poland: limited liability company (“*spółka z ograniczoną odpowiedzialnością*”, or “*sp. z o.o.*”) and joint-stock company (“*spółka akcyjna*” or “*S.A.*”). In both forms shareholders are not personally liable for company debts and their risk is limited to the amount paid for shares. Moreover, both companies can finance their operations through equity or debt, but only a joint-stock company can trade its shares on a stock exchange. However, both forms can issue and publicly trade in debt securities such as bonds/debentures.

There is no requirement for a company shareholder or member of the management or supervisory board to be a Polish national. Nonetheless, a member of the management or supervisory board, audit committee or liquidator must be an individual with full legal capacity.

Companies pay corporate income tax on their net profit, which means that their shareholders are practically subject to double taxation by having to pay income tax on their dividends or other distributions of profits.

Limited liability company (*sp. z o.o.*)

A limited-liability company is the form typically employed by closely held (private) companies with few shareholders who are closely involved in oversight of company affairs. A limited liability company is also a very convenient legal form for wholly owned subsidiaries of foreign companies (except in certain areas such as banking or insurance where a joint-stock company is required). It can be established by one or more persons for any lawful purpose (also for non-profit purposes or as a special purpose entity/vehicle), unless otherwise provided by law. A *sp. z o.o.* cannot be established solely by another single-shareholder limited liability company. In comparison to a joint-stock company this form offers greater control over the ownership structure of a company and its management involves fewer formalities.

Company share capital must be at least PLN 5,000 divided into shares of equal or unequal par value. Minimum par value per share is PLN 50.

Joint-stock company (*S.A.*)

A joint-stock company is the preferred form for corporations that aim to have numerous or diverse shareholders, especially when they aim to be mainly financed through equity. It also enables anonymity of investors (called “shareholders” or “stockholders”) whose identities are not disclosed in any public register or announcement, albeit with certain exceptions regarding wholly-owned companies and significant shareholders in listed companies. Moreover, an *S.A.* is a required form for certain types of business (such as banks and insurance companies) and is the only company type, apart from a limited joint stock company, that may be listed on the stock exchange. It can be established by one or more persons, but not solely by a single-shareholder limited liability company. The management of a joint-stock company is more complex and involves more formalities than in the case of a limited liability company. In particular, a supervisory board is a mandatory for an *S.A.* and rules on shareholder meetings are quite restrictive, e.g. requiring the involvement of a notary at each meeting.

Share capital of a joint-stock company must be at least PLN 100,000, divided into shares of equal par value. Par value per share cannot be less than 1 grosz (PLN 0.01).

Partnerships

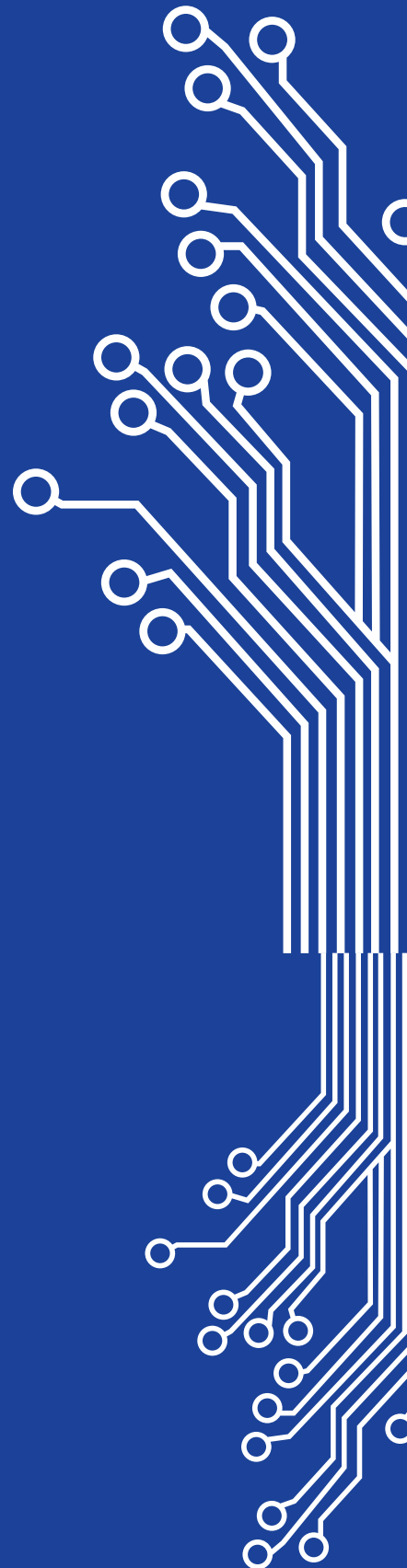
There are five types of partnerships in Poland. Four of them are “personal companies” regulated in the Commercial Companies Code: a registered partnership (“*spółka jawna*” or “*sp. j.*”), limited partnership (“*spółka komandytowa*” or “*sp. k.*”), professional partnership (“*spółka partnerska*” or “*sp. p.*”) and limited joint-stock partnership/company (“*spółka komandytowo-akcyjna*” or “*S.K.A.*”). Legally, they are treated as entities separate from their members, although partners may still to some extent be liable for partnership debts. In contrast, a civil partnership (“*spółka cywilna*” or “*s.c.*”) is essentially an agreement between two or more persons,

natural or legal, which creates a purely contractual partnership without separate legal personality or capacity – accordingly, it is regulated by the Civil Code rather than the Commercial Companies Code. Partners in any partnership can be individuals, legal persons, or organisations without legal personality (e.g. partnerships that are “personal companies”).

In the case of a civil, registered or professional partnership, a partner being an individual must meet requirements for a sole proprietorship (discussed below). There is no such restriction in the case of a limited partnership or limited joint-stock partnership. A commercial company, whether a legal person (limited-liability or joint-stock company) or an organisational unit without legal personality (registered partnership, professional partnership, limited partnership or joint-stock limited partnership) can generally be a partner in any partnership, except for a professional partnership (see comments below).

All partnerships other than a civil partnership (i.e. personal companies) are established upon entry in the National Court Register and not when a partnership agreement is concluded. They can acquire property in their own name, including real estate and other tangibles, incur liabilities, and sue or be sued. A personal company conducts business under its own company name. The main difference between partnerships and companies is that partners, unlike shareholders, are generally liable for partnership obligations and are expected to personally manage business. There are exceptions to this rule, some of which are discussed below. A further key difference is that operating an enterprise as a partnership involves significantly fewer formalities than a company and generally provides partners more freedom in the conduct of business and management of internal affairs. Also, unlike shareholders in a company, partners are generally expected to manage their business in person, which is why partnerships do not have corporate bodies, directors or officers.

Moreover, partnerships do not pay corporate income tax which means that their partners are taxed only once on their business profits.



General partnerships

In a registered or professional partnership, partners are fully, personally, as well as jointly and severably liable for the obligations (liabilities) of a partnership that cannot be satisfied with its own assets. However, in the case of a professional partnership, a partner is not personally liable for company obligations arising from the professional practice of other partnership members.

There is a special requirement for partners in a professional partnership: they can only be individuals authorised to practice a free profession, e.g. persons licensed to practice as an accountant, advocate, appraiser, architect, auditor etc. Practice of a free profession within a professional partnership can also depend on fulfillment of certain additional requirements set forth in laws regulating a given profession.

Another form of unlimited partnership is an ordinary or “civil” partnership, which is not considered a “commercial company” and is governed by the Civil Code rather than the Commercial Companies Code. It is not a separate legal entity, but, unlike other partnerships, it also does not have legal capacity. This means that all of “its” rights and liabilities are actually held by partners. In particular, partners are treated as separate businesspeople and bear unlimited, joint and several liability for the business debts. With respect to assets, all civil partnership property is co-owned by partners. A civil partnership does not require a written agreement to be formed (although in practice this is the rule) and can be created by an oral agreement or even implicitly through actual and intended cooperation of two or more entities. Forms of unincorporated commercial cooperation that cannot be classified in any other way are sometimes treated as civil partnerships or similarly thereto. This should be borne in mind if cooperating parties do not wish to create joint ownership of any of their assets or joint liability for any debts – in such a case it may be advisable to stipulate that their cooperation does not form a partnership.

A foreign individual seeking to conduct business in Poland through an ordinary partnership must meet requirements imposed for operating a sole proprietorship (discussed in detail below).

Limited partnerships

There are two types of limited partnerships: an actual limited partnership and a limited joint-stock partnership/company. The latter is a hybrid form that has many features of a “capital” company – in fact, in many countries, e.g. Germany, it is considered to be a corporation rather than a partnership.

There are two kinds of partners in both of these two partnership types: first, there are general partners (one or more), who bear unlimited liability for business liabilities, but enjoy additional rights, e.g. the right to conduct partnership affairs and represent a partnership – in essence, they operate like partners in a registered, professional or civil partnership; secondly, there are also one or more limited partners (referred to as a “shareholder” or “stockholder” in the case of a joint-stock limited partnership). A limited partner in a limited partnership is liable only up to a fixed sum stipulated in a partnership agreement. A stockholder in a joint-stock limited partnership does not bear any personal liability as such for partnership obligations, but incurs economic risk up to the value paid for the stock much like a stockholder of a joint stock company. The price for limited liability of a limited partner and shareholder is a much diminished level of control and oversight over company affairs.

Both types of limited partnerships are often used for tax optimisation purposes with a limited liability company as a general partner and shareholders of such company as limited partners or stockholders of a partnership. If profits are distributed almost exclusively to shareholders/limited partners, this effectively allows them to benefit from the limited liability of a corporation as well as the single taxation of a partner.

Sole proprietorships

Business can be conducted in Poland in the form of a sole proprietorship. A sole proprietorship can only be held by an individual with full legal capacity. Foreign individuals can operate a sole proprietorship in Poland if they meet any of the following criteria:

- they are citizens of a member state of the EU, EEA or EFTA, or a country whose citizens have the right to conduct business in Poland under a treaty with the EU or its member states.

Alternatively, this applies if they hold any of the following with respect to Poland:

- settlement permit
- permit for long-term residence in the EU
- residence permit for a fixed period
- family reunification residence permit for a fixed period
- refugee status
- supplementary protection
- official consent to tolerated stay
- residence permit for a fixed period and marriage to a Polish citizen residing in Poland
- a visa, if authorised to conduct business under a residence permit for a fixed period prior to visa issuance
- temporary protection in Poland
- valid Polish Card (for foreigners of Polish background)
- status as family members of EU member state citizens.

A person conducting business in the form of a sole proprietorship bears unlimited liability for business obligations, as they are considered to constitute own debts. Also, all assets, rights, claims and property of the business belong directly to the sole trader. There are no capital requirements for a sole proprietorship.

Branches / Representative offices

Foreign business entities conducting business abroad, i.e. individuals without Polish citizenship, legal persons with their registered office abroad, and organisational units with legal capacity but no legal personality registered abroad, can establish a representative office or branch in Poland.

A representative office of a foreign business can only engage in activity in Poland involving advertising and promotion of a given foreign entity.

A branch of a foreign business entity can be established under the principle of reciprocity, namely, only if the country of origin of a business permits branches of Polish enterprises. A branch can only operate within the scope of objectives of a foreign entity.

