



BPOLAND

INVESTORS' GUIDE

POLAND | 2013

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BPOLAND INTRODUCTION

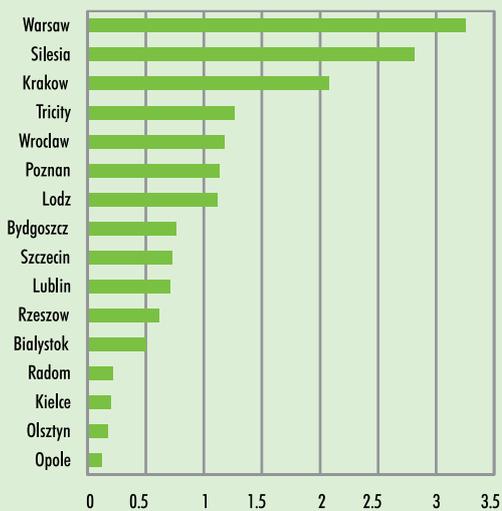
GENERAL OVERVIEW

Poland, the most robust economy within the CEE region and also in EU has been the BPO land of the west for over 10 years now. The reforms made by the government, the high calibre of its technical universities, the track record of the existing players coupled with a sustainable labour pool have played a role in making Poland the most successful BPO destination in Europe.

By the end of 2012, the BPOs in Poland set up with foreign capital employed almost 100,000 employees across Poland. Over the last 10 years growth employment in the BPO sector has grown as a result of expansions by existing companies such as State Street, HP or HSBC and by new investors. The operations set up by Qatar Airways in Wroclaw and Laureate International in Tricity are examples of the cross industry investments of the BPO sector in Poland.

The ability to get highly educated, multilingual staff in large numbers at a competitive price has been the key success factors for Poland. Poland is the obvious choice for most companies seeking to open a BPO, KPO, ITO, SSC or a Contact Centre. Often the long list of locations being reviewed for site selection starts with 75% of the cities being in Poland and the remaining 25% across other countries in the CEE region.

POPULATION IN POLISH AGGLOMERATIONS (MILLIONS)



Source: UMP, GUS, 2013

POLAND ECONOMY

POPULATION (MILLION)	38.5
GDP GROWTH (2012)	1.9%
INFLATION (CPI)	0.8%
UNEMPLOYMENT RATE	14.0%
AVERAGE GROSS MONTHLY SALARY	EUR 920

Source: GUS, OECD, April 2013

Not only are the tier 1 cities in Poland able to absorb the growing requirements of the BPO industry but also the tier 2 and tier 3 cities. Over the last 4 years cities such as Olsztyn, Bydgoszcz, Opole or Rzeszow have been able to absorb BPO requirements from international companies across diverse sectors such as Atos, Alcatel Lucent, Capgemini, France Telecom, Citi Group, Carlson Wagonlit Travel, Orange, Sanofi Aventis and many more.

The growing investments in the BPO sector in smaller cities of Poland further demonstrates Poland being a sustainable BPO location not only today but also in the near future. This is also shown by the statistics comparing the pace of BPO growth in Poland and India, where the number of new establishments decreases, moving more often to the CEE region.

POLAND BPO PROJECTS



Source: CBRE

INDIA BPO PROJECTS



Source: CBRE

MAP OF SHARED SERVICE CENTRES IN POLAND



SILESIA

ARCELOR MITTAL
CAPGEMINI
DELOITTE
KROLL BC
MENTOR GRAPHICS
VATTENFALL
UNILEVER
SAINT GOBAIN SEKURIT
ISTA
PREGIS

KRAKOW

ACS
AIRLINE ACCOUNTING CENTER
AON HEWITT
BBH
CAPGEMINI
ELECTROLUX
GOOGLE
HCL
HSBC
IBM
INTERNATIONAL PAPER
MOTOROLA
PHILIP MORRIS
RR DONELLEY
SHELL
STATE STREET
UBS
UPM
WIPRO

