



Mature leader of the CEE region

EY's Attractiveness Survey

Poland

May 2017



EY

Building a better
working world

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Introduction



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The current pace of technological development and disruption taking place everywhere and in all market segments are re-defining many sectors and industries. The New Normal is a state when no one can be assured of its position. In such an environment new investments are of essence in order to keep up with trends and competition. It refers to companies themselves, but also to whole economies.

Being ready for a constantly changing and new market situation, understand the needs of your clients' but also your people (not workers!), being aware how tastes and expectations of generations vary, being ready and adaptable to the requirements of Industry 4.0 - all those challenges are competing to be number 1 on the C-suite agenda. In today's world investing in addressing that kind of issue is a requirement for any future success and will define the shape of the economy to come.

At EY we experience this as well and respond accordingly. EY Poland invested in our Global Talent Hub, we are part of the Startberry® initiative for start-ups in Warsaw and we are part of Wavespace™ - our global network of growth and innovation centers to help clients achieve radical breakthroughs. We are also transferring our service delivery model in order to adapt to a fast-moving and more digitalized world.

Apart from analyzing companies' challenges and investment needs, at EY we also identified factors that play a critical role in foreign investors' decision to establish or expand their activities in a given country. Understanding those factors should be of particular importance for countries with such aspirations as Poland, which to achieve its ambitions, needs investments. Poland's investment needs are reinforced by a very limited space for further employment led-growth due to, among others, unfavourable demographic developments. However, its rate of investment (an average of 20.2% in the 2004-2016 period) has in recent years been well below the levels observed in other CEE economies (24.6%). A significant increase in the level of investment in Poland requires both domestic and foreign capital outlays. The latter should preferably take the form of foreign direct

investments (FDI), which not only generate employment but are often associated with technology transfer, productivity spillovers, transfer, and development of skills.

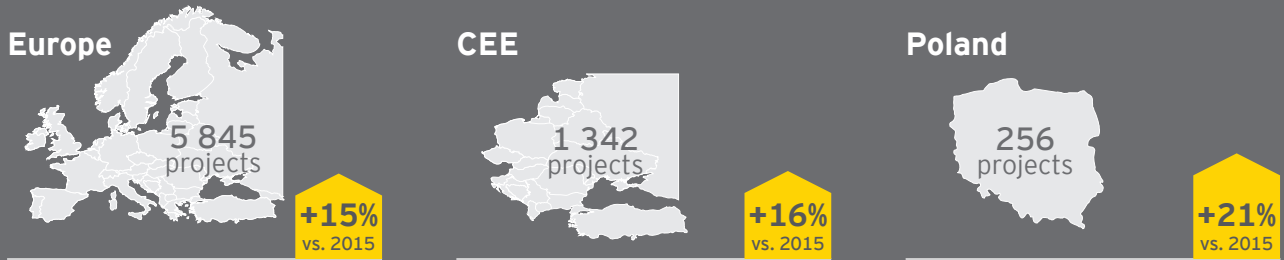
There is, however, strong competition between countries for FDIs. Companies select the best locations in which they believe they will be successful - which means they will find the right talent and conditions to run business activities. Countries and governments do all they can in order to attract investors and win their own rivalry for quality job creators and investors in modern technologies and R&D activities. The list of factors that investors pay attention to, and so should governments, is provided and discussed in annual publications of EY European Attractiveness Survey.

According to that survey, Poland has for many years been among the top choices for foreign direct investments in Europe and a leader for Central and Eastern Europe. In 2016 Poland was ranked 5th (an advance from the 6th position) among European countries in terms of the number of planned projects, while the number of announced FDI-related jobs in Poland was the second highest, only next to the UK.

This year, however, we wanted to gain a deeper insight into how Poland is positioned and perceived by investors. Our aim was especially to understand the assets of Poland that foreign investors value most and the risks (related to their presence on the market) that they point to. Which sectors do they focus on? And who is considered to be Poland's main competitor for FDIs? To answer those questions, we have prepared the first edition of Poland's Attractiveness Survey.

Our report is based on factual and data analysis, as well as on the feedback from investors, who have been investing in Poland and other countries. Thus, we believe that this publication will be helpful for companies and investors in their considerations regarding site selection process and conditions to run business activity. We believe the report will also be supportive to administration and other stakeholders in making Poland a valuable and attractive foreign investment destination.

1 Number of FDI projects in Europe

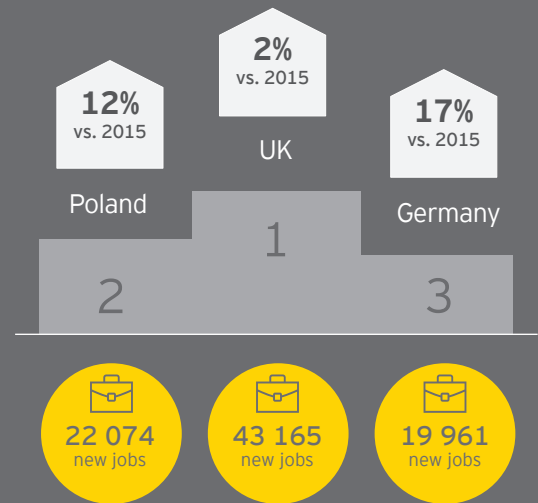


In 2016 the number of FDI projects directed to Europe increased by 15% in comparison to the previous year. Overall, 5,845 new international investment projects were announced.

In 2016, Central and Eastern Europe (CEE) maintained its appeal to international investors - the region received 23% of all the FDI projects announced. FDI in CEE had a strong momentum in 2016.

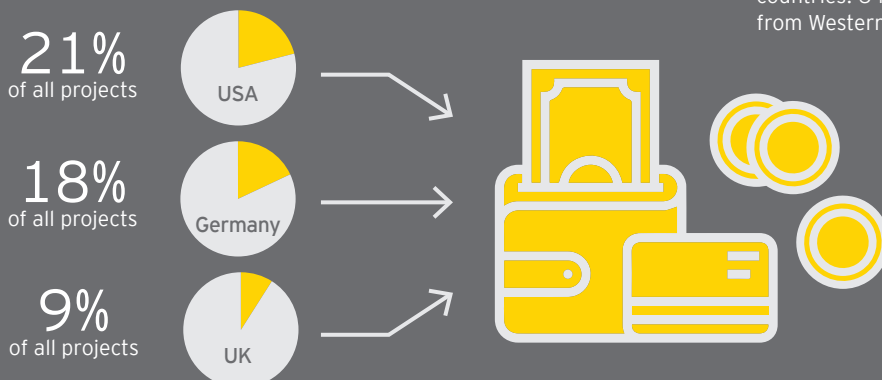
Poland leaped to fifth place in the national ranking, attracting 256 projects, a hefty 21% increase.

2 Top 3 European destination countries by FDI job creation



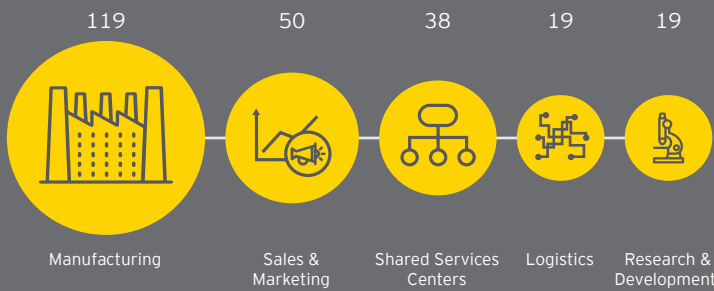
Relative to other European countries, the number of FDI-related jobs announced to be created in Poland in 2016 was the second highest 22,074, only next to the UK - 43,165. Germany on the 3rd place with 19,961 new jobs. The position of Poland in this ranking has been relatively stable (in top 3 countries) since 2004, with only two exceptions: in 2009 and 2011, when the country was beyond the podium.

3 Top 3 investors



USA, Germany and United Kingdom are the top three investors - 48% of all projects into Poland came from those three countries. 64% of all FDI in 2016 came from Western Europe.

4 Number of FDI projects in Poland by activity



FDI projects located in Poland fall predominantly into three sectors: manufacturing, finance & business services and transport & communications. On average, these sectors accounted for 95% of all FDI projects in Poland in 2005-2016. However, the share of manufacturing decreased from 81% of all FDI projects in 2005 to 62% in 2016, while finance & business services attracts more and more projects - from 7% to 28%, respectively.