Neither a representative office nor branch has legal personality. They are considered a part of a foreign business entity, which is responsible for their actions and obligations. The foreign entity is party to all legal relationships such as contracts concluded by a representative office or branch, lawsuits or the like.

It is necessary for a representative office or branch to provide the name and address within Poland of a person responsible for its representation.

Trusts and other fiduciary entities

The institution of trust, in the sense of an arrangement under Anglo-American legal principles in which legal title to assets is held in the name of a trustee for the benefit of a beneficiary having a beneficial interest in assets, is not, as such, recognised under Polish law. Therefore, a trust as such cannot be established in Poland.

Nonetheless, transactions structured in a manner similar to a trust and with similar purposes are recognised in Poland. Regulations governing an agreement of mandate/agency ("umowa zlecenia") will typically apply in such cases. A contractor undertakes in such an agreement to perform a specific juridical act for the principal for a fee. This may involve the receipt and holding of rights (e.g. property) on behalf of the principal or otherwise to his benefit.

Procedures for establishing a business

As a preliminary remark, all documents to be filed with courts or public authorities during business formation (as well as afterwards) must be in Polish. However, they may be drafted in bilingual versions and it usually suffices to provide a sworn translation into Polish.

Formation of companies

Formation of a limited liability company

A limited liability company is established through a multi-step procedure, which begins with the execution of articles of association by shareholders in the form of a notarial deed. When signed, a so-called limited-liability company “in organisation” is formed. A company in organisation may acquire property in its own name, including real estate and other tangibles, incur liabilities, and sue or be sued, but does not have full or separate legal personality. The phrase “w organizacji” (in organisation) is added at the end of its name for that period.

Incorporating a company requires:

- conclusion of articles of association
- payment by shareholders of their contributions to cover entire share capital, together with any premium if they take up shares for a price higher than par value
- appointment of a management board
- appointment of a supervisory board or audit committee, if required by law or the articles of association
- title to a registered address (e.g. lease agreement)
- entry in the National Court Register.

The entire management board applies to the register court for the company seat to enter it in the National Court Register. Under the “one-stop shop” rule, an

application for company registration also includes an application for registration at the tax and statistical offices, as well as the labour office if the company plans to hire staff.

Upon entry in the National Court Register, the company obtains legal personality and assumes rights and obligations of the company in organisation as its successor.

Electronic registration

Since 1 January 2012 limited liability companies can be registered on the Internet. Online registration requires conclusion and filing of a Deed of Association digitally using an electronic system administered by the Ministry of Justice.

The system can be used by any person provided that an electronic user account, which is free of charge, is registered first. The user account grants access to electronic standard forms of basic company documents, i.e. Articles of Association, list of shareholders and management board official declaration that the shares are paid by monetary or in-kind contributions. The system serves as a means of communication with the registry court.

Only individuals can open user accounts in the system, but may use such accounts to register companies with founding shareholders other than themselves, including their principals or any legal entities on behalf of which they act. An electronic account should be opened by all persons entitled to sign the Deed of Association as well as by members of the future management board of the company being registered. An electronic account is opened after personal data and a password are entered into the system. An electronic account is accessible after authentication. An electronic signature, which consists of the user’s name and password, suffices for such authentication.

Formation of a joint-stock company

Incorporation of a joint-stock company begins with the founders signing company articles of association, in the form of a notarial deed. A so-called joint-stock company “in organisation” is created when all initially issued shares are taken up.

A company in organisation may acquire property in its own name, including real estate and other tangibles, and may also incur liabilities and sue or be sued. The phrase “w organizacji” (in organisation) is appended to the end of its registered name.

Incorporation of a “full” joint-stock company requires:

- coverage of outstanding share capital by shareholder contributions (however, it suffices prior to registration if share capital is covered up to one-fourth of its value, subject to specific terms of in-kind contributions)
- appointment of management and supervisory boards
- title to a registered address (e.g. lease agreement)
- entry in the National Court Register.

The management board files an application with the registry court for the location of the company seat to enter the company in the National Court Register. Under the “one-stop shop” rule, the application for company registration also includes an application for registration at the tax and statistical offices, as well as the labour office if the company plans to hire staff immediately.

Upon entry in the National Court Register, the company obtains separate legal personality and assumes the rights and obligations of the company in organisation as its successor.

A joint-stock company cannot be registered online.

Costs and time of establishing a capital company

Polish law requires minimum share capital for both capital companies:

- Limited-liability company: PLN 5,000
- Joint-stock company: PLN 100,000.

Moreover, companies operating in some areas (e.g. banking, insurance) require higher share capital. The fee for drawing up articles of association in the required form of a notarial deed depends on the amount of share capital and should be confirmed in each case by a notary. The maximum possible net amount is PLN 10,000, but in the case of companies with minimal share capital it should not exceed PLN 1,000 net.

Moreover, there are a number of additional fees that may be charged in the course of company formation:

- civil-law transaction tax of 0.5% of share capital, payable upon signing the articles of association
- registry court fee of PLN 500 plus PLN 100 for mandatory announcement in the official court journal – *“Monitor Sądowy i Gospodarczy”*
- cost of registration as a VAT-payer: PLN 170
- no fee for registration as payer of corporate income tax
- stamp duty of PLN 17 on each power of attorney if granted to represent persons involved in the course of company formation before courts or public authorities.

In the case of limited-liability and joint-stock companies, the process of drafting articles of association, appointment of corporate body members, and payment of share capital takes about 1 to 2 weeks. Then, further 2 to 4 weeks are required to obtain entry in the National Court Register.

Formation of partnerships

Partnership creation begins with partners signing a partnership agreement. It is drawn up in the form of a notarial deed for a limited partnership or limited joint-stock partnership. The agreement of a registered or professional partnership must only be in writing, unless real estate is to be contributed in which case a notarial deed is also required. A civil partnership can even be created by an oral agreement or implicitly through actual conduct.

Personal companies (i.e. partnerships other than a civil partnership) are subject to mandatory entry in the National Court Register and are established on the date of registration. Under the “one-stop shop” rule, an application for registration of a partnership also includes an application for registration at the tax and statistical offices, as well as the labour office if a partnership plans to hire staff. The registration fee (including a mandatory announcement in the official court journal – *“Monitor Sądowy i Gospodarczy”*) is PLN 600. The cost of VAT registration is PLN 170. A civil partnership is disclosed in the local business register which lists sole traders operating in a given area. However, it exists from the moment of concluding the underlying agreement.

There are no specific requirements concerning the amount of partnership contributions, except that a joint-stock limited partnership must have minimum share capital of PLN 50,000. All partnerships subject to registration in the National Court Register must hold legal right to their registered address (e.g. lease agreement).

Sole proprietorships

Business as a sole proprietorship requires entry in the business register maintained by the local district for the individual’s place of residence. Business can commence upon filing of an application for entry in the register, or the applicant may designate a later date for starting business—there are no temporal restrictions in this regard. There is no application fee.

Foreign individuals can conduct business in Poland on the same basis as Polish citizens if they meet the above criteria for operating a sole proprietorship.

Importantly, all citizens of the EU as well as EEA and EFTA countries are treated the same as Polish citizens.

Foreign persons who do not meet criteria for operating as sole traders can conduct business in Poland in the form of a limited-liability company, joint-stock company, limited partnership or joint-stock limited partnership, and can take up or acquire shares in such companies, unless otherwise provided by a treaty.

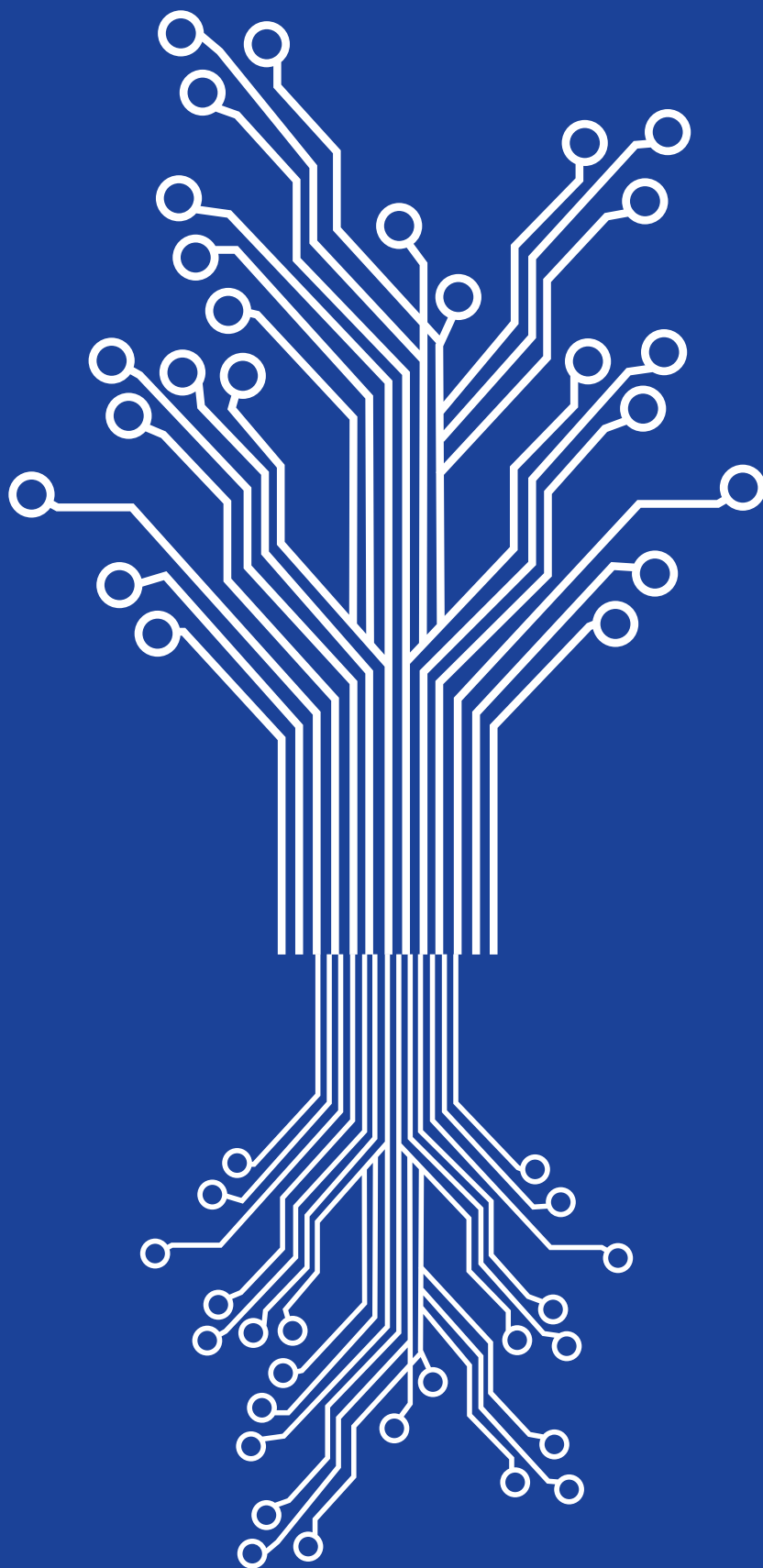
Branches / Representative offices

Representative office

A representative office is established upon entry in the register of representative offices maintained by the Minister of Economy. Administrative procedure guidelines require an entry within 30 days of application submission, but in practice, an entry should be made within several days if an application is complete and proper. A certificate of entry is then issued. The application is subject to stamp duty of PLN 1,000, exclusive of other costs such as sworn translations of required documents into Polish. The cost of VAT registration is PLN 170.