SELECTED INTERNATIONAL SSC/BPO/KPO CENTERS PROVIDING ACCOUNTING & FINANCE, IT OR OTHER ADVANCED PROCESSES

POZNAN

ARVATO
BRIDGESTONE
CARLSBERG
FRANKLIN TEMPLETON
GLAXOSMITHKLINE
IKEA
MAN
UNILEVER

WROCLAW

BNY MELLON
CAPGEMINI
CREDIT SUISSE
ERNST&YOUNG
GEOBAN
GOOGLE
HEWLETT PACKARD

IBM
MCKINSEY
NOKIA SIEMENS NETWORKS
TIETO
UPS

SZCZECIN

ARVATO
BL STREAM
METRO AG
STREAM
TIETO
UNICREDIT

BYDGOSZCZ

ALCATEL LUCENT
ATOS
LIVINGSTON

LODZ

ABB
ACCENTURE
COMARCH
DALKIA
FUJITSU SERVICES
GENERAL ELECTRIC
HEWLETT PACKARD
INDESIT
INFOSYS
SAMSUNG
SOUTH WESTERN

TRICITY

ARLA FOODS
ADVA OPTICAL NETWORKS
BAYER
FINEOS

FIRST DATA GS
GE MONEY BANK
GEOBAN
INTEL
JEPPESEN
LUFTHANSA
THOMSON REUTERS
WNS

OLSZTYN

CITI GROUP
FRANCE TELECOM

WARSAW

ACCENTURE
CBRE
FIRST DATA
IBM
RBS
SAMSUNG
SAS INSTITUTE
SCHNEIDER ELECTRIC
SITEL
STANLEY BLACK&DECKER
TCHIBO
TECHNICOLOR
TNT EXPRESS
TRANSCOM