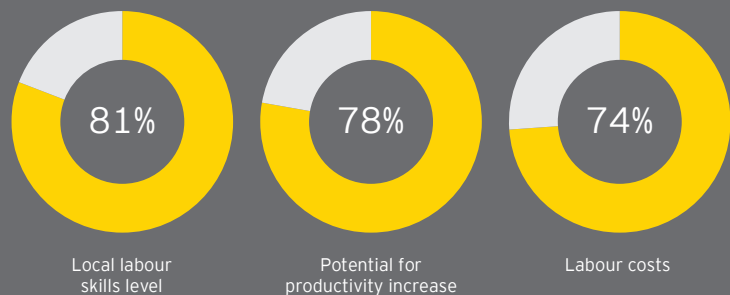
5 FDI projects in shared services centers in Europe

Poland and its neighbors, including the Baltic States, are also attracting a third wave of shared service centers (up 83% for CEE in 2016) and other activities supplying services to companies. In 2016 Poland garnered 38 out of 161 (or 24%) SSC projects announced by international investors, ranking first among European countries



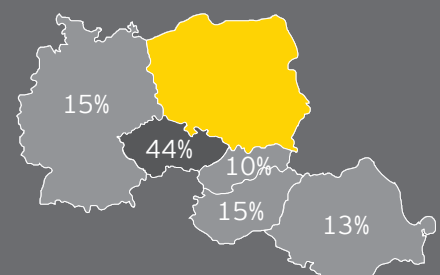
6 Poland's key assets

Over 70% of surveyed companies' representatives indicate that Poland's labour skills level, potential for productivity increase and labour costs are very or fairly attractive. The same factors are also most frequently listed as Poland's key assets in comparison to other European countries.



7 Czech Republic - Poland's main competitor for FDIs

Traditionally, Central and Eastern European countries have been competing with Poland for foreign investment. The results of the survey confirm this common knowledge, additionally enumerating Germany among Poland's main competitors. While the position of the Czech Republic as Poland's main competitor for FDIs may not be that surprising, the margin by which it has been ranked ahead of other countries is striking. The position of the Czech Republic as that of Poland's main competitor for FDIs is shared by every group of investors considered.



FDI global inflows

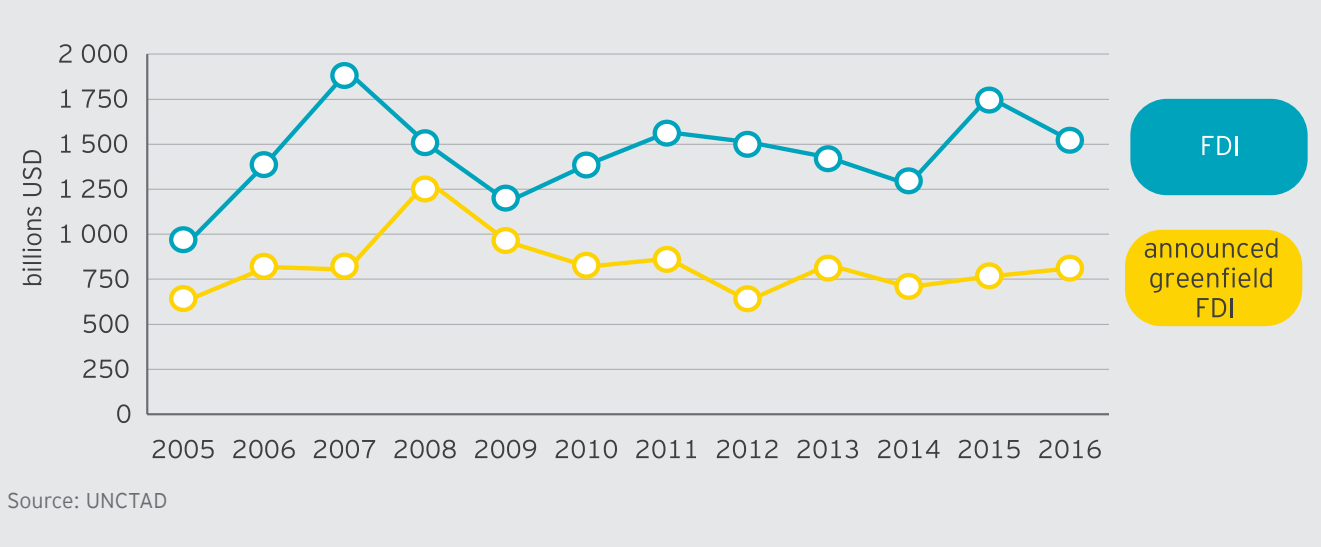
In recent years multinational investors activity has remained high. Though down 13% yoy, in 2016 global foreign direct investment (FDI) inflows¹ reached \$1,525 bn² (in nominal terms) - one of the highest levels recorded over the 2005-2016 period. Last year ca. ¼ of global FDI inflows came to Europe.

One may notice that FDI trend has not been smooth over time. In particular, in the aftermath of the global financial crisis of 2007-2009, the FDI fell sharply and until now has not yet reached the pre-crisis level (see figure 1). This gap should largely be reduced if United Nations Conference on Trade and Development

(UNCTAD) expectations materialize and FDI flows will increase by 10% in 2017 on accelerating global economic growth and international trade.

One of the most important types of activity of international investors are greenfield projects which contribute directly to the creation of new facilities and jobs. The annual value of greenfield investment in 2005-2016 averaged about \$830 bn³, remaining relatively stable since the global financial crisis. One may notice that, in contrast to FDI inflows, the value of announced greenfield projects increased in 2016.

Figure 1. Global FDI inflows and the value of announced greenfield FDIs



1 UNCTAD gathers data for virtually all the countries in the world (ca. 200 countries depending on data availability for a given year).

2 Preliminary estimates.

3 Preliminary estimates.

Investors vote “remain” in Europe

EY European Attractiveness Survey (EAS) examines new investment projects, mainly *greenfield* projects, announced by international investors. The study is based on interviews with high-level executives from around the world and foreign direct investment announcements by companies. The latter part is linked to EY European Investment Monitor (EIM), powered by Oxford Intelligence, which is the leading database of direct investment across Europe. The database tracks those FDI projects that have resulted in the creation of new facilities and new jobs. Therefore, portfolio investment, joint ventures, mergers and acquisitions and other investment that do not entail the creation of new jobs (e.g. replacing old machinery without creating new employment) are excluded.

Despite the uncertainty, in 2016 Europe attracted a new record high number of FDI projects.

For several years Europe has experienced many challenges (incl. uncertainty on the future of the EU, and the Eurozone in particular) caused by public debt crisis, population aging, conflicts in the Middle East and migration inflows into Europe, tensions between Russia and Ukraine, Brexit, and populist parties garnering significant minority support in many European countries. Despite such an uncertain

business environment and geopolitical risks, investors continue to see Europe as an attractive investment destination.

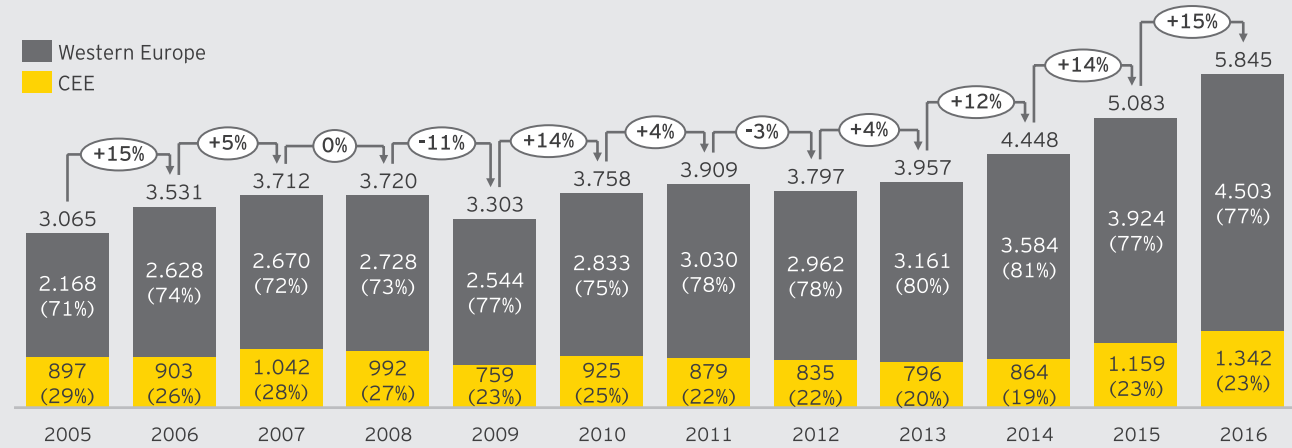
In 2016 the number of FDI projects directed to Europe increased by 15% in comparison to the previous year. Overall, 5,845 new international investment projects were announced. According to information gathered for 62% of these announcements, the projects located in Europe should create at least 260 thousand new jobs.⁴ The majority of FDI in Europe arises from intra-European FDI flows.

In 2016, Central and Eastern Europe (CEE)⁵ maintained its appeal to international investors - the region received 23% of all the FDI projects announced in Europe and 52% in terms of the announced new jobs.

- 4 Information on the number of new jobs is not available for all of the announced investment projects. As such the number of new jobs given above constitutes the lower bound of the actual number of new employment related to FDI projects announced in Europe. Any conclusions based on the number of planned jobs must also be drawn with caution.
- 5 Central and Eastern Europe encompasses 22 countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.