Branch

A branch of a foreign business entity is established upon entry in the commercial register of the National Court Register. Similarly to companies and partnerships, the “one-stop shop” rule applies, which means an application for registration of a branch also includes an application for registration at the tax and statistical offices, as well as the labour office if the branch plans to hire staff. Guidelines call for a registry court to make an entry within 7 days, although time varies in practice from less than one week to as long as a month. The fee for court filing and mandatory announcement in the official journal *“Monitor Sądowy i Gospodarczy”* is PLN 600. The cost of VAT registration is PLN 170. There are other costs as well such as fees for sworn translations of required documents into Polish.



Forms of employment

In Poland, employment is mainly regulated by the Labour Code, which provides for four basic types of employment contracts depending on the manner of determination of terms of employment:

- indefinite term
- definite term
- for the duration of a particular task
- to substitute an absent employee.

Every employment contract („*umowa o pracę*”) can be preceded by a separate employment contract for a probationary period of a maximum of three months. A probationary period employment contract can only be concluded once between the same parties.

Polish law limits the permitted number of definite term employment contracts that can be concluded in sequence. The Labour Code states that a subsequent definite term employment contract is legally equivalent to the conclusion of an indefinite term contract if the parties previously concluded two consecutive definite term employment contracts, but only if the interval between termination of one contract and conclusion of the other was no longer than one month.

Each employment contract can be concluded for full-time or part-time work. Part-time employment cannot entail less favourable conditions. However, this does not apply to remuneration and other benefits, which are generally granted pro-rata, i.e. in proportion to the time of work.

An employment contract for a Polish citizen should be in Polish. Other language versions are allowed, but the Polish version prevails.

An individual may also be hired under a civil law contract, e.g. a contract of mandate („*umowa zlecenia*”), contract for performance of a specific

work („*umowa o dzieło*”) or a management contract („*umowa menedżerska*”). Contracts governed by the Civil Code are characterised by greater freedom for parties to assign their rights and duties as well as less protection of the person hired in comparison to that under the Labour Code. In principle, a civil law contract may involve any function or job position that could be granted under an employment contract. However, pursuant to the Labour Code, a person undertaking work of a specific type for the benefit of an employer and under the employer's supervision at a place and time specified by the employer is an employee, regardless of the name of the contract concluded between the parties. This means that all provisions regarding employee protection granted by labour laws apply to such persons, even though their contracts nominally are not employment contracts.



General information on employment laws

Recruitment

An employer intending to hire an employee usually starts by placing an advertisement in proper sources (e.g. newspaper or website). Information in an advertisement such as selection criteria and required qualifications must comply with anti-discrimination legislation. Otherwise, persons seeking employment who have been discriminated against may sue for compensation for at least the statutory minimum wage.

Polish law specifies information that a prospective employee may be asked to provide and is limited to: first name(s) and surname, parents' names, date of birth, place of residence (correspondence address), education and work experience. Additionally, an employer may ask an employee for other personal information, including PESEL (personal identification number assigned to each Polish citizen), as well as first names and surnames and birth dates of any children, if required to benefit from special rights provided by employment and labour law. Other personal information can only be requested if required by other legislation. Therefore, interviewees cannot be questioned on matters not listed above, e.g. marriage, pregnancy or personal beliefs.

Employment contract

An employment contract should be in writing and should at least stipulate the parties, type of employment contract, date of signing, conditions of work and remuneration, type of work, place of work, remuneration, work time and work commencement date.

If an employment contract is not in writing, the employer must in writing confirm arrangements made by the parties as well as type of employment contract and its terms to the employee no later than on the date when an employee starts work.

The employer must also provide the employee with written notice within seven days of commencing employment of daily and weekly work time, frequency of pay, number of paid vacation days and applicable notice period.

If the employer is not required to possess workplace regulations (mandatory for employers of 20 or more employees), the employee must be additionally notified of periods of night work, location, date, and time of received pay, as well as procedures for registering attendance and justifying absence from work. Failure to provide additional information, however, does not have any adverse consequences.

The provisions of an employment contract cannot be less favourable to an employee than those provided by labour law: those less favourable are void and are replaced by statutory provisions.

Remuneration

Remuneration for work must be determined on a basis that is appropriate, in particular, given the type of work performed and qualifications required for its performance and should take the quantity and quality of work rendered into account. An employee cannot renounce the right to remuneration or transfer this right to another person.

Remuneration for work must be paid at least once per month on the same date of the month, which is set in advance. Remuneration payable monthly must be paid in arrears immediately after its full amount has been determined, but in any event no later than by the 10th day of the next calendar month. Remuneration should be paid in cash and bank transfers can only be made with employee consent.

Employee remuneration is subject to deductions for social security and health insurance contributions, as well as for advance payments of personal income tax.

An employee on sick leave is entitled to sick pay for 33 days per calendar year apart from employees age 50 or more, who are entitled to sick pay of 14 days per calendar year. Generally, sick pay amounts to 80% of employee pay. If incapacity to work due to illness is longer than 33 days in a calendar year (or more than 14 days for employees age 50 or more), the employee receives illness benefits from the Polish Social Insurance Institution.

The minimum wage in Poland in 2013 is PLN 1.600 (app. EUR 400) gross per month.

Non-competition and confidentiality clauses

A non-competition covenant may apply during employment. Polish law requires a separate written contract for such a covenant.

A post-employment non-competition covenant may also apply provided that the employee had access to important information and the parties concluded a separate non-competition contract. It must specify the period of prohibition (no fixed maximum under law) – actual periods applied on the market are 6-12 months (exceptionally: 24 months) - any longer period in the absence of specific justification may be deemed excessive. A non-competition contract must provide compensation for no competition, which cannot be less than 25% of the employee's remuneration before employment ceased for the period equal to that of the competition prohibition - the employee may claim the 25% if less than 25% or not provided in the contract.

Furthermore, an employee may not reveal any confidential information to third parties during employment. This covenant applies for three years after employment ends, unless agreed otherwise.

Employer obligations towards newly-recruited employees

The employer cannot allow an employee to work in a position without holding a valid medical certificate confirming ability to work in a particular position. Therefore, the employer must ensure that each employee undergoes an initial medical examination

prior to admission to work. The employer covers costs of the medical examination.

The employer must conclude a written agreement with a healthcare provider for mandatory medical examinations of employees.

An employer cannot allow an employee to work in a position for which the employee lacks sufficient knowledge of work safety and hygiene rules. Therefore, the employer is required to provide occupational health and safety training before admitting an employee to work. This is usually provided by outside specialists. The costs of such training are fully covered by the employer. Additional training during the course of employment may also be required.

The employer is obligated to register every employee (as well as persons hired on the basis of civil law contracts) within seven days from the date an employee commencing work. There are no fees for notification at the Social Insurance Institution (ZUS). Also, the employer must register with ZUS as a payer of social security contributions within seven days of the first day of work of the first employee.

Vacation leave

Polish law provides for annual leave of 20 or 26 work days, which depends on whether employment is less than 10 years or more.

The employment period upon which the right to vacation leave depends includes former employment and secondary school or university education provided that full periods of education were completed (e.g. graduation from a school of higher education means eight years of employment in total). An employee is entitled to remuneration in the full amount during leave.

An employer must provide time for the leave during the calendar year in which an employee acquires the right thereto. Leave not used in a given calendar year must be given by 30 September of the subsequent year. Leave not taken by 30 September shifts to the following year, unless it becomes statute-barred (period of three years).

An employee is also entitled to four days of annual

leave upon request, which should be reported to the employer at least on the day of leave. The employer cannot refuse the employee's request.

Except for leave periods, days off work are Sundays and statutory holidays specified in the Work Leave Act of 18 January 1951, which are currently: 1 and 6 January, 1 and 3 May, 15 August, 1 and 11 November, 25 and 26 December and, additionally, the Corpus Christi holiday, the first and second day of Easter and Pentecost (moving holiday dates).

Work time

Work hours, in general, cannot exceed an average of eight hours per day and forty hours per week in an average five-day work week over a reference period of not more than four months. An employee is entitled to at least 11 hours of undisturbed rest each day and to at least 35 hours of undisturbed rest in any week, which should include Sunday. Additionally, weekly work time, including overtime work, cannot exceed 48 hours per week. For overtime, an employee is entitled to extra pay at a rate of 100% of pay for work at night, on Sundays, public holidays or on a rest day granted in exchange at a rate of 50% of pay for work on any other day. A 100% rate also applies to each hour that exceeds the average weekly work-time standard.

Parenthood benefits and entitlements

Parenthood grants employees additional rights connected to the term of pregnancy and leave after the birth of a child. During pregnancy an employee is entitled, among others, to free time from work to undergo medical tests and examinations and 100% remuneration for sick leave.

An employee who gives birth to a child has a right to maternity leave of 20 to 37 weeks, which depends on the number of children born at any one time.

After maternity leave an employee is entitled to additional maternity leave up to six or eight weeks, depending on the number of children born, which may be granted to a mother or a father of a child.

After additional maternity leave an employee is entitled to a parental leave up to 26 weeks, irrespective of the number of children born. This leave may be

granted to a mother or a father of a child, or to both of them at the same time. In the latter situation the total duration of the leave altogether cannot exceed 26 weeks.

An employee-father has a right to paternity leave of two weeks.

An employee employed for at least six months (father or mother) has a right to an upbringing leave of up to three years to provide personal care to a child, but only up to the child's fifth birthday (unless the child is disabled).

An employee bringing up at least one child up to 14 years old has a right to two paid days of leave from work during any calendar year, but only one of the employed parents may exercise this right.

Occupational health and safety

An employer is responsible for occupational health and safety at the workplace and is obligated to protect the health and life of employees by ensuring required health and safety conditions at work. This involves, e.g. proper work organisation and implemented recommendations of a social labour inspection. Furthermore, the employer must ensure that employees are familiar with provisions and principles of work health and safety by organising mandatory training for employees. The costs of employer observance of work health and safety cannot be borne by employees in any way.

Employment termination – individual dismissal

Generally, an employment contract may be terminated by mutual agreement by notice (with a notice period or with immediate effect) and upon expiry of the fixed term of employment.

Termination by mutual agreement may take place in writing at any time during employment and ends the relationship on the date agreed by the parties.

Notice of termination (with or without notice period) must be served to an employee in writing and service must be either personal, by courier or by post. Termination notice periods are different for contracts

concluded for a probationary period and for those concluded for an indefinite term. Termination of employment by an employer entails several legal requirements that must be fulfilled, such as written form as well as clear statement when employment ends.

Termination notice periods for probationary employment contracts are: three days (for probation up to two weeks), one week (for probation longer than two weeks but less than three months) and two weeks (for a three-month probation).

The length of notice period for an indefinite term employment contract is: two weeks (for less than six months' employment), one month (for at least six months, but less than three years of employment) and three months (for at least three years of employment).