LUBLIN

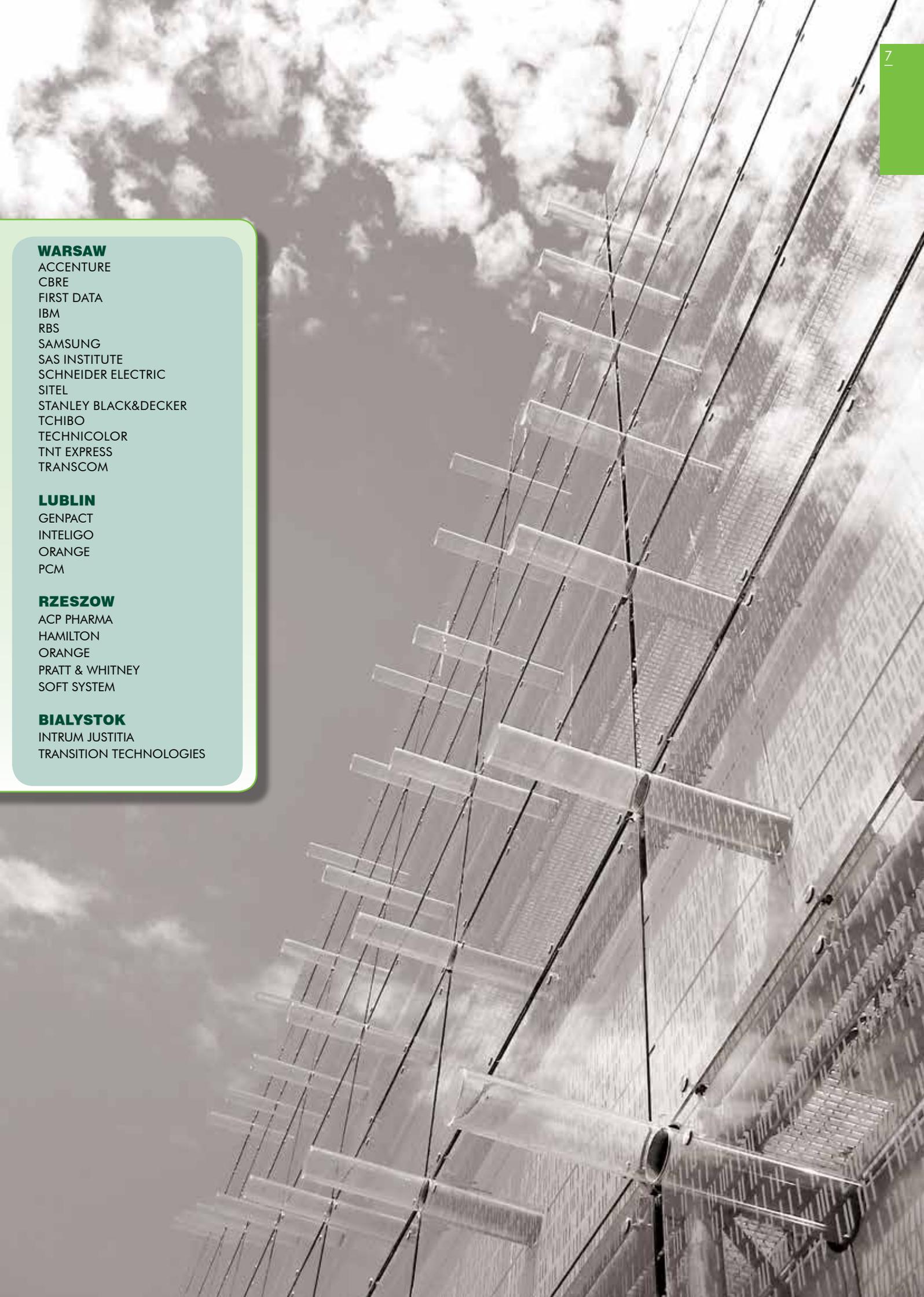
GENPACT
INTELIGO
ORANGE
PCM

RZESZOW

ACP PHARMA
HAMILTON
ORANGE
PRATT & WHITNEY
SOFT SYSTEM

BIALYSTOK

INTRUM JUSTITIA
TRANSITION TECHNOLOGIES



TRANSPORT INFRASTRUCTURE



NEW HIGHWAYS AND INTERNATIONAL AIRPORTS IN POLAND



INTERNATIONAL AIRPORTS IN POLAND

Gdansk – Rebiechowo
Katowice – Pyrzowice
Krakow – Balice
Bydgoszcz - Szwederowo
Lodz – Lublinek
Lublin – Swidnik
Poznan – Lawica
Rzeszow – Jasionka
Szczecin – Goleniow
Warsaw – Okecie
Warsaw – Modlin – low-cost airport to be reopened in 2013
Wroclaw – Strachowice
Zielona Gora - Babi Most

SUMMARY

For a long time, the transport infrastructure was one of Poland's major weaknesses. However, thanks to European Union funds as well as the investments related to EURO CUP 2012, the situation has improved significantly.

ROADS

Poland was one of the few countries in Europe without proper highways despite the fact that four major European transit routes run through the country. Recently, the situation has changed and the development of the road infrastructure is among the government's top priorities. Three major motorways have been partly delivered or are under construction:

- ▶ A1 – North – South (Gdansk – Katowice)
- ▶ A2 – West – East (Poznan – Warsaw)
- ▶ A4 – West – East (Wroclaw – Rzeszow)

Some sections are already operating while others are still under construction. By the end of 2012 around 620 km of new highways were delivered with the next 470 km to be started soon. Additionally, over 3,000 km of express roads and bypasses are to be constructed or refurbished over the next five years. Every major city in Poland has advanced plans to improve its roads with new outer or inner ring-roads.

For the time being, however, the transport system is still poor. Except for Katowice, there is a lack of direct, double-carriage or wider road connections from/to all major cities and the capital city. The local infrastructure is also weak with only Tricity, Poznan, Krakow, Wroclaw and Katowice having fully or partially completed ring-roads.

The new road system, once it is delivered and operational, will substantially change Poland's road map and this will have considerable influence on the local property markets as well as the quality of life and the business environment in many cities. The scale of these infrastructural improvements, added to the country's overall good economic performance, will finally put Poland among the developed European economies.



AIRPORT TRANSPORT

Currently, there are 13 international airports in the major cities with one new airport to be re-opened in Modlin this year. There are also plans to open new airports in Radom, Kielce and Opole, however there are no specific timelines for these projects.

Warsaw's Chopin Airport is the largest, serving 9 million passengers annually. In 2011, the new terminal was delivered. The airports in Krakow, Wrocław, Gdansk and Lodz have just been enlarged with new terminals and lines.

Nevertheless, the development of a convenient road and train transport infrastructure serving the airports is necessary in all the cities. Warsaw is adding new road connections and a new airport train link was open in 2012. Currently, the only cities with a train connection between the city centre and the airport are Warsaw and Krakow. Other cities are trying to improve the public bus transport (Gdansk, Poznan) or implement a rapid train line (Wrocław, Katowice, Rzeszow).

RAILWAY TRANSPORT

Rail transport in Poland is state-owned and is operated mostly by the PKP Group, including the fastest lines – Intercity and Eurocity. Some connections are operated by regional entities.