Figure 2. Number of FDI projects announced in Europe

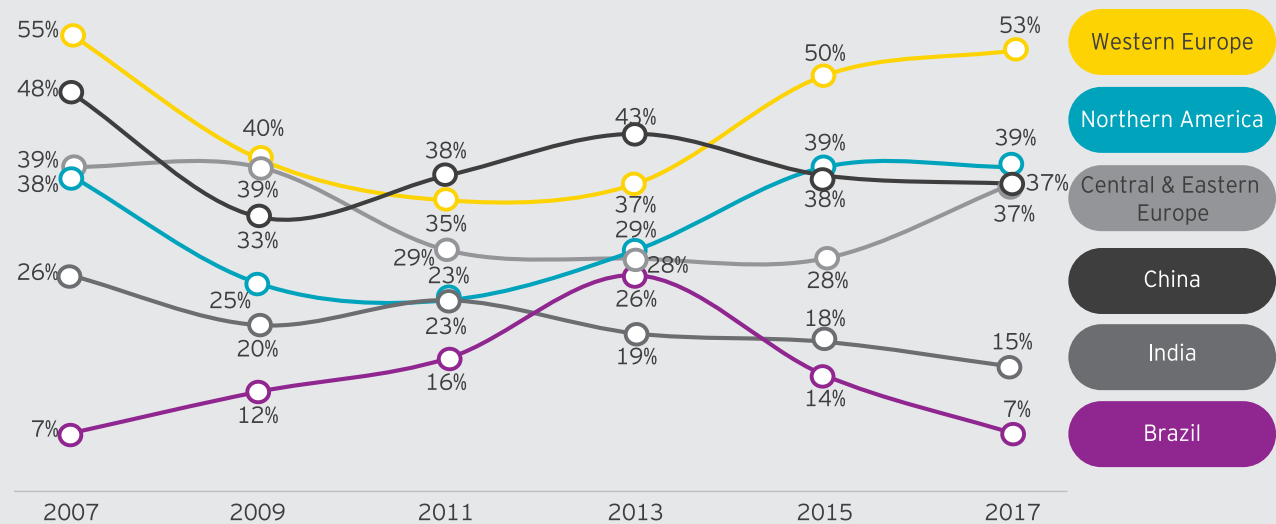


Source: EY (2017), European Investment Monitor

Europe's perception in the eyes of international investors is improving. Western Europe and CEE are among the world's top 3 most attractive regions for 53% and 37% of executives, respectively. This makes Western Europe the top performer, while CEE ranks third, behind Northern America and level-pegging with China.

While Western Europe gained 3 p.p. compared to 2015, CEE improved by as many as 9 p.p. That was the biggest increase among all the regions considered in 2016. Interestingly, since 2013 the perception of Western Europe and CEE among investors has significantly improved, while the attractiveness of BRICS has faded.

Figure 3. Perception of most attractive global regions⁶



Source: EY (2017), European Attractiveness Survey

6 Answer to the question: "In general, which of the following regions do you think are currently the top 3 most attractive regions in which to establish operations?" (3 answers possible).

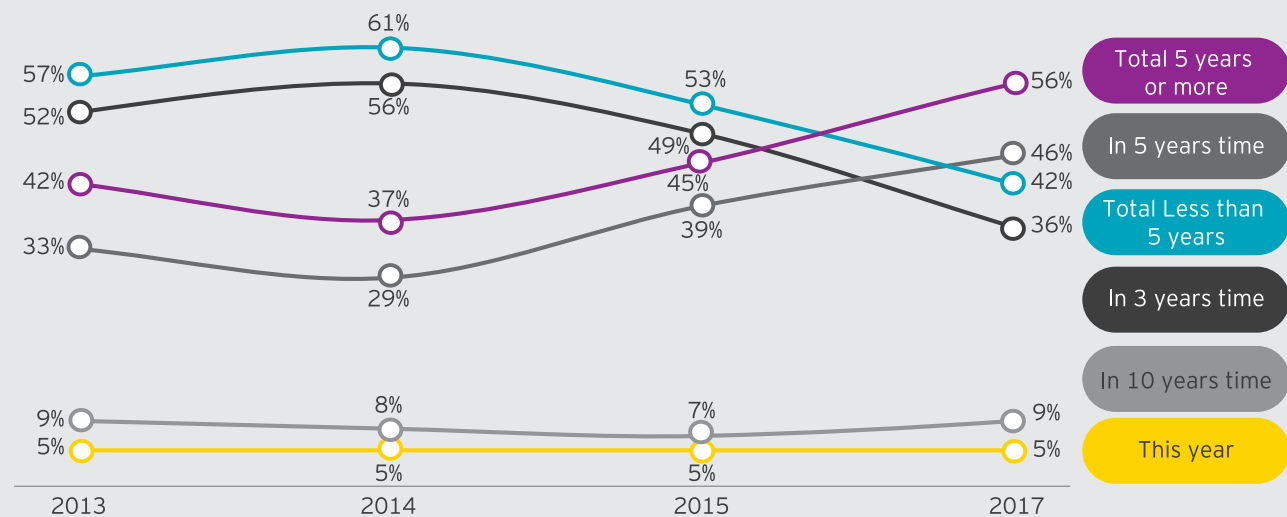
Europe's return to steady economic growth deferred?

Despite positive developments in terms of the number of announced investment projects and improving perceptions of Europe's attractiveness, investors seem to see the prospect of strong European economic growth receding further into the future. In 2015, 53% respondents expected Europe to return to steady economic growth within the next three years. In 2017, that proportion is down to 42%. At the same time, the proportion expecting a return to steady economic growth after at least five years increased to 56% (from 45% in 2015).

Also, the share of international investors confident that Europe will ever return to stable economic growth decreased from 85% in 2015 to 65% in 2017.

The British voters' decision to leave the EU has contributed to investors' doubts regarding the future economic growth in Europe. 20% of international investors declare to have plans to relocate operations if Britain leaves the European single market. But many companies do not yet have a comprehensive view of the tax (VAT pre-financing and the exact scope of custom duty), administrative (customs and VAT requirements) and regulatory consequences, and have only just started thinking about the possible consequences. The impact of Britain's planned exit from the European Union will probably be more visible in next year's survey.

Figure 4. In your view, given the current uncertainties in Europe, how long before we see a return to steady economic growth and performance in Europe?



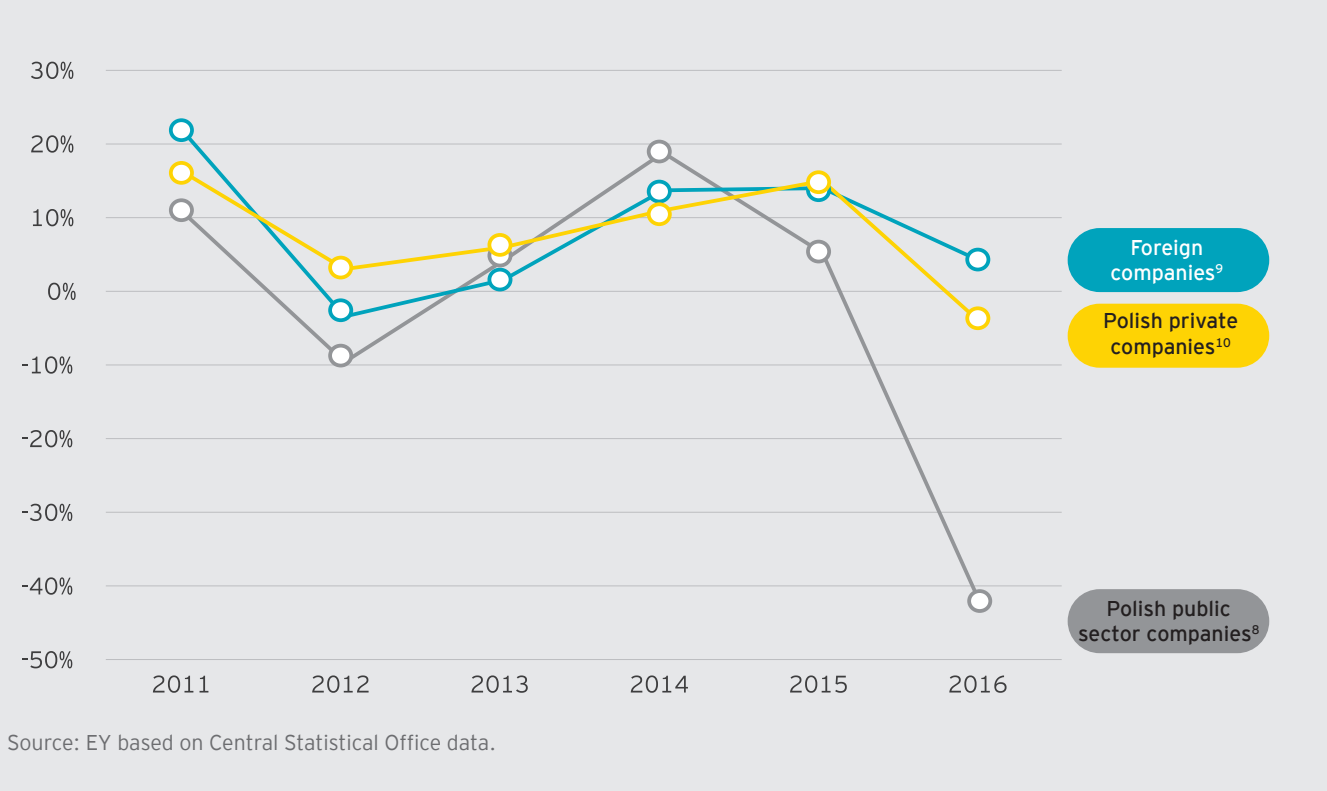
Source: EY (2017), European Attractiveness Survey.
 Sample: 332 respondents confident in Europe's ability to return to a more dynamic economic growth.