A definite term employment contract may be terminated with at least two weeks' notice only if concluded for more than six months and providing such a possibility.

Termination without notice is an exceptional form that ends employment with immediate effect. Polish law lists all reasons justifying this type of termination such as: a serious breach of basic duties, an offence making further employment impossible, or loss of license necessary for work. The employer must prove intentional fault of the employee.

In every form of termination, the employee has a right to appeal to a labour court within seven days of receiving a termination notice and 14 days of termination without notice.

Some groups of employees are protected against dismissal: an employer may not terminate employment of potential retirees within four years of retirement if employment means acquiring a retirement pension and employment may not be terminated during an employee's holiday or justified absence from work. Basically, an employer cannot give notice nor terminate employment during pregnancy or maternity or paternity leave, unless there are reasons for termination without notice such as serious misconduct and when a trade union, if existing, consents. These are examples of groups of employees who are protected from dismissal.

Employment termination – collective dismissal

Polish labour law specifically regulates collective redundancies that apply to employers with 20 or more employees. Collective redundancy is defined as termination of an employment contract for reasons not related to employees covering a maximum period of 30 days in the case of:

- 10 employees at a business employing less than 100 employees
- 10% of all employees at a business employing 100 or more, but less than 300 employees
- 30 or more employees at a business employing 300 or more employees.

The Collective Redundancies Act specifies certain procedures with which an employer must comply. Each employee dismissed during a collective redundancy is entitled to severance pay under the Act in an amount depending on the duration of employment at the workplace:

- one month's pay when employed for less than two years
- two months' pay when employed for two or more years
- three months' pay when employed longer than eight years.

Severance pay cannot exceed the equivalent of 15 times the minimum national monthly salary on the date of employment termination (in 2013, this cap is PLN 24,000). Limits do not apply if higher severance payments were agreed upon in employment contracts or internal remuneration regulations. An employer can also voluntarily provide additional contractual severance payments.

Some collective redundancy procedures also apply toward employers with at least 20 employees if the number of employees to be dismissed for reasons not attributable to an employee within period of 30 days is less than that for collective redundancies and only if the reasons for termination are unrelated to employees.

Mandatory internal regulations

An employer with 20 or more employees must implement certain internal regulations, i.e. workplace and remuneration rules. Workplace rules regulate the organisation of work and the rights and duties of an employer and employees. Remuneration rules regulate terms of remuneration for work and other related benefits. If there are trade unions at the workplace, an employer must consult on the workplace and remuneration regulations with them.

Furthermore, an employer with 20 or more employees (understood as FTE) employed on 1 January must establish a Social Benefits Fund for the current year, unless otherwise agreed to with employee representatives.

Employee representative bodies

Employees have a right to establish representative bodies of employees. Such bodies are specified by law and include, in particular, works councils and trade unions.

Works council provisions state that an employer with 50 or more employees must inform the works council operating at the workplace on the following matters:

- employer activities and business situation, as well as related possible changes
- the situation, structure and probable changes to employment, as well as actions taken to maintain the level of employment
- factors that may cause significant changes to the organisation of work and basis of employment.

Moreover, a works council must be consulted in the following manner:

- at a time and in a form and scope enabling employees to act on matters covered by consultations
- at an appropriate level of management depending on the subject of discussion
- on the basis of information provided by an employer and opinions provided by a works council, as well as any dissenting opinions of works council members

- to enable the council to meet with an employer to ascertain reasons related to their position
- to reach an agreement between a works council and employer.

A works council and employer should consult with each other in good faith and show respect for their mutual interests.

Trade union

Ten employees are needed to form a trade union and any employee may join. The structure of unions in Poland is very complex (intra- and inter-enterprise level, regional level etc.). The rights of unions and employee obligations are primarily regulated by statutory law. In collective matters such as establishing and amending work regulations and acceptance of leave schedules for employees, trade unions represent the interests of all company employees, irrespective of trade union membership. On individual employment matters, a union represents its members and employees who are not associated with the union if the union agrees to defend the employee rights. Members of a trade union are protected from dismissal.

Collective bargaining agreements

Polish law allows collective bargaining agreements between an employer and trade unions. An agreement must be registered to be valid and applies to all employees of the employer being party thereto. A collective bargaining agreement may be agreed at an enterprise or multi-enterprise level for an indefinite or definite term and can also be terminated in ways specified by law. This type of agreement can regulate such issues as terms of employment (remuneration, employment, and employee benefits), mutual obligations of the parties and other issues also regulated by law. The law provides that provisions of a collective agreement that are more beneficial than an employment contract replace such contractual provisions.

Specific terms of employment

Employment of persons with disabilities

An employer with at least 25 employees (understood as FTE) must make monthly contributions to the State Fund for the Rehabilitation of Disabled Persons (PFRON). Specific rules on monthly contributions to PFRON are regulated in the Vocational and Social Rehabilitation and Employment of the Disabled Act. Contributions can be reduced by employing disabled persons. More specifically, if 6% of employees at a workplace are disabled, the employer is released from having to pay PFRON contributions.

Employers with disabled employees are entitled to a number of benefits from PFRON subject to legal conditions. These benefits include:

- monthly grants covering part of a disabled employee's remuneration; the amount mainly depends on the employee's level of disability;
- reimbursement of costs of adapting a workplace and necessary equipment;
- reimbursement of costs of training for disabled employees;
- reimbursement of costs of employing a person to assist a disabled employee at work.

Amounts and disbursement of the above grants and reimbursements are detailed in specific laws.

Employment of unemployed persons – cooperation with local Labour Offices

A business intending to employ an unemployed person may apply for financial aid from a Labour Office. Such help is granted if an unemployed person was registered with a local Labour Office.

The types and forms of grants and reimbursements are specified in the Employment Promotion and Institutions of the Labour Market Act and vary depending on their purpose:

- reimbursement of equipment costs at the workplace of an unemployed person assigned to work by the Labour Office;
- reimbursement of social security contributions for a previously unemployed person;
- grants for employing the unemployed as interns;
- reimbursement of remuneration and social security contributions for young employees (aged between 16 to 18).

Internships, vocational training, apprenticeship, etc.

An employer may choose from among employment contract types specified in the Labour Code, as well as among forms regulated in other acts, which include a temporary employment contract, training contract for graduates, or internships for the unemployed.

An employer may conclude an agreement with a temporary employment agency for the supply of temporary employees. Here, an employment contract is concluded between a temporary employment agency and a temporary employee. The employer holds rights and duties to the extent necessary to organise a temporary employee's work. This includes work health and safety and recording of work time, even though the temporary employee is officially employed by the temporary employment agency. A temporary employee must be treated equally with permanent employees. A temporary employment contract is time-limited: over 36 months a temporary employment agency may delegate a temporary employee to the same employer for a maximum of



18 months in total, except for situations regulated in the Temporary Employment Act of 9 July 2003.

Vocational training for graduates is intended for persons under age 30 who have finished at least secondary school. The employer and trainee conclude a training contract, which may last for a maximum of three months. The training may (but does not have to) be compensated at a maximum of double the minimum monthly salary (the minimum being PLN 1,600, i.e. app. EUR 400, as of 2013).

An employer may conclude a contract with a labour office administrator for organising internships for the unemployed. Internships can last a maximum of six months, except for the unemployed under age 25 for whom a maximum 12 month duration applies. During the internship, interns are paid a scholarship by the labour office administrator in an amount equal to 120% of the unemployment benefit.

Employment of foreigners

EU and EEA citizens

Citizens of the European Union or European Economic Area Member States have no restrictions on working in Poland and, therefore, do not require work permits or other documents such as work visas. These citizens only need a valid passport or ID to

enter Poland. Their period of stay and work in Poland is not limited, although every citizen of the EU or EEA who stays in Poland longer than three months is obligated to register at an appropriate province office for the place of stay or possibly face a fine.

Non-EU and non-EEA citizens

Non-EU and non-EEA country citizens are obligated to hold a work permit issued by the provincial governor as well as a work visa. Work permits are issued for a definite term (with a renewal option) and for employment with a given employer.

Polish law provides a number of exceptions from the obligation to possess a work permit, among others, when the person is: delegated to Poland by a foreign employer for not more than three months in a calendar year and strictly for a purpose allowed by law; a teacher of a foreign language; a permanent correspondent of a foreign media holding required accreditation.

Moreover, citizens of some countries in the region such as Belarus, Georgia, Moldova, Russia and Ukraine are entitled to work in Poland without work permits for not more than six months in any twelve months, irrespective of their number of employers, if the local labour office has received from an employer a written notice of intent to assign work to an employee before the employee starts work.

Social benefits

In Poland, every employee is subject to mandatory insurance in the national insurance system. Costs of social insurance are deducted from employee remuneration and comprise four basic components each of which relates to a particular form of social benefit covered by social insurance. These components pertain to:

- pension (19.52%): 9.76% deducted from an employee's gross remuneration and 9.76% paid by the employer;
- disability benefit (8%): 1.5% deducted from an employee's gross remuneration and 6.5% paid by the employer;
- sickness benefit (2.45%): deducted from an employee's gross remuneration;
- accident benefit (from 1 April 2012, the rate is in the range of 0.67% - 3.86%): paid by the employer; the exact rate depends on the type of business.

Pension and disability insurance are payable up to a maximum total amount of 30 times national average remuneration in a given year (PLN 111,390 in 2013). After reaching the limit in a given year pension and disability contributions are no longer deducted from employee remuneration and are not paid by the employer for remaining months of the year.

An employer must also pay Employment Fund contributions (2.45%), as well as Guaranteed Employee Claims Fund contributions (0.10%).

An employee additionally pays 9% for health insurance.

The employer deducts social security contributions from an employee's remuneration and transfers amounts to the appropriate Social Security Authority.





Taxation

Taxation of corporations

Corporate income tax (CIT)

A company with its registered office (seat) or management office in Poland (Polish tax resident) is subject to Polish CIT on worldwide income, regardless of where income is derived (unlimited income tax liability). A non-resident (e.g. branch of a foreign company, partner in a Polish partnership) is taxable only on Polish-source income (limited income tax liability).

Income for CIT purposes is defined as the excess of revenue over costs of deriving income earned in a tax year. If costs exceed revenue, the difference is a tax loss. Taxable income is calculated by relevant adjustments of accounting calculations for tax purposes (e.g. some revenues are not treated as taxable and some costs are not deductible for tax purposes).

The income tax rate in Poland is fixed at 19%, regardless of the level of income.

In principle, CIT is calculated and paid annually. However, tax advances are paid throughout the year on a monthly basis. The standard tax year is a calendar year, but the company may change its tax year to any 12 consecutive months.

Tax losses can be carried forward five years. However, the amount of deduction in a single tax year cannot exceed 50% of accrued loss. Another 50% can be deducted in one of the following years in the course of five years of loss carry forward.

Distribution of dividends

Poland charges a withholding tax (WHT) of 19% on dividend payments, unless either a relevant bilateral

treaty states otherwise or provisions implementing the EU Parent-Subsidiary Directive apply.