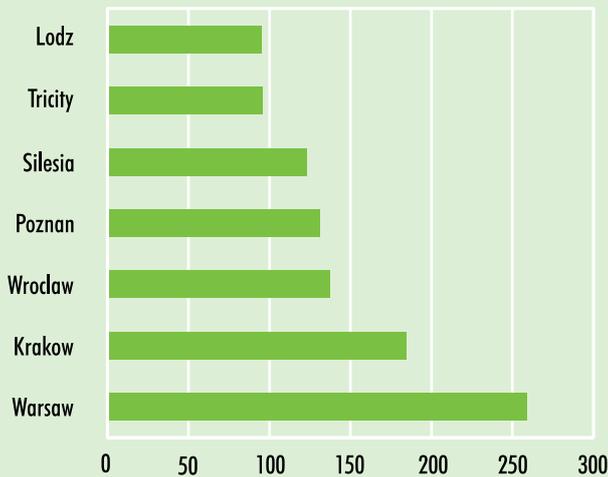
There are continued efforts to improve the quality of the rail connections in Poland, however, progress is slow and a general transformation, starting from opening up the market to other operators, is needed. Within the last two years there has been a major improvement done in terms of the railway stations. Many of them were refurbished or redeveloped into modern service and retail buildings. There is a number of improvements being done to the railway tracks across the country. A rapid tilt train Pendolino has already been ordered and it should be in use from December 2014 between Gdansk, Warsaw, Krakow and Wrocław.

INNER-CITY TRANSPORT

As in other European cities, Polish cities are becoming increasingly congested, but the quality and the efficiency of public transport is improving visibly. Public transport consists primarily of buses and trams with only one metro line and a second one under construction in Warsaw. Fast trams operate in Warsaw, Tricity, Poznan and Krakow and are planned for Lodz, Szczecin and Wrocław. Bicycle roads are also being extensively developed in all cities, although the existing cycling road network is still rather poor. Last year many cities introduced a system of bike rentals, which are becoming quite popular.

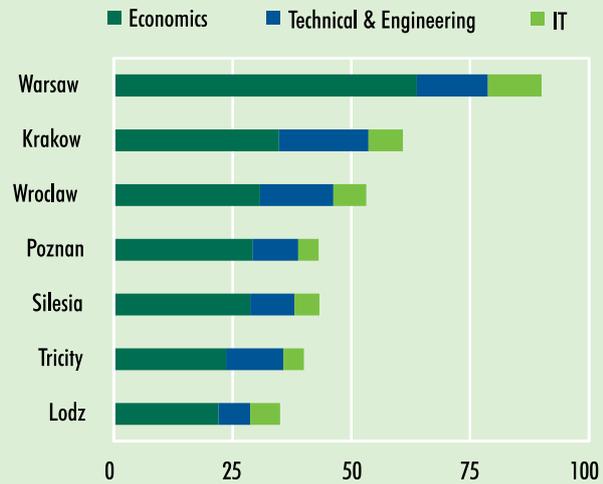
BPOLAND EDUCATION

NUMBER OF STUDENTS ('000S) IN MAJOR POLISH ACADEMIC CENTRES



Source: Local Data Bank CSO, 2011 RE

NUMBER OF STUDENTS ('000S) BY KEY FIELDS OF STUDY



Source: Local Data Bank CSO, 2011 RE

GRADUATES AND EDUCATION SYSTEM

According to the Ministry of Science and Higher Education, in 2011 there were 470 public and private universities in Poland. This is the highest number in Europe. These academic institutions now educate nearly two million students at the undergraduate, graduate, doctoral and post-graduate levels.

In Poland there are seven major academic centres, which educate 59% of the total number of students. In top spot is Warsaw, where almost 259,000 people studied, followed by Krakow, Wroclaw, Poznan, Silesia Metropolis, Tricity and Lodz.

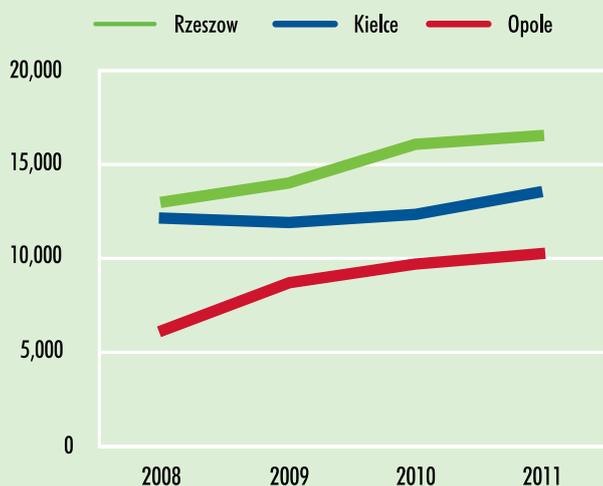
Fields of study that are most important from the point of view of SSC/BPO sector are Economics, Technical & Engineering and IT. There are 580,000 students in these fields in Poland, of which 365,000 (63%) study in seven major centres. In 2011, there were 379,000 people who studied economics, 131,000 who took engineering & technical studies and 70,000 who studied IT related currents.