Poland does need FDIs

Foreign companies play an important role in the Polish economy. They contribute a lot to employment, wage fund, generated value added, investments, exports and general government revenues. Companies with a majority share of foreign capital have in recent years often outperformed Polish public and private business entities, thereby being an important driver of the economic growth. In particular, foreign companies accounted for a vast majority of employment growth in the enterprise

sector in Poland over the 2010-2015 period. In 2016, at the time of economic slowdown, foreign companies accelerated the growth of generated value added, exports and employment, significantly alleviating the adverse impact of other factors on the Polish economy. Importantly, in contrast to Polish private and public companies, foreign entities continued to expand their investment activity in 2016, though at a lower rate than in 2015.

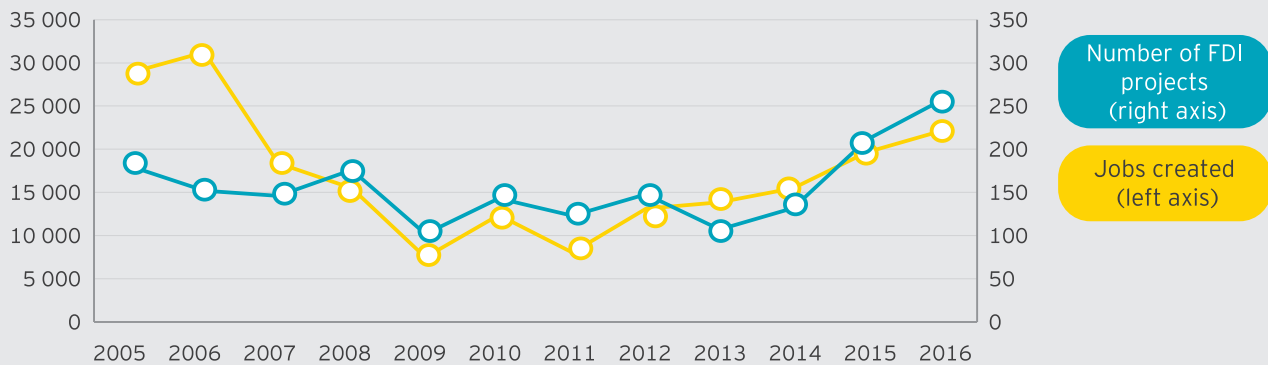
Figure 5. Gross fixed capital formation in the enterprise sector in Poland by ownership⁷



7 Data for 2011-2015 refers to annual growth in gross fixed capital formation (GFCF) of small (10-49 employed persons), medium (49-249 employed persons) and large (over 249 employed persons) enterprises, while data for 2016 compares GFCF of medium and large enterprises to their GFCF in 2015. Data excludes information for most companies with unlimited owner's liability.
 8 Companies (1) in which at least part of the capital share belongs to the public sector, (2) state-owned enterprises or (3) entities without specific legal status (e.g. some state-owned entities).
 9 Companies whose capital is predominantly owned by foreigners (>50% of shares) and (2) branches of foreign enterprises.
 10 Companies that were defined neither as "foreign companies" nor as "Polish public sector companies".

Poland was the only EU country that avoided recession during the global financial crisis in 2007-2009. In terms of cumulative GDP growth in 2008-2016, amounting to 32.4%, Poland ranked 3rd among EU Member States. The outstanding performance of the Polish economy has increased its attractiveness as an investment destination.

Figure 6. Number of FDI projects and jobs announced in Poland



Source: EY (2017), European Investment Monitor. Note that the number of new jobs is available only for a certain part of announced investment projects. In 2016 55% of announced projects were accompanied by information on planned employment. This proportion might change from year to year. Hence, conclusions from the changes in announced number of FDI related jobs must be drawn with caution.

To continue the catching-up process with more developed economies, Poland requires a high rate of investment. Investment needs are additionally reinforced by a very limited room for further employment led-growth due to, among others, unfavourable demographic developments. However, in the last decade the rate of investment in Poland was below the EU average and far below the levels observed in other CEE countries. The key problem is a very low level of private investment in Poland. Importantly, for the majority of the last decade, the

savings rate in Poland has been even lower than the investment rate. This constitutes another challenge that should be addressed by the Polish government.

The factors outlined above indicate that the Polish economy does need foreign capital inflows, preferably in the form of direct investment leading to generating a significant value added. This emphasizes the importance of Poland's investment attractiveness and paying attention to factors influencing foreign investors' decisions.



EY Viewpoint

To continue the catching-up process with more developed economies, Poland needs to increase its rate of investment, which over the last decade has been

well below the level recorded for the majority of CEE countries. Despite a low investment rate, for the majority of that period, the savings rate was even lower, though in recent years it has improved somewhat.

Foreign capital is thus required to finance our country's investment needs. Of particular importance should be foreign direct investments (FDIs) which have greatly contributed to the internationalization of Polish companies and their integration into global value chains since the 1990s. Empirical evidence shows that this process

has been associated with an increase in exports, transfer of skills and know-how, and higher productivity of companies, which, on average, invest more per employee and pay higher wages than non-internationalised enterprises. Importantly, other domestic firms also benefit from the activity of companies that are exposed to foreign markets, which confirms the existence of significant spillover effects.

To understand the importance of the internationalization of Polish companies, one should note that in 2000 ca. 20% of value added generated in Poland was driven by external demand, but this proportion increased to ca. 35% in 2016. The message is even stronger if we realize that majority (!) of economic growth in Poland in this century has been driven by foreign demand. The activity of foreign companies can also alleviate the consequences of economic slowdown. For example, in 2016 - the year

of significant investment contraction by the public and Polish private companies, foreign companies continued to increase their capital outlays in Poland.

Benefits of FDIs make them much needed by countries, particularly by catching-up economies, which results in harsh competition for FDI inflows. EY Poland's Attractiveness Survey should help us to understand which assets foreign investors value most and what are their main concerns. Reinforcing strengths and addressing weaknesses of the Polish economy would improve its perception, which is one of the preconditions for winning valuable greenfield investment, and thereby improving Poland's long-term economic potential.





















Marek Rozkrut, EY Poland Chief Economist, Head of Economic Analysis Team

Poland is one of the most attractive destinations in Europe for foreign direct investors





















The findings of the EY European Attractiveness Survey indicate that, when approximated by the number of announced investment projects, Poland seems to be one of the most attractive locations in Europe for foreign direct investors. In 2016, international investors announced their intentions to carry out 256 investment projects in Poland, compared to 211 projects in 2015. This ranked Poland 5th among European countries in terms of the number of planned projects - achieving an

advance from the 6th position (ex aequo with Belgium) in 2015 and the best result since 2008, when Poland also ranked 5th. Naturally, the number of planned investment projects depends on the local market capacity, in particular, the availability of labour.¹¹ However, the fact that Poland regularly stays ahead of economies such as Russia and Turkey in terms of international investment projects proves that Poland's appeal to foreign investors is high.

Top 20 destination countries by FDI projects

	2015	2016		Percentage Change (2016 vs. 2015)
 United Kingdom	1,065	1,144	↑	7%
 Germany	945	1,063	↑	12%
 France	598	779	↑	30%
 Spain	248	308	↑	24%
 Poland	211	256	↑	21%
 Netherlands	219	207	↓	-5%
 Russia	201	205	↑	2%
 Belgium	211	200	↓	-5%
 Ireland	127	141	↑	11%
 Turkey	134	138	↑	3%
 Finland	105	133	↑	27%
 Romania	98	132	↑	35%
 Czech Republic	70	110	↑	57%
 Hungary	94	107	↑	14%
 Sweden	51	90	↑	76%
 Italy	55	89	↑	62%
 Switzerland	90	88	↓	-2%
 Denmark	63	72	↑	14%
 Slovakia	54	70	↑	30%
 Portugal	47	59	↑	26%
Others	396	454	↑	15%
Total	5,083	5,845	↑	15%