Poland has fully implemented the EU Parent-Subsidiary Directive. This means that, in principle, a distribution of dividends from a Polish company to its shareholder in an EU or EEA member state or Switzerland is exempt from WHT in Poland provided that such shareholder holds at least 10% of shares, or 25% in the case of Swiss shareholders with a two-year retention period. However, the shareholding period requirement can be met after a dividend payment. In order to benefit from the exemption, a subsidiary should be provided its qualified shareholder tax residency certificate confirming that the shareholder is seated in an EU/EEA country or Switzerland, and with a statement that shareholders are not tax exempt from their worldwide income in their country of residency.

Equity and debt financing

Establishing a corporation or increasing its share capital (i.e. issuance of shares) is, as a rule, subject to civil law transaction tax ("CLTT") of 0.5% of the nominal value of share capital or its increase. A share premium is not subject to CLTT.

In case of debt financing, main issues that should be taken into account are: (i) WHT on interest, (ii) thin capitalization rules, (iii) CLTT and (iv) transfer pricing issues.

Polish tax laws provide for WHT of 20% on interest paid abroad. This basic WHT rate may be reduced by a relevant bilateral tax treaty. Starting from July 2013 WHT is also tax-exempt for interest payments to qualified lenders, i.e. (i) a direct shareholder in another EU/EEA country holding at least 25% of shares (as an owner), (ii) a direct subsidiary in another EU/EEA country in which the borrower holds at least 25% of shares (as an owner) and (iii) a sister company in another country provided that in both the lender and borrower the same entity seated in an EU/EEA country holds at least 25% of shares (all these conditions require a retention period of two years).

According to thin capitalization restrictions, it is not possible to treat interest paid on loans (credits) to

a Polish company by so-called "qualified lenders" as a tax cost to the extent that such loans exceed a debt-to-equity ratio of 3 to 1. Qualified lenders are: (i) a company directly holding at least 25% of a Polish company's shares, (ii) two or more companies directly holding together at least 25% of a Polish company's shares, or (iii) "sister" companies, if the same entity directly holds at least 25% of shares in the creditor and the Polish company. New thin capitalisation rules may enter into force in 2014 by extending the definition of qualified lenders to indirect shareholders.

As a rule, loan agreements are subject to 2% CLTT paid by the borrower. However, Polish law allows CLTT exemption for loans granted by (i) direct shareholders and by (ii) non-residents provided that their range of business activities includes loans/credits. CLTT also does not apply to loan transactions that are subject to or explicitly exempt from VAT.

Transfer pricing

Polish transfer pricing regulations are based on the arm's length rule. In general, Poland follows OECD guidelines in this respect. If prices agreed upon between related parties differ from those that can be attained between unrelated parties and if agreed upon conditions are not satisfactorily justified, tax authorities are then entitled to estimate income and due tax without consideration of conditions arising from these relationships. If tax authorities assess higher income (or a lower loss) for a taxpayer than that declared and the taxpayer fails to present required transfer pricing documentation or it is deemed incomplete, the difference between income declared by a taxpayer and that determined by tax authorities will be taxed at a penalty rate of 50% (instead of the 19% standard rate) plus penalty interest.

Polish taxpayers are obliged to present transfer pricing documentation at the request of tax authorities within 7 days for related party transactions in which single or annual value exceeds EUR 100,000 – in the case of transactions with value not exceeding 20% of share capital (subject to certain deductions from this share capital, depending on the manner it was covered, e.g. debt-to-equity conversion is not taken

into account), EUR 30,000 in case of services and EUR 50,000 in case of other transactions.

It is possible to apply for an assessment of transfer prices between related parties under the advanced pricing agreements procedure. Please note that Polish provisions are relatively new (in force from 2006) and as of yet there is little empirical data on their practice.

Taxation of branches of foreign corporations

In case of foreign companies operating in Poland through a branch, income derived by a foreign company in Poland is liable to CIT (limited tax liability), but only if a company possesses a permanent establishment for tax purposes in Poland. If there is no such permanent establishment, the foreign company is not liable for CIT on its income derived in Poland (except for sources of revenues subject to withholding taxes, e.g. dividends, interest, royalties).

A permanent establishment is a fixed place through which business is wholly or partly conducted, i.e. generally some type of an office. The existence of a branch office in Poland may constitute a permanent establishment in Poland and tax authorities usually consider branches as permanent establishments.

When establishing a branch, a foreign company is required to register for CIT purposes in Poland (and obtain a tax ID). This is because it is deemed under Polish tax law as a taxpayer conducting business through a Polish branch being a permanent establishment.

In case of a branch, all of the above CIT rules shall apply (including CIT rate of 19%), subject to significant exceptions and modifications. For instance, in the case of a branch there is no withholding tax in Poland on distributions of profits from a branch to the head office.

Taxation of partnerships

Partnerships are "transparent" for income tax purposes, which means that, in general, total revenue of a partnership is attributed to the partners

proportionally to their interest in such revenue. If no contrary evidence is available, interest of partners in revenue is equal. These rules also apply to tax deductible costs, tax losses, and incentives.

As a rule, in case of foreign companies acting in Poland through a partnership, a foreign company is considered to have permanent establishment in Poland and is liable to settle CIT tax due on income generated through a branch.

Unlike for income tax, partnerships are considered to be VAT payers.

Employment taxation rules (PIT)

A company acting as an employer should remit advances for personal income tax (PIT) imposed on employee remuneration. The employer is required to correctly calculate, collect and pay monthly advance PIT payments from employee remuneration to the tax office. If the company pays an insufficient advance, it is fully liable for tax arrears in this respect (tax authorities are not entitled to enforce these arrears directly from employees).

Individuals deriving income from employment are subject to PIT at progressive tax rates up to 32% (18% up to a tax basis of PLN 85,528 per annum and 32% on a tax basis exceeding PLN 85,528 per annum – as a rule, the tax basis is gross remuneration decreased by tax deductible costs and social security contributions financed by the employee). Only insignificant statutory costs of employment (as a rule, PLN 111.25 per month) and tax credit (PLN 556.02 per year) may be recognized by employees.

Tax rules similar to employment income apply in the case of individuals rendering work on the basis of civil law contracts. However, statutory tax deductible costs are higher and are 20% of the tax base or even 50% in the case of copyrights (but no more than PLN 42.764 per annum).

Delegation of foreign staff to Poland should be supported by an analysis of the risk of each assigned employee becoming a Polish tax resident under Polish PIT law and a relevant tax treaty (if any). Tax residency may influence tax obligations of assigned employees in Poland (i.e. Poland may claim its PIT taxation rights

not only with respect to remuneration connected to assignment to Poland, but also to other income earned by a given employee, regardless of its source).

A special tax regime may be applied for Polish tax non-residents working in Poland on the basis of personal service contracts (e.g. management contracts) or serving as management board members. In such case, in certain conditions income may be taxed at a flat rate of 20% (with no deductions).

Regardless of the tax residency of each employee, income from work in Poland through employment, irrespective of the location of paid remuneration, is considered to be earned in Poland and subject to PIT in Poland, albeit subject to relevant tax treaty provisions (usually there is an exception for delegated employees).

According to EU regulation no. 883/2004, social security contributions related to employees are imposed in only one EU member state. As a general rule, an employee working in Poland is subject to Polish social security contributions, regardless of their place of residence or employer's registered office. However, such employee, who normally engages in activity on behalf of an employer abroad and is delegated by the employer to Poland to work on his behalf shall remain subject to foreign social security contributions provided that anticipated duration of such work does not exceed 24 months and that the employee is not delegated to replace another employee.

Value Added Tax (VAT)

Regulation of VAT is harmonised throughout the European Union, which means that the VAT system should be consistent in all EU countries. In particular, it should guarantee VAT neutrality for its taxpayers, which is to say that the final consumer should bear the total cost of tax. Businesses are in a sense merely intermediaries that collect tax and pay it to fiscal authorities. This general idea is supported by the deduction of VAT paid on acquisition of goods and services by purchasing businesses from VAT due for goods or services that are re-sold – however, there are some exceptions to this rule.

The following transactions are subject to VAT: (i) supply of goods and services for consideration, (ii) export of goods outside the EU, (iii) import of goods from outside the EU (iv) intra-Community acquisition of goods for consideration (e.g. by a Polish company from an Italian company), (v) intra-Community supply of goods. At the same time, disposal of a business as a going concern or its organised part is outside the scope of VAT.

VAT registration for Polish VAT purposes should be made prior to any VAT-taxable transactions. In practice, a VAT registration application can be filed at the time of general taxpayer registration needed to acquire a Tax Identification Number ("*Numer Identyfikacji Podatkowej*" or "*NIP*"). Registration for VAT purposes is subject to stamp duty of PLN 170 (approx. EUR 40). Additionally, VAT taxpayers engaged in intra-Community activity are also obliged to register for VAT for intra-Community purposes (EU VAT).

The standard VAT rate in Poland is presently 23% and shall apply to all supplies of goods or services, unless VAT law provides for reduced VAT rates or a VAT exemption. Currently, Poland has two reduced VAT rates, which are 8% (e.g. for housing) and 5% (e.g. certain food articles), a 0% VAT rate, inter alia, for intra-Community supply of goods and export of goods, as well as a number of VAT exemptions (e.g. for financial services, insurance services). Lower rates and exemptions are usually dictated by certain social concerns, but they are often flexible enough to be used for tax optimization purposes.

Other taxes

Depending on the nature of future operations, a company may be subject to other fiscal encumbrances such as customs or excise duties, real estate tax, CLTT or other less important or common taxes.

Property tax, as a rule, is due from the owner of real estate (land, buildings or constructions) at rates set by local authorities (up to maximum rates under tax law).



CLTT (civil law transactions tax – the Polish abbreviation is PCC) is a type of stamp duty that is due on a number of transactions, e.g. sales, exchange of right loans, mortgages. As a rule, CLTT does not apply if a given transaction is subject to VAT or a VAT exemption (except for transactions on real estate or shares).

Tax rulings

Polish tax law provides for a system of tax rulings, i.e. general or individual official interpretations of tax law, which are commonly used as tax risk management tools.

A taxpayer is free to ask fiscal authorities any tax law interpretation question (formally answered on behalf of the Minister of Finance) by submitting an application for a tax ruling. The application should include an exact statement of facts, question and the taxpayer's own standpoint (including legal grounds for their position). There is no need to provide any source documentation as an enclosure to the application. Therefore, questions may be abstract in nature and be used to address potential business models or strategies not yet implemented to any extent. Such a solution signifies that a tax ruling binds tax authorities in subsequent actions only to

the extent that facts presented in an application reflect actual case facts. The administrative fee for each question is approx. EUR 10.

A ruling should be issued within three months (provided that there are no additional questions from the tax authority). A ruling issued by the Minister of Finance confirms or denies a taxpayer's standpoint. An entity following a received ruling concerning a future event cannot incur negative consequences if the ruling is subsequently overturned. More specifically, if a ruling is later held to be incorrect, its recipient is not required to pay tax or penalty interest (for late payment of tax). This protection also means that authorities are not permitted to commence fiscal penal proceedings and that commenced proceedings should be discontinued. However, if an interpretation concerns events or transactions occurring before issuance of an individual interpretation (rather than a future event), a taxpayer is not released from paying tax (i.e. only from paying penalty interest and from penal fiscal liability).