In 2011, the number of students of engineering & technology grew for a second year in a row. This has to do with the introduction of ministry-sponsored

fields of study. This project aimed at increasing the number of graduates in mathematics, engineering and natural sciences, recognized by experts as crucial for the development of the Polish economy. Solely the grant competition organised in 2012 was awarded funding of 300 million PLN to be divided into about 100 projects. This is a very positive development for the companies planning to transfer to Poland more complex business processes, including KPO and R&D, since it guarantees a continuous supply of well-educated candidates in the next few years.

A large number of students is also reflected in the number of graduates. In 2011, there were almost half a million graduates in Poland (164,000 in key fields of study), of which 65,600 in Warsaw and 47,300 in Krakow. Next on the list were Poznan (36,900), Silesia (35,400), Wroclaw (35,300), Lodz (25,900), Lublin (24,600) and Tricity (23,700).

NUMBER OF GRADUATES ('000S) IN RZESZOW, KIELCE AND OPOLE



Source: Local Data Bank CSO

GRADUATES AND EDUCATION SYSTEM

Although the majority of Polish students and graduates live in major cities, the smaller academic centres, have also a lot of potential. Rzeszow, Kielce or Opole can serve as examples. In 2011, the total number of graduates in these cities was in the range of 10-16,000, showing an upward trend for the last four years.

In addition to the large number of students and graduates, it is also important that their knowledge and skills are aligned with the needs of employers. Currently, there are many examples of cooperation between universities and business to ensure that higher education degrees are conducive to finding a good job. One notable initiative is a nationwide project Business for Education, organized by the Polish Agency for Enterprise Development and the Polish Human Resources Management Association. Its purpose is to create opportunities for discussion among businesses and schools on models of cooperation between themselves.

When it comes to local initiatives, an interesting project is the Model of Effective Cooperation in creating theses, organized by the University of Lodz. This involves creating a database of issues that are real business challenges and enabling students in Lodz to analyze them and propose solutions within the framework of under-graduate, master's and even doctoral

“CURRENTLY, THERE ARE MORE AND MORE EXAMPLES OF COOPERATION BETWEEN UNIVERSITIES AND BUSINESS TO ENSURE THAT HIGHER EDUCATION DEGREES ARE CONDUCTIVE TO FINDING A GOOD JOB.”

**MAŁGORZATA JASIŃSKA
HAYS POLAND**

Examples of cooperation between business and schools also happen in secondary education. A prime example Microsoft's initiative, which in the framework of the Partnership for the Future provides software for schools and trains educators in the use of modern technology in teaching. People with secondary education are also a potential group of candidates to work in the SSC/BPO. Suffice to say that last year, there were 2,060 technical secondary schools in Poland, educating more than 528,000 students (more than 47,000 of those in Economics), of which 96.6% were also learning English. Hiring people with secondary education seems particularly appropriate when looking for employees to handle simple processes such as data entry.

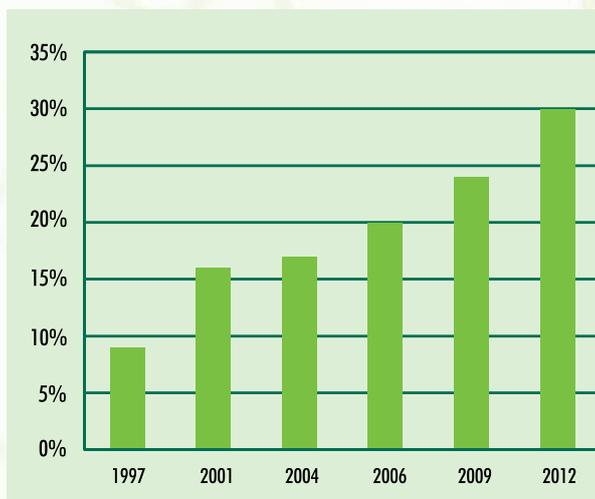
BPOLAND EDUCATION

KNOWLEDGE OF FOREIGN LANGUAGES POPULAR LANGUAGES

In recent years the number of Poles who speak foreign languages has been growing. According to data from CBOS, in October 2012 for the first time in history we have a situation where more than half of the population stated that they speak at least one language other than their mother tongue. At the same time, the percentage of Poles who had a good command of English has been constantly increasing and reached 30%.

All indications show that the upward trend in the number of people who speak a foreign language will continue. Statistical data shows that in primary, middle and secondary schools, respectively 92.5%, 94.4% and 97.8% of pupils have English lessons. Data from the Study of Human Capital in Poland was also positive with about 90% of the students stating that they spoke English and 43% German.

PERCENTAGE OF POLES DECLARING KNOWLEDGE OF ENGLISH