Top 20 destination countries by FDI job creation

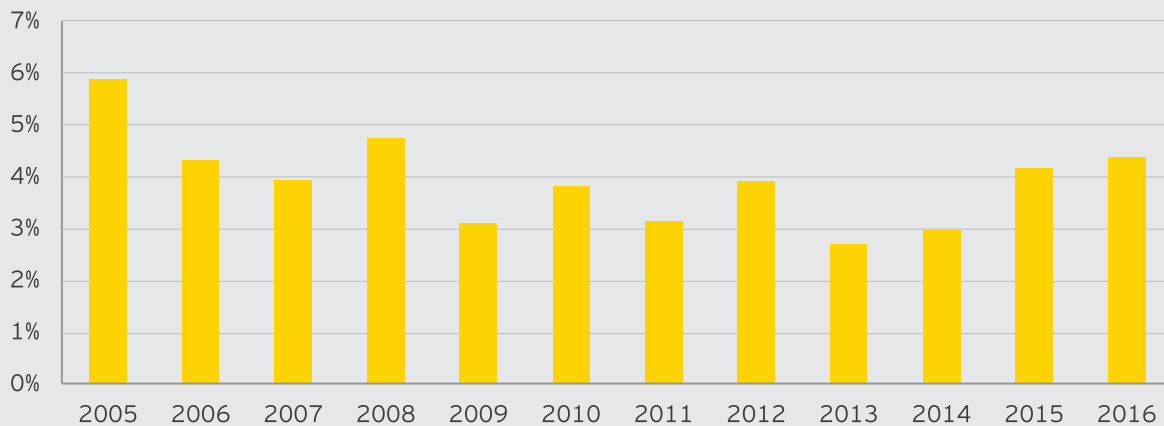
	2015	2016		Percentage Change (2016 vs. 2015)
 United Kingdom	42,336	43,165	↑	2%
 Poland	19,651	22,074	↑	12%
 Germany	17,126	19,961	↑	17%
 Romania	12,746	17,545	↑	38%
 France	13,639	16,980	↑	24%
 Serbia	10,631	16,396	↑	54%
 Russia	13,672	15,064	↑	10%
 Czech Republic	9,332	14,292	↑	53%
 Spain	7,126	12,969	↑	82%
 Hungary	11,741	12,450	↑	6%
 Ireland	10,772	8,535	↓	-21%
 Slovakia	9,564	8,308	↓	-13%
 Turkey	2,971	7,179	↑	142%
 Austria	1,357	4,759	↑	251%
 Ukraine	850	4,547	↑	435%
 Bulgaria	3,598	3,959	↑	10%
 Switzerland	1,391	3,416	↑	146%
 Belgium	3,168	3,309	↑	4%
 Moldova	1,000	3,200	↑	220%
 Italy	1,383	2,654	↑	92%
Others	23,612	18,911	↓	-20%
Total	217,666	259,673	↑	19%

Source: EY European Investment Monitor (EIM), 2017.

11 It is thus no surprise that Poland ranks higher than smaller economies in the CEE region.

In 2016 the growth rate of the number of FDI projects located in Poland was higher than in Europe as a whole. As a consequence, in 2016 Poland was the location of 4.4% of all FDI projects announced in Europe, which indicates the third consecutive year of increase in Poland's share in the total number of foreign projects in Europe.

Figure 7. Share of FDI projects in Poland in total FDI projects in Europe



Source: EY (2017), European Investment Monitor

Based on data available for 55% of projects, international investors planned to create at least 22 thousand new jobs in Poland. While the exact counting of jobs is challenging (and the job data coverage is not complete), the increase in announced new jobs by foreign investors in Poland between 2011 and 2016 (over a twofold increase) provides additional evidence that the trend in international investors' activity in Poland continues to be positive.

Relative to other European countries, the number of FDI-related jobs announced to be created in Poland in 2016 was the second highest, only next to the UK. The position of Poland in this ranking has been relatively stable (among top 3 countries) since 2004, with only two exceptions: in 2009 and 2011, when the country was beyond the podium.



EY Viewpoint

Poland is amongst the top 5 locations in Europe for FDI - that is quite an achievement. It confirms the prediction of the last survey when investors indicated

that Poland would be the best place to invest just after Germany, UK, France and the Netherlands. It is really promising since the perception has not always been supported by the figures and real investment projects.

At the same time, there is a global rivalry and competition for innovative growth. We do not measure it yet, but in order to be ready for sustainable growth Polish economy needs to have the ability to interact with newest trends like Industry 4.0. Technological changes will decrease the weight of labor costs in the

site selection processes allowing some comebacks of production to the more expensive locations.

We observe it in a number of areas and Poland is getting ready for this. Changes in the law regarding support for innovation, enhanced R&D tax relief, new support schemes for investments and comprehensive environment for start-ups are all good tools, which should attract investors bringing more value added projects to the Polish economy. There are many good examples of such projects in manufacturing, automotive, SSC/BPO centers, but constant change and benchmarking against other locations is required.

It all derives from a great desire for growth and belief that FDI contributes to the development of societies and countries. In this context Poland's position as a CEE leader is worth underlining since the CEE region itself has improved a lot (+9 p.p.

vs. last year) and regained third position among all regions worldwide - just behind Western Europe and North America. One needs to remember that it all happens when investors say that only 28% of them are having plans to establish or expand operations in Europe next year. It is a fall by 10 p.p. from 2013.

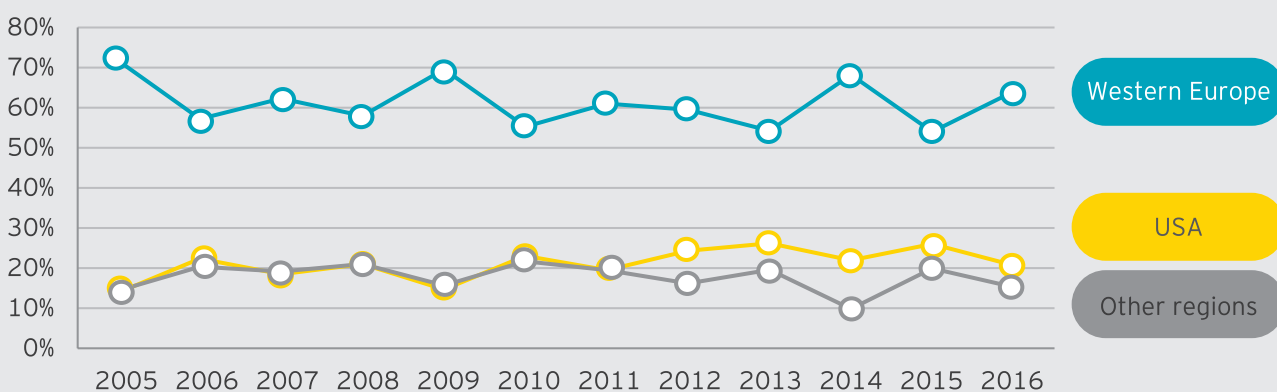
Global FDI inflows were down by 13% in 2016 compared to 2015, which means that competition for new projects will not be easier. A constantly changing environment supported by technological revolution is creating an environment in which policy makers need to anticipate investors' expectations and propose solutions in a real time. From this perspective challenges of the business and governments are becoming closer than ever.

Paweł Tynel, EY Poland Head of Grants and Incentives Advisory Services

Poland attracts investors mainly from Western Europe and the USA

Poland attracts FDI projects mainly from Western Europe and the USA. In 2005-2016, on average, over 80% of all FDI projects came from these two regions. While the importance of Western Europe for FDI in Poland increased in 2016, the share of the USA in total FDI projects launched in Poland fell. However, there are no clear trends in the origin structure of foreign investors in Poland.

Figure 8. Share of FDI projects in Poland by region of origin



Source: EY (2017), European Investment Monitor

FDI projects located in Poland fall predominantly into three sectors: manufacturing, finance & business services and transport & communications. On average, these sectors accounted for 95% of all FDI projects in Poland in 2005-2016. However, the share of manufacturing decreased from 81% of all FDI projects in 2005 to 62% in 2016, while finance &

business services attracts more and more projects - from 7% to 28%, respectively. The share of transport & communications ranged between 3% and 10% in 2005-2016. Other sectors¹² were of rather negligible interest to foreign investors.

¹² i.e. agriculture, construction, education & health, energy, recreation, retail & hospitality.

Table 1. Number of FDI projects in Poland by sectors

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Manufacturing	145	106	95	105	72	96	89	89	70	87	117	159
Finance & Business Services	12	27	31	47	19	35	23	39	27	32	64	72
Transport & Communications	15	15	11	15	5	8	7	12	4	4	22	15
Retail & Hospitality	7		5	1	4	3	1	2	4	3	4	7
Construction		3		1	1			1	1			2
Other	1	1	4	7	1	1	3	5	1	6	4	1

Source: EY (2017), European Investment Monitor

The decomposition of international investment projects by activity provides additional insights. It reveals that while projects related to manufacturing clearly dominate the structure of foreign investment, Poland is becoming a more and more attractive location for support and shared services centers (SSC) to large multinational companies (e.g. accounting or IT). Indeed, in 2016 Poland garnered 38 out of 161 (or 24%) SSC projects announced by international investors, ranking first among European countries.