The Minister of Finance is authorised to amend a tax ruling if it is deemed unlawful. In such case, however, an entity who followed a ruling before it was amended will not suffer negative consequences from the amendment.

Real property and office space

Basic information.

Legal title to real property

When considering a purchase of real estate in Poland, a foreign investor should bear in mind the difference between two types of legal title to real property – ownership and perpetual usufruct.

Ownership is a right *in rem* – traditionally the strongest and most complete proprietary right. The only boundaries of ownership are those determined by the law in force, intended purpose of property and rules of public order. Nonetheless, the essence and substance of Polish ownership rights are quite similar to those in all modern countries.

Perpetual usufruct is the second best right in *rem* in Poland after ownership. It is frequently encountered in urban areas and can be established for any legal entity (perpetual usufructuary) for a period ranging from 40 to 99 years for property owned by the State Treasury or local municipalities. Within five years before expiry, the perpetual usufructuary can demand the right be prolonged for another identical period. Authorities must accept such demand, unless such prolongation violates an important national interest.

A usufructuary can dispose of real property held in usufruct, encumber or lease it. Perpetual usufruct is transferable and can be inherited. A perpetual usufructuary can exercise rights within the limits of general law and the provisions of a perpetual usufruct agreement.

Buildings and installations erected by a perpetual usufructuary or acquired jointly with perpetual usufruct belong exclusively to the usufructuary. Ownership of buildings on land being the object of perpetual usufruct is a right bound to perpetual usufruct.

A perpetual usufructuary pays an annual fee for land (but not for buildings or structures) in an amount of 1% (properties for residential purposes) or 3% (real estate for commercial purposes) of the market value. Consequently, the fee increases as the market value of land increases.

Perpetual usufructuary rights are identical to those of an owner with the exception that they are limited in time and by the purpose of real estate - both specified in the perpetual usufruct agreement. If property is undeveloped, the agreement may include an obligation to develop it in a specified manner in time – under the penalty of early termination. Furthermore, a local district authority has the right of pre-emption in case of a sale of the perpetual usufruct of undeveloped land to a third party.

Form of legal transaction.

Role of a notary

Agreements disposing rights to real estate (e.g. ownership, perpetual usufruct) must be executed in the legal form of a notarial deed. Otherwise, they will be deemed null and void.

This demonstrates the role played by notaries in real estate transactions. Not only is their participation required by law, but is also deemed indispensable to security of the real estate market and trade.

Notaries do not only draft agreements. They also have the legal obligation to instruct, inform and guide parties through a transaction, as well as caution them on the consequences of exercising their rights and obligations.

Notaries also levy certain public dues and taxes and file applications for entering real estate related information in land and mortgage registers.

Land and mortgage register

A land and mortgage register is a public register maintained for real property by a district court with jurisdiction for the property location. The register contains information on the location of real estate, its owner (and, if applicable, the perpetual usufructuary), limited third-party proprietary rights to the property and mortgages.

As a rule, information in a land and mortgage register is accurate. Nonetheless, the law introduces two generally binding legal principles to ensure that potential buyers can fully rely on these registers: first, the presumption of common knowledge of entries in the register, and, second, the guarantee of public credibility of a register.

In practice, this means that a party wronged in a real estate transaction cannot claim ignorance of register content (presumption of common knowledge of entries in land and mortgage registers) and that a buyer of real estate (acting in good faith) validly acquires the right to real estate from the owner disclosed in a land and mortgage register, even if the owner is not actually entitled to dispose of that right (presumption of public guarantee of a land and mortgage register).

Certain rights (e.g. perpetual usufruct) must first be entered in a land and mortgage register in order to actually enter into force.

Permit for purchase of real estate by foreigners

The crucial issue in acquisition of real estate by foreign investors (whether to own or hold in perpetual usufruct) lies in restrictions governing real estate acquisition in Poland.

The general rule is that each acquisition of real estate by a foreign entity requires permission in the form of an administrative decision from the Minister of Internal Affairs.

Foreign entities are individuals without Polish citizenship, legal persons incorporated under foreign laws or legal persons incorporated under Polish law, but controlled directly or indirectly by foreign entities.

The general rule above applies only partially to entities from the EU, EEA and the Swiss Confederation – restrictions here are limited to purchase of agricultural land until 1 May 2016.

A ministerial decision must be acquired prior to purchase. While in most cases the decision is more of a formality than a real obstacle, the opposite applies in the case of motions to acquire agricultural land. The vast majority of such motions is rejected.

No permit is needed for purchasing real estate for the purpose of legal seat of a legal person (up to 400 m²) or for purchasing residential apartments with the exception of those at a border zone.

Lease of real estate in Poland

Basic information

A lease agreement is a civil law agreement in which the party entitled to use real estate (lessor) grants it for exclusive use by another party (lessee) for an amount of rent determined in an agreement concluded for a definite or indefinite period of time.

There are no restrictions on who can participate in such agreements and which real estate can serve as their object. However, the object of lease must be precisely defined in an agreement.

If the lease period exceeds one year, a lease agreement should be executed in writing – otherwise it is considered to be concluded for an indefinite time.

Furthermore, lease agreements, as all other civil-law relationships, are subject to the freedom-of-contract rule. In other words, parties may set the terms of an agreement as they see fit, except for several exceptions.

Rent

Lease rent must be specified in a lease agreement. It can be a lump sum or a sum determined on the basis of specific circumstances or variables.

It can consist of basic rent and, for example, turnover rent, and can be paid in periods agreed by the parties – e.g. monthly, quarterly, annually or in advance for the entire lease period. Lease rent can be paid monetarily or by other means.

Use of leased real estate

In general, a lessee can use leased real estate in the manner specified in a lease agreement or consistent with the purpose of real estate and established customs.

A lessee cannot change the purpose or substance of leased real estate, sublease it or sublease it for use to a third party.

A lessee is not responsible for normal wear and tear of leased real estate. If the lessee has improved the condition of leased real estate, the lessor may request that it be restored to the original condition or may keep improvements in return for adequate compensation of the lessee.

The lessee, as the only entity entitled to exclusive use of leased real estate, can use all means available to a real estate owner to prevent other parties, even the owner, from violating its rights to real estate.

Period of lease

There are no restrictions as to the time for which lease agreements can be concluded, but, if for more

than 30 years an agreement deemed concluded for an indefinite term after this period. Different legal consequences pertaining to the rights of parties arise depending on whether an agreement term is definite or indefinite.

The general rule in Polish civil law is that parties can terminate an agreement concluded for a definite period only due to reasons specified in an agreement or in the Polish Civil Code.

Agreements concluded for an indefinite period can be terminated at any time or for any reason, by notice specifying the termination period. This period mainly depends on the use of leased real estate and the frequency of rent payments –specified in the Polish Civil Code (generally three months), but the parties may extend it.

Sale of leased real estate

The Polish Civil Code also regulates the sale of leased real estate.

In such a situation, the purchaser enters into a lease agreement as the lessor by law –becomes party to the agreement and has rights and obligations of the preceding lessor.

However, the purchaser can terminate a lease agreement by notice of termination - the notice period length is specified in the Civil Code.

The right to terminate a lease agreement does not apply if a lease agreement was executed in writing with an officially certified date.

An officially certified date declares that a given legal transaction is performed on the stated date. Dates can be certified by administrative institutions (e.g. tax offices, local governments, etc.) or notaries.

Economic structure of Małopolska (2012/2013)

The Małopolska Region is one of the most attractive regions of Poland in terms of economic potential and attractiveness for new investments. The region owes its position to several factors:

- well developed scientific and research facilities, consisting of 33 higher education institutions and over 160 research and development centres,
- a significant number of university graduates (more than 50,000 annually) and experienced employees;
- relatively low level of pay compared with other well-developed regions of Poland and CEE;
- good accessibility, location within the reach of international transit road;
- public support for investors, e.g. thanks to special economic zone and numerous business environment institutions.

These factors, among others, help to increase the importance of high technology sector, automotive sector, BPO/SSC, scientific and research and development fields in Małopolska, and several international companies located their businesses here, including: Motorola, Philip Morris, Electrolux, Capgemini, UBS and IBM. Local entrepreneurship is also developing - the number of companies existing in the region is growing, representing a wide range of businesses of all kinds.

Table 1. Basic data concerning the Małopolska Region (2012)

	Poland	Małopolska
Area in km ²	312,679	15,183
Cities and cities with county rights	968	63
Village communities	53,812	1,989
Population (in thousands, end of year)	38,200	3,354
including in the cities	23,264	1,628
Population per 1 km ² area	122	221
Population at non-productive age per 100 persons at productive age	55	57
Birth rate per 1.000 people	0.9	1.35
Working (in thousands, end of year)	13,778	1,225
The registered unemployment rate (end of year)	12.4%	10.4%
Sold production of industry per 1 person (in PLN)	25,813	19,142
Capital expenditure of industry per 1 person (in PLN)	5,690	4,849

Source: GUS (the Main Statistical Office): Report about socio-economic situation of the Małopolska Region, May 2013

Małopolska is one of the leading regions of Poland in terms of economic development growth in the recent years. In 2007 Gross Domestic Product (GDP) in the Małopolska Region amounted to almost 87 mld PLN, i.e. 26.6 thousand per capita. Until 2009 (the most up-to-date available data), GDP in Małopolska there was a nominal increase to 99.5 mld PLN (30.2 thousand per capita). Real increase in 2008 was 6.8%, whereas in the crisis year 2009 - 2.1%, so it was much faster than the real increase of GDP in Poland (5.1% and 1.6% respectively). Forecasts of GDP in the the Małopolska Region refer to the value of in the area of 101,891 mln PLN, whereas in 2010, 109,896 PLN (7.9% increase).

The Małopolska Region contribution to country GDP should reach 7.6% in 2009 and increase to 7.7% in 2010.

GDP per capita in 2009 is estimated to be on the level of 30,892 PLN and in 2010 it should reach 33,228 PLN per person. This result means that average GDP per one person is lower than the country average by c. 12%. In relation to the European average, it amounts to c. 54%. (Data: Małopolska Economic Observatory, 2012)

Key sectors for the Małopolska Region are trade and widely understood services, which amounted to 65.6% of gross value added of the entire economy of the region (i.e. nearly 58 mld PLN). Another crucial sector of the economy of Małopolska is industry, which in 2009 generated 22.3% of gross value added (19.7 mld PLN), whereas building industry is responsible for 9.9% (8.8 mld PLN).

Industry

Although the economy of Małopolska is to a large degree based on services, it can be noticed that the years 2005-2010 have brought a significant development of many branches of industry in this region. In the years 2005-2007 only, the value of sold production of industry in Małopolska increased nominally by 14.1 mld PLN, to 58.4 mld PLN, which meant average real increase exceeding 10% per annum. In 2008, the increase slowed down (real increase was 3.6 % year to year), and the crisis year 2009 brought a real decrease of sales by 10.1%. However, it quickly bounced back - in 2010 there was a completely reverse trend and the real annual value of sold production of industry in Małopolska increased to 19.3%, reaching the value of 63.2 mld PLN. In 2011 this value increased to 71.4 mld PLN.