The activity structure of investment projects announced in Poland is similar to that in the CEE region. Two notable exceptions are manufacturing, which captures somewhat larger part of investment projects in the CEE (56.4%) than in Poland (46.5%), and shared services centers, which in turn attracts a significantly higher proportion of FDI in Poland (14.5%) than in CEE as a whole (5.6%). At the same time, there are substantial discrepancies between the activity structure of projects announced in Poland and in Europe as a whole. In particular, investment

projects announced in Europe concentrated in sales and marketing (45.9% of all projects), while attracting only 19.5% projects in Poland. By contrast, manufacturing projects represented only 26.3% of the total number of projects in Europe, which is much below 46.5% recorded in Poland.

Differences in the sectorial structure of new projects between Poland and Europe as a whole are also reflected in labour-intensity of greenfield FDIs. The number of jobs per project in Poland in 2016 (158) was over twice as high as in Europe (72).¹³ In other words, Poland is a host to more labour intensive projects than, on average, Europe. However, one may notice that the above ratio in Poland has been in a declining trend, suggesting that foreign investment in Poland become more and more capital intensive. In addition, the number of jobs per project in Poland is lower than the average for the CEE region (189).

¹³ Only the projects for which data on announced new jobs was available were taken into account in the calculation.

Table 2. Number of FDI projects in Poland by activity

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Manufacturing	123	79	71	82	59	70	70	65	56	74	86	119
Sales & Marketing	15	33	41	47	21	29	25	48	18	30	65	50
Shared Services Centre	7	11	5	9	3	7	8	10	5	8	16	38
Logistics	18	14	10	14	8	7	6	7	10	8	20	19
Research & Development	8	5	10	12	5	12	7	11	12	6	17	19
Headquarters			1	2	2	2			1	1		4
Contact Centre	4	3	3		3	3	1	4	2	4	4	3
Testing & Servicing	5	7	4	9	1	13	6	3	2	1	2	2
Other	0	0	1	1	0	0	0	0	1	0	1	2

Source: EY (2017), European Investment Monitor

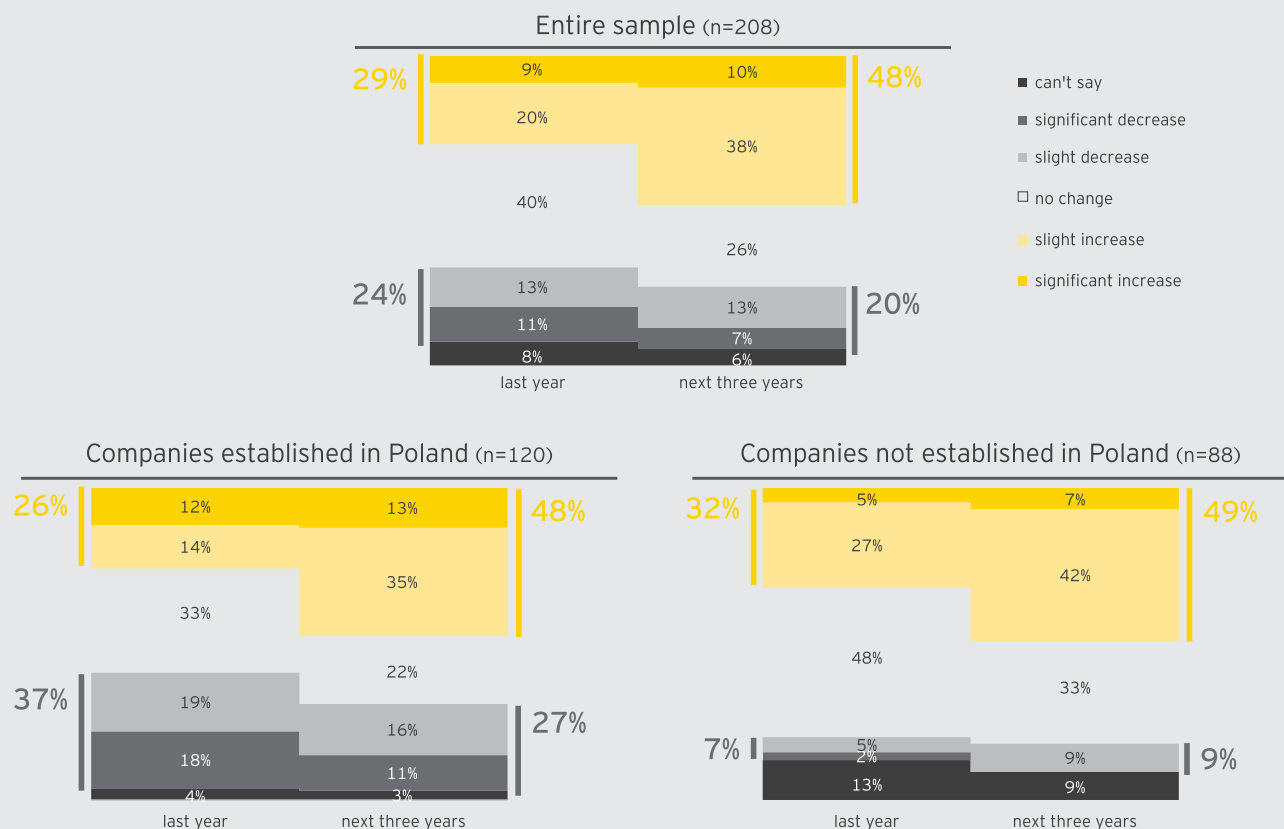
Poland's Attractiveness Survey indicating improvement in foreign investment prospects

In 2017 EY, for the first time, conducted a deepened survey among international investors in order to gain additional insights into their motivations behind establishing operations in Poland. As part of Poland's Attractiveness Survey, foreign companies, both present and non-established in Poland, responded to questions regarding their investment plans, factors affecting their investment decisions and risks facing Poland.

According to the surveyed companies, Poland's attractiveness as an investment destination improved slightly in 2016 - 29% of respondents indicated that it had improved while 24% of companies claimed that it had deteriorated last year.

One may note large differences in the assessment of Poland's attractiveness between representatives of companies which operate in Poland and companies not established in the country. In the eyes of the latter, the evolution of Poland's attractiveness as an investment destination was better than in the opinion of the former. Only 7% of companies which do not conduct operations in Poland indicated that its attractiveness had deteriorated, while 32% claimed that it had improved, compared to 37% and 26%, respectively, in the case of companies functioning in Poland.

Figure 9. To what degree do you think Poland's attractiveness evolved over the last year/will evolve over the next three years?



Source: EY (2017), Poland's Attractiveness Survey

Looking ahead, 48% of foreign investors expect Poland's attractiveness to improve over the next three years. That share is only lower than the respective proportion for top performers: Portugal and Netherlands, while it exceeds the results obtained for other European countries analysed.¹⁴

Investors' expectations regarding Poland's attractiveness turn out to be very polarized. While the share of respondents projecting improvement in Poland's attractiveness over the next three years

is high, it is accompanied by a relatively large proportion (20%) of investors indicating that it will deteriorate.

Irrespective of discrepancies between different groups of foreign investors, one should note that expectations of every group considered point to a significant improvement of the investment attractiveness of the Polish economy over the next three years relative to their assessment of the previous year.

14 Germany, Italy, UK, France, Belgium.

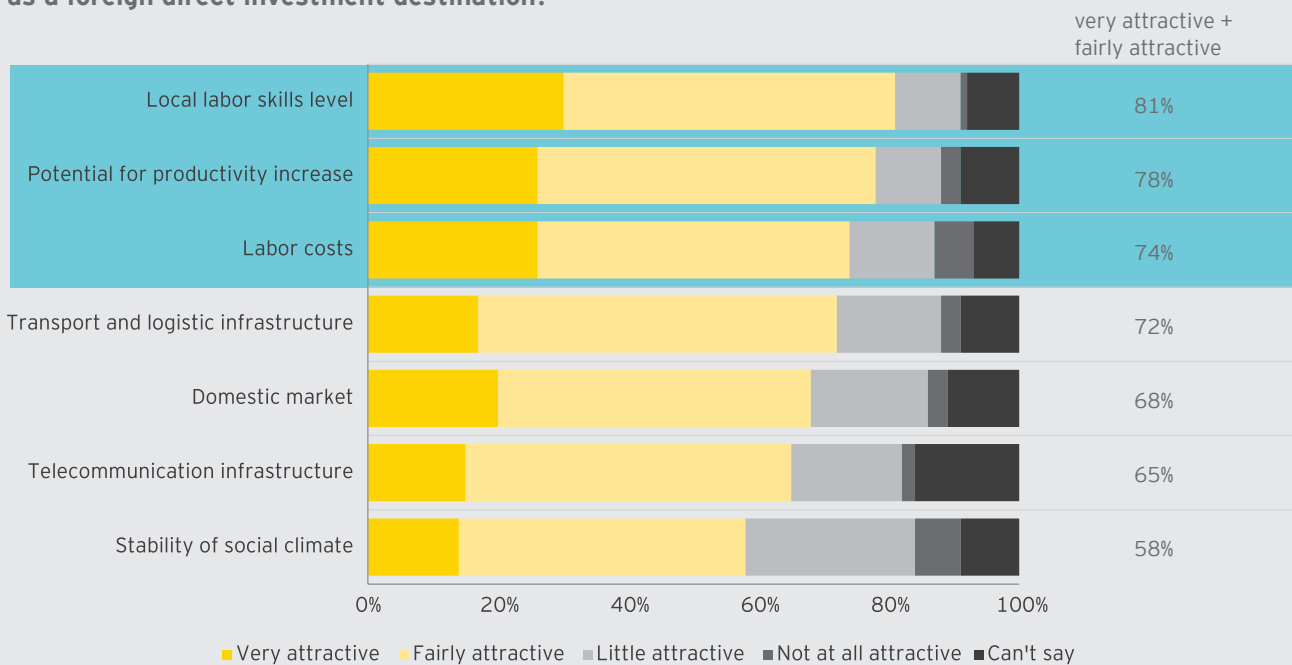


Poland's key assets... not always recognized

When considering Poland as a potential investment destination, foreign investors appreciate in particular the structural advantages of the labour market in Poland. Over 70% of surveyed companies' representatives indicate that Poland's labour skills level, the potential for productivity increase and labour costs are very or fairly attractive. The same factors are also most frequently listed as Poland's key assets in comparison to other European countries.

Foreign companies established in Poland distinguish Polish workers' skills level and the potential for productivity increase as attractive much more frequently than companies not present in Poland, indicating these two factors in 94% and 87% of cases, respectively.

Figure 10. From the point of view of your company, Poland is very, fairly, little or not at all attractive as a foreign direct investment destination?

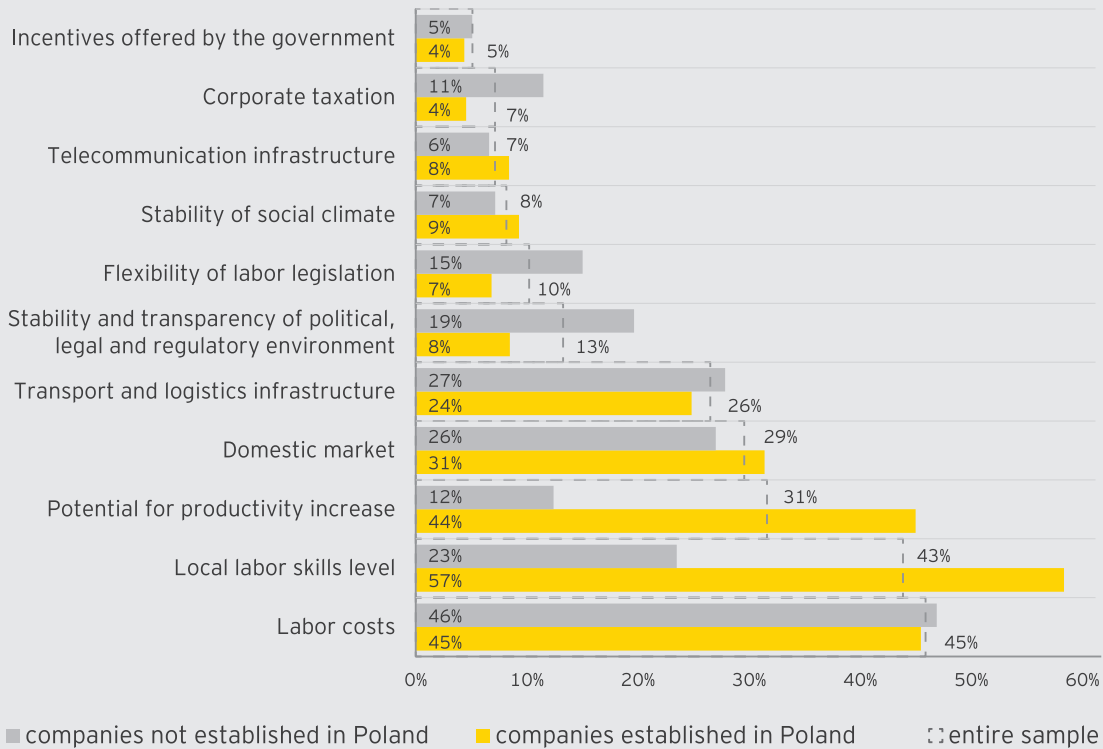


Source: EY (2017), Poland's Attractiveness Survey

Both the companies which operate in Poland and the firms which have not yet established their presence in the country agree that labour costs are one of Poland's major assets when compared to other European countries. However, we identified large discrepancies between those two types of investors when it comes to their assessment of Polish labour force skills level and the potential for productivity increase. Foreign companies already operating in Poland consider those factors as key assets of Poland relative to other European countries. However, these advantages are much less frequently recognized by companies which do not function in Poland. It may signal the need to put more emphasis on the communication of the strengths outlined above to the companies not yet established in Poland.

That need seems to be further reinforced by the findings of EY European Attractiveness Survey indicating that labour skills are among the assets most valued by foreign investors. CEE advantages related to low labour costs, are depleting. Tightening labour markets push international investors to alternative destinations. In particular, an increasing number of investors, chasing their ideal skills and wages combinations, have looked south to non-EU members such as Serbia. As a consequence, competition for foreign investment based on labour costs is becoming tighter and CEE countries must look for new advantages.

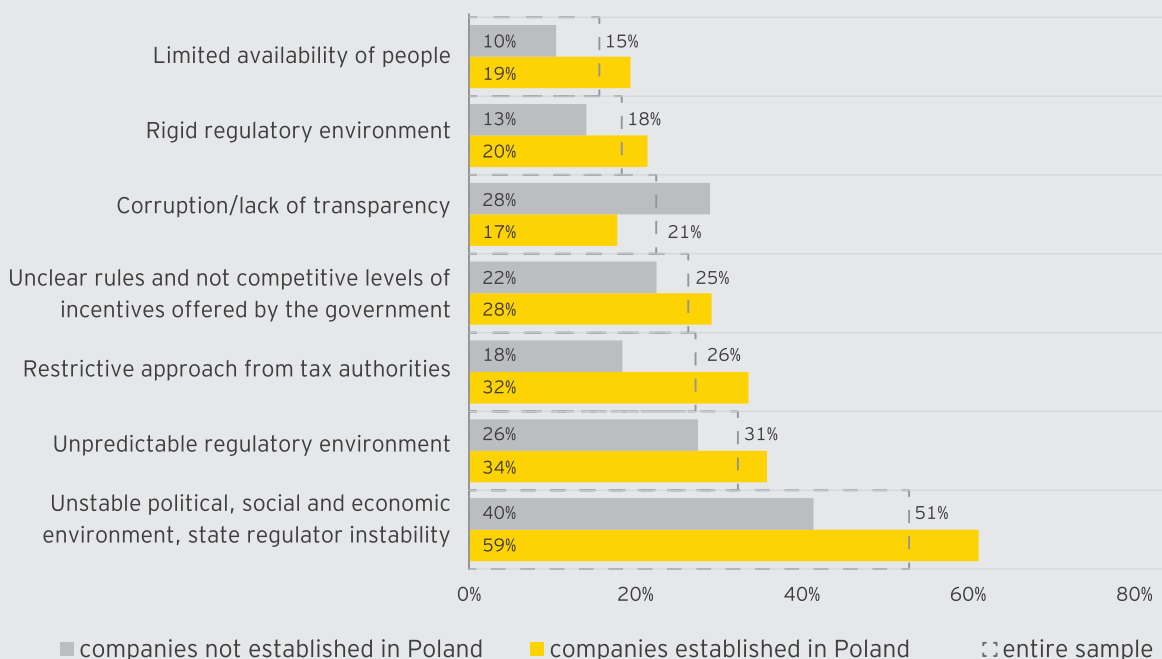
Figure 11. What are the three key assets of Poland compared to other European Countries?



Source: EY (2017), Poland's Attractiveness Survey

When asked about the key risks for Poland, foreign investors most frequently point to unstable social and regulatory business environment as well as restrictive approach applied by tax authorities. Again, we find significant discrepancies between different types of investors. The risk factors outlined above are much more frequently indicated by the representatives of companies established in Poland than by those that do not operate in the country.

Figure 12. According to you, what are the three key risks for Poland?