Key sectors in the Małopolska Region from the point of view of sold production of industry are the following branches: food industry (8.0 mld PLN in 2010), chemical (4.7 mld PLN), metal and metal products (joint 8.7 mld PLN) and automotive (6.2 mld PLN). Other significant sectors for the economy of the region are power engineering, gas engineering and various kinds of public utility services, whose joint sold value amounted to 6.8 mld PLN in 2010. What's

more, these sectors recorded a significant nominal increase of sold production of industry in the recent years. However, the most dynamically developing industry sector in Małopolska in the recent year was production of electrical equipment - the sold value of this sector since 2005 increased almost three-fold.

Table 2. Dynamics of of sold production of industry in the Małopolska Region (fixed prices)

	2011	2012
Total	114.9	102.6
Mining and Quarrying	113.6	91.7
Industrial Processing, including:	113.6	102.1
Food production	108.0	111.3
Textile production	89.7	113.1
Clothes production	106.3	130.3
Manufacture of paper and paper products	116.9	105.1
Printing work and reproduction of data storage media	105.8	131.9
Manufacture of chemicals and chemical products	107.7	104.4
Manufacture of rubber and plastic products	119.9	90.2
Manufacture of products from other non-metallic mineral materials	103.1	100.1
Manufacture of products from metal	119.1	95.7
Production of machines and equipment	102.3	110.4
Manufacture of motor vehicles, trailers and semi-trailers	113.7	97.3
Furniture production	141.0	86.7
Electricity, gas, steam and hot water production and supply	145.5	112.0
Water supply, sewage and waste disposal; recultivation	104.1	100.0

Source: Study based on "Report on the socio-economic situation of the Małopolska Region in 2012", the Main Statistical Office, May 2013

Building Industry

Building Industry, responsible for almost 10% of gross value added of the economy of Małopolska, was subject to similar phenomena as other economy sectors in the regional, country and global (mainly European) scale in 2012.

In 2009, the building sector of Małopolska suffered from momentary collapse, simultaneous with the country-wide collapse. In 2010, the building sector in Małopolska made up for all the losses, reaching the sold value of 15.1 mld PLN. According to the currently accessible data, the year 2011 brought another increase (sold products and services income of Małopolska building companies increased by 18.5%). The driving force of the increase was mainly infrastructure and specialist construction solutions. In the area of residential building industry, a certain stagnation is visible - in 2010 and 2011 considerably fewer flats were put into use than in the years 2009-2009 (12.3 and 12.8 thousand of flats respectively). In 2012, there was a further decrease in the building industry sold value in relation to the previous year, and annual increase rate was fluctuating further. Similar phenomena took place in the sold production value of construction-assembly sector. The decrease was also present in the field of average employment in building industry.

Table 3. Building Industry

Activity	2010	2011	2012
Poland			
Building industry sold production value (in mln PLN)	160,403.9	188,127.5	189,076.5
Average employment in building industry (in thousand)	442.8	475.8	486.3
Małopolska			
Building industry sold production value (in mln PLN)	14,115.	16,727.5	15,554.9
Average employment in building industry (in thousand)	41.6	45.7	45.6
Kraków			
Building industry sold production value (in mln PLN)	7,717.0	8,654.6	8,267.3
Average employment in building industry (in thousand)	18.9	20.0	19.5

Source: Study based on "Report on the socio-economic situation of the Małopolska Region in 2012", the Main Statistical Office, May 2013

The major proportion (86-90%) of building work in Małopolska is executed by local companies. i.e. those who have their seat within the region. Taking into account Małopolska companies employing at least 10 employees, the sold production value of the sector amounted to 7.8 mld PLN in 2010. The main part of this amount (42.2 %) are civil engineering works. Services related to building erection amounted to 35.7 of sold production.

Modern Business Service Sector

Service sector has always played an important role in the economy of Małopolska, contributing in the recent years to almost two thirds of the gross value added in the region, with the employment of almost 53.1% of working population in 2010.

Among the particular branches of the service sector, the most dynamically developing modern business service sector requires special attention: business process outsourcing (BPO), including IT services outsourcing (ITO), shared service centres (SSC) and research and development centres (R&D). The companies which opened their service centres in Małopolska included such companies as Alexander Mann Solutions, Aon Hewitt, Genpact, Nokia Siemens Networks, Capita, Cisco, Amway, Heineken, Luxoft, EPAM Systems or Capgemini. In 2012, this group was joined by e.g. Brown Brothers Harriman and Euroclear.

According to the data of organizations associating companies from BPO/SSC sector (ABSL, ASPIRE), the number of of such companies in Kraków and the Kraków agglomeration reached 72, with the employment of almost 25,000 people. Investment plans allow to estimate that 7,000-10,000 of new workplaces will have been created by 2015.

Kraków was ranked in the top 10 most attractive cities in the world for business services outsourcing in the latest "Tholons Top Outsourcing Destinations 2013" ranking. . In 2013, the capital of Małopolska moved up from 11th (2012) to 10th position. Kraków, therefore, has become the first Central-Eastern European city to reach the Top 10 of this prestigious ranking. This ranking is created on the basis of a wide range of criteria, including the number and

quality of human resources, level of education of the employees available on the labor market, costs of running the business activity, available infrastructure, investment risk and quality of life.

The centres in Małopolska provide IT, financial and accounting as well as broadly understood research and development services, including software development.

Internal market and trade

Internal market of the Kraków Region consists of more than 3.35 million inhabitants, including 2.1 mln at productive age, 550 thousand in post-productive age and 652 thousand in pre-productive age. Significantly, the economic potential of the population of Małopolska is constantly growing, resulting in the growth of internal market. In 2012, average employment rate in the Małopolska Region increased by 0.5%. In comparison, the same growth for Poland in the same period was 0.1%.

In 2012, average remuneration in the enterprise sector in Małopolska amounted to 3,393.36 (2.4% more than in 2011). The decrease of remuneration was recorded only in the building industry, whereas the highest averages took place in the sections information and communication industry (175.6% of the average pay). Average hourly rates are between 14.6 PLN (administration and related services) to 40.11 PLN (information and communication industry).

In 2012, the Małopolska Region marked an increase of retail and wholesale trade. In relation to the previous year, there was a rise in the sale of e.g. press and books (more than 39%), motor vehicles and parts (more than 28%), pharmaceuticals and cosmetics (26%), liquid, solid and gas fuels (more than 11%).

Tourists, who are a driving force of the service sector (especially in hotel and restaurant sectors) and retail, leave considerable amount of money in Małopolska. According to the report entitled "The Małopolska Region 2011", published by The Marshall Office of the Małopolska Region, the region is visited by 11 - 13 mln tourists every year, and in 2010 only, they left approximately 9.3 mld PLN in Małopolska.

Increasing wealth of the inhabitants and tourism have impacted a considerable growth of retail development. In the course of the last six years, the number of shops in the Małopolska region has increased from 12.1 to 17.3 thousand. Accordingly, the turnover of the retailers has also increased. This value has increased from 39.6 mld PLN in 2005 to 57.3 mld PLN. Temporary drops in 2009 did not impact the retail sector significantly and it fully recovered already in 2010.

Investments

In 2012, a higher investment activity of enterprises located in the Małopolska Region was recorded. The annual number of commenced investments decreased, while their value increased.

Earlier, in the year 2005-2008, there was a systematic rise of capital expenditure, which took a halt in 2009 as a result of economic slowdown (year to year decrease by 7%). The crisis related to capital expenditure of enterprises, therefore, was just temporary.

With reference to particular economic sectors, the most considerable capital expenditure in the Małopolska Region in 2012 was incurred for machines, technical equipment (more than 3.27 mld) and purchase of means of transport (more than 0.58 mld).

Table 4. Dynamics of changes (rise/fall) of capital expenditure in particular economic sectors in the Małopolska Region in 2012

	Change (%)
Mining and Quarrying	- 54,9
Industrial Processing	30.8
Electricity, gas, steam and hot water production and supply	21.0
Water supply, sewage and waste disposal; recultivation	97.3
Building Industry	- 43.0
Trade; car repairs	23.9
Transport and storage management	0.3

Source: "Quarterly Report of socio-economic situation in the Małopolska Region" The Polish Central Statistical Office, 2013

Table 5. Main areas of investment are industrial production, modern business services, power engineering, chemical and automotive industry, retail and wholesale, tourism and transport.

Country of origin	Investment value (mln USD)	Participation in FDI (%)
Europe		
Great Britain	101.3	12.5
Germany	82.7	10.2
Slovakia	76.5	9.5
France	75.3	9.3
Sweden	67.6	8.4
Netherlands	35.8	4.4
Spain	30.8	3.8
North America		
USA	219.1	27.3
Canada	2.2	0.3

Foreign Investments

Małopolska has been long a target of a number of investments of foreign entities, both in terms of greenfield investments and takeovers. It is estimated that Foreign Direct Investment in the Małopolska Region in the years 1989 - 2012 amounted to c. 14 mld USD. Estimated investment inflow in 2011 reached the level of 0.9 mld USD. It means lower capital expenditure than in the years 2007-2008 (1.4-2.0 mld), but it still ranks Małopolska on the 4-5 position among 16 regions in Poland. Małopolska is similarly ranked (3-4) in the assessment of investment attractiveness in comparison with other location in the country. Foreign Direct Investment in Małopolska is approx. 6% of all investments in Poland.

According to the Main Statistical Office data, in 2011, the number of business entities with foreign capital in the Małopolska Region came close to 4,000. They employed almost 95,700 people. It was a result of long-term, stable increase of foreign investment in the region. Firms with foreign capital employed almost 10% of all employed people in the region.

As far as the origin of the investment is concerned, the data is as follows:

Research and development

Małopolska is one of the key scientific and research and development (R&D) centres in Poland. In 2010, in the Małopolska Region there were 162 centres specializing in research and development activities. They employed almost 9,000 people, including almost 6,000 employed at universities located in the region. Małopolska employed 10.8% of all employed in this sector in the country, including 11.8% of scientists. We should also pay attention to 81 enterprises providing R&D services, employing more than 1,200 people.

Expenditure for R&D activities in Małopolska have been growing constantly. In 2010, the expenditure in this area increased by 18% and exceeded 1 mld PLN. Most resources were used for primary research (more than 400 mln PLN). For the development work 271 mln PLN was spent, whereas more than 100 mln was spent on applied research. In comparison, in 2009, despite the economic slowdown, there was also a growth of expenditure for R&D. Expenditure at that time exceeded 0.9 mld PLN and there was a year-to-year growth of 3%.

Małopolska holds the 4th position in the country in terms of patent applications. The leader here is the AGH University of Science and Technology, which holds 2nd spot in terms of patent applications.

Table 6. Internal expenditure for R&D activities in the Małopolska Region (in mln PLN, 2010)

	Total	Capital expenditure	Primary research	Applied research	Development activities
Scientific institutes of the Polish Academy of Sciences	156.9	20.4	131.6	2.8	2.1
Research facilities	106.0	30.2	22.7	24.0	29.1
Other scientific and R&D units	40.3	1.6	4.3	0.1	34.3
Business entities	176.4	45.6	5.1	21.1	104.6
Universities	576.4	191.3	229.3	55.2	100.6
Total	1,091.4	290.0	421.8	108.7	270.8

Source: The Polish Central Statistical Office

Foreign trade

Małopolska is Poland's sixth largest region in terms of export value. A significant internal market and proximity of important outlet markets such as Śląskie and Dolnośląskie Regions influenced the fact that the economy of the region is to a large degree independent from trade with foreign partners and a large part of its production is sold on internal markets. In the result, there is a substantial deficit in the foreign trade exchange.