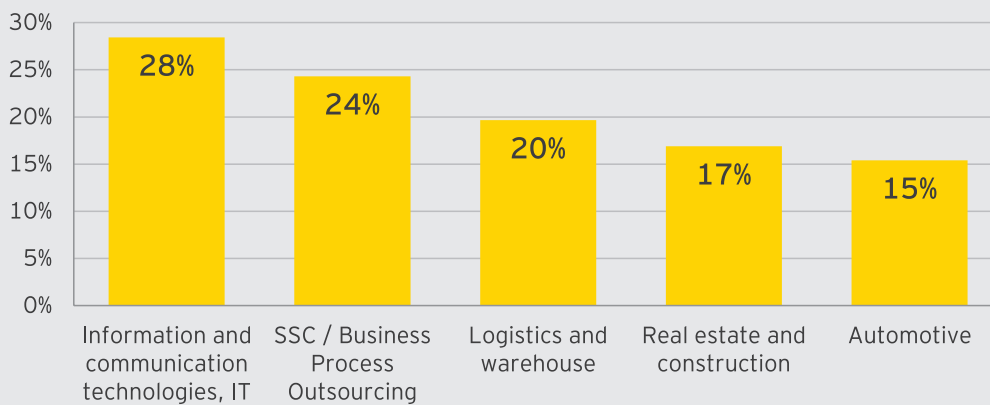


Source: EY (2017), Poland's Attractiveness Survey



Although the largest share of new investment projects planned in Poland come from the manufacturing sectors, foreign investors indicate that the most prospective sectors which could drive Poland's growth in the coming years are professional services, including: IT services, BPO¹⁵, shared services as well as logistics. Most attractive sectors related to manufacturing: automotive industry and consumer goods are the fifth and seventh most frequently selected sectors, respectively.

Figure 13. In your opinion, which business sectors will drive Poland's growth in the coming years? (three answers possible)



Source: EY (2017), Poland's Attractiveness Survey

15 Business Process Outsourcing, including services such as finance, accounting, human resources, contact center

The Czech Republic emerges as Poland's main competitor for FDIs

Traditionally, Central and Eastern European countries have been competing with Poland for foreign investment. The results of the Poland's Attractiveness Survey confirm this common knowledge, additionally listing Germany among Poland's main competitors.

While the position of the Czech Republic as Poland's main competitor for FDIs may not be that surprising, the margin by which it has been ranked ahead of other countries is striking. 44% of the surveyed foreign investors indicate the Czech Republic as Poland's main competitor, followed by Hungary (15%), Germany (15%), Romania (13%) and Slovakia (10%).

The position of the Czech Republic as that of Poland's main competitor for FDIs is shared by every group of investors considered¹⁶. Still, a higher share of companies established in Poland (50%) is of such an opinion than in the case of enterprises not present in Poland (35%). Significant differences between these types of investors have also been identified in their perception of Slovakia (15% and 3%, respectively). Hungary, in turn, is indicated as Poland's main competitor more frequently by investors from the USA (28%) than by investors from Western Europe (7%).

¹⁶ Investors were broken down by their established/not established status, region of origin, size of their company, and sector of their activity. In every of the categories considered, the Czech Republic was most frequently indicated as Poland's main competitor.

Map 1. In your opinion, which is Poland's main European competing country in terms of attractiveness?



Source: EY (2017), Poland's Attractiveness Survey

Methodology

European Attractiveness Survey

The “real” attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), EY’s proprietary database, produced in collaboration with Oxford Intelligence. This database tracks those FDI projects that result in the creation of new facilities and new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing and services by foreign companies across the continent.

The EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources. To confirm the accuracy of the data collected, the research team aims to directly contact more than 70% of the companies undertaking these investments.

The following categories of investment projects are excluded from the EIM:

- ▶ M&A and joint ventures (unless these result in new facilities or new jobs being created)
- ▶ License agreements
- ▶ Retail and leisure facilities, hotels, and real estate*
- ▶ Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- ▶ Extraction activities (ores, minerals, and fuels)*
- ▶ Portfolio investments (pensions, insurance, and financial funds)
- ▶ Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- ▶ Not-for-profit organizations (charitable foundations, trade associations and government bodies)

The “perceived” attractiveness of Europe and its competitors for foreign investors

We define the attractiveness of a country or area as the combination of its image, investors’ level of confidence in it as an investment destination and the perception of its ability to provide the most competitive benefits for FDI.

The research regarding the perceptions of European investment attractiveness was conducted by the CSA Institute in March 2017, via telephone interviews with a representative group of 505 international decision makers.

Our sample groups of businesses included representatives from:

- ▶ Europe: 53%
- ▶ North America: 29%
- ▶ Asia: 12%
- ▶ Latin America: 3%
- ▶ Middle East: 2%
- ▶ Other regions: 1%

Overall, 81% of the 505 companies surveyed have a presence in Europe. And of the non-European companies, 34% have established operations in Europe.

*Investment projects by companies in these categories are included in certain instances e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

Disclaimer: FDI jobs data is available for 3,596 projects out of 5,845 projects (or 61%) in 2016.

Poland's Attractiveness Survey

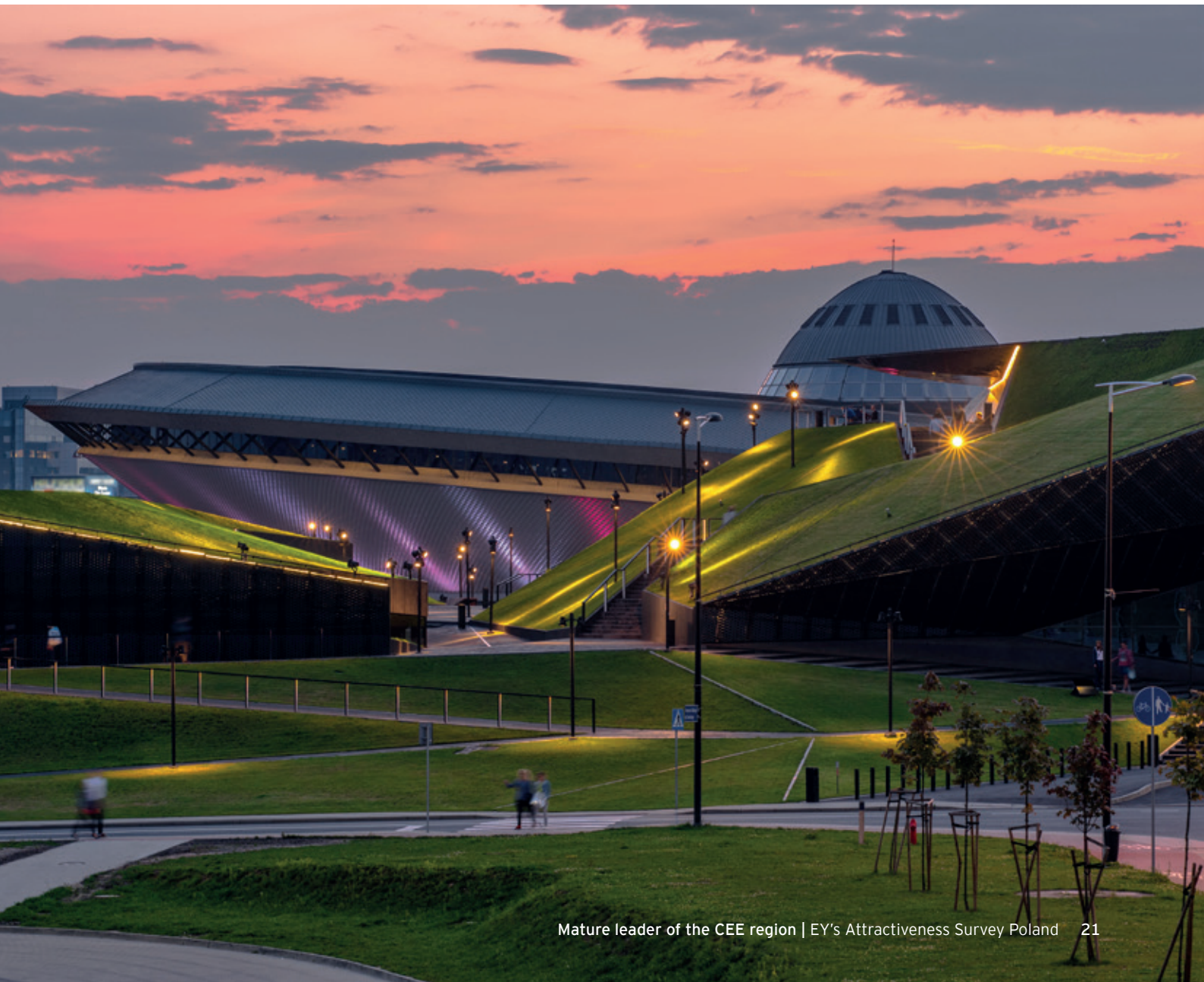
Poland's Attractiveness Survey was carried out for the first time in 2017. The research consisted of a survey conducted among international investors in which foreign companies' representatives responded to questions about their plans regarding establishing or expanding their operations in Poland, factors shaping Poland's attractiveness as an investment destination and risks that face Poland.

The research was conducted by the CSA Institute in March-April 2017, via telephone interviews with a representative group of 208 international decision makers. As a whole, 58% of the surveyed companies have a presence in Poland.

The company's country of origin in the sample is representative of the investments done in Poland. In particular, our sample groups of businesses included representatives from:

- ▶ Western Europe: 48%
- ▶ North America: 25%
- ▶ Asia: 19%
- ▶ Northern Europe: 6%
- ▶ Other regions: 2%

Disclaimer: FDI jobs data is available for 140 projects out of 256 projects (or 55%) announced in Poland in 2016.



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