In 2005-2008 the turnover of foreign trade of Małopolska enterprises was growing rapidly. The trend was drastically stopped in 2009, when both export and import counted in Euro sustained a downturn (including a sudden increase of value of Euro against Polish złoty). In 2010, situation of foreign trade was back to the economic equilibrium, but the value of turnover noted in the record-breaking year 2008 was not reached. The value of export of Małopolska

enterprises amounted to 5.7 mld Euro and import - 6.5 mld Euro. More optimistic data arrived in 2011 - there was a growth of import by 20.5% reaching the value of 6.8 mld Euro. Participation of Małopolska in national export in 2011 was 5.1%.

At the same time, the value of import to Małopolska reached 6.5 mld Euro in 2010 and 7.8 mld Euro (increase by 20.2%) in the year 2011.

A significant part of Małopolska export of firms from the sector of industrial processing. In 2010, the value of the export reached 4.5 mld Euro. Key exported goods are mainly: electrical machines and equipment (1.1 mld Euro), Vehicles, other than railway or tramway rolling-stock, and their parts and accessories (572 mln Euro), aluminium and aluminium products (356 mln Euro), caoutchouc and plastic and derived products (joint 449 mln Euro) and mechanical equipment (215 mln Euro). All together, export activities in 2010 were run by 2,300 Małopolska enterprises.

Table 7. The most important groups of exported goods in the Małopolska Region (in mln Euro, 2011)

Industrial Processing	5,401.26
wholesale and retail, vehicle repairs	1,263.38
Information and Communication	40.41
Water supplies	30.76
Professional scientific and technical activities	22.55
Transport and storage management	14.09
administration services and supporting activities	23.61
Real Estate market services	19.83
Agriculture, hunting	14.06
Mining and quarrying	6.22
Building Industry	6.59

Source: Customs Chamber in Warszawa, "Foreign trade in Poland and Małopolska 2011", Małopolska Economic Observatory, Kraków 2012

Direction:	Export value (mln Euro)
Germany	1,633
Czech Republic	527
France	522
Slovakia	410
Great Britain	349
Italy	328
Russia	315

Table 8. The most important directions of Małopolska export in 2011



Labour market in Małopolska

As a consequence of the situation on the labour market, the economic activity of Małopolska population is growing - the only exception being the year 2009, when a growth of employment did not take place, but in the conditions of global slowdown and the increase of unemployment it was still a very good result.

In 2012, out of 3.31 inhabitants, 1.45 mln were employed, which gave the employment ratio on the level of 50.2%. The main part, 22.3% were employed in broadly understood agriculture and related sectors, and other key sectors are: retail and wholesale sector, services related to motor vehicles repairs as well as industrial processing.

The situation of the Małopolska labour market resembles those taking place in the entire country. The unemployment rate in Małopolska reached 12.2% in the first quarter of 2013 (with 14.0% in Poland). Typically, there are significant difference in the city of Kraków, where unemployment was registered at the level of 6.6%. In contrast, the unemployment rate in the region in the 4th quarter of 2012 reached 10.1%.

Table 9. Average monthly remuneration in the enterprise sector in the Małopolska Region (2012)

Economy Sector	Employment (thousands)
Industry / Industrial Processing	149.6
Industry / water supplies, waste management	8.6
Building Industry	45.6
Trade; car repairs	114.1
Transport and storage management	19.5
Accommodation and food industry	12.2
Information and Communication	14.8
Real Estate market services	5.9
Administration	20.3

Source: Study based on "Report on the socio-economic situation of the Małopolska Region in 2012", the Main Statistical Office, May 2013

Students and graduates

In the academic year 2011/2012, there were 208,113 students of Małopolska universities. For the last three years, Małopolska has had the highest ratio of students per 10,000 inhabitants. In 2011, this ratio amounted to 627. There were 54,978 university graduates with an MA diploma.

Public universities in Małopolska belong to the most highly valued academic institutions in Poland. In 2012, the title of the best university in Poland in the "Perspektywy" monthly University Ranking was won by the oldest Polish university - the Jagiellonian University in Kraków. The Jagiellonian University ranks 2nd in Poland in terms of the number of candidates for studies. There are more than 45,000 students at the Jagiellonian University. Other popular universities include the University of Economics (UEK), Pedagogical University, Agricultural University (all in Kraków) as well as State Higher Vocational School in Tarnów. In the category of non-public schools, Andrzej Frycz Modrzewski University in Kraków is ranked 3rd in Poland.

The most popular fields of study include English philology, medicine, oriental philology, law (UJ), spatial development (UEK), building engineering, geodesy, cartography (AGH UST), architecture (University of Technology).

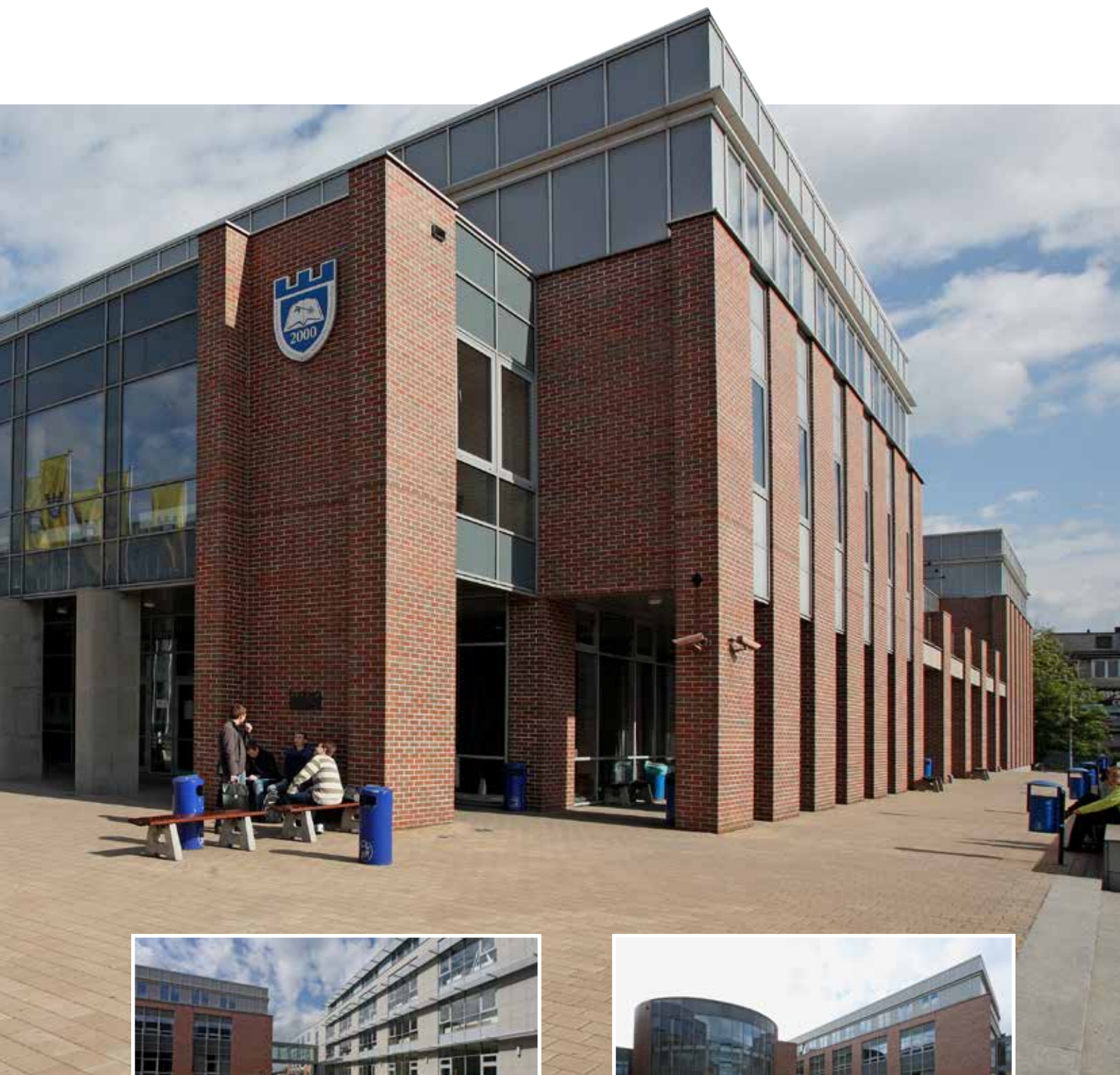
The universities of Małopolska more and more commonly host foreign students. In 2011, there were 2,640 students, majority of whom were studying at the Jagiellonian University (56%), Collegium Medicum (25%) and the University of Economics (10%). This is almost 11% of all the foreigners studying in Poland.

Study of Human Capital in Poland shows that 92% of Małopolska university students declare command of English, and 40% of German. It is also worth mentioning that 42% and 13%, respectively, claim that their language level is good or very good.

Universities are constantly improving their cooperation with business environment. Among all the students doing internships in enterprises, more than 87% were studying at public universities. More than half of the universities have fixed agreements with employers with regard to student internships. The above is especially true about technical and economic schools (AGH-UST, Kraków University of Technology, UEK). Companies are still the initiators of this kind of cooperation (86%) rather than companies.

Source: "Tendencies and direction of changes in the university market of Małopolska," Małopolska Social Observatory, 2013





Calendar of the most important economic events in Małopolska

Date of the event / Name	Organizer	Additional information
19-20 April 2013		
European Game Festival Digital Dragons	Kraków Technology Park	www.sse.krakow.pl
16-17 May 2013		
Acting local, winning global, BPO / SSC conference,	ASPIRE	www.aspire.org.pl
3-7 June 2013		
Małopolska Innovation Festival / Małopolska Innovation Fairs	The Małopolska Region	www.imalopolska.eu
17-18 June 2013		
4th Kraków Conference	The Małopolska Region	www.konferencjekrakowskie.pl
3-5 September 2013		
23rd Economic Forum	Institute for Eastern Studies Fund	www.forum-ekonomiczne.pl
21 November 2013		
Annual Business in Małopolska Meeting	Business in Małopolska Center, Kraków Technology Park	www.businessinmalopolska.com www.sse.krakow.pl
October 2013		
6th Małopolska Investment Forum	The Małopolska Region	www.malopolska.pl www.businessinmalopolska.com
June - August 2013		
9th Małopolska Festival of Taste	The Małopolska Region	www.malopolska.pl



Useful addresses



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The Marshall Office of the Małopolska Region Economic Development Department	30-017 Kraków, ul. Raclawicka 56, tel. +48 12 63 03 444, fax: +48 12 63 03 445 www.malopolskie.pl , www.malopolska.pl
Małopolska Regional Development Agency SA Investor Service Department	31-542 Kraków, ul. Kordylewskiego 11 tel. (+48-12) 617 66 00 e-mail: biuro@marr.pl www.marr.pl
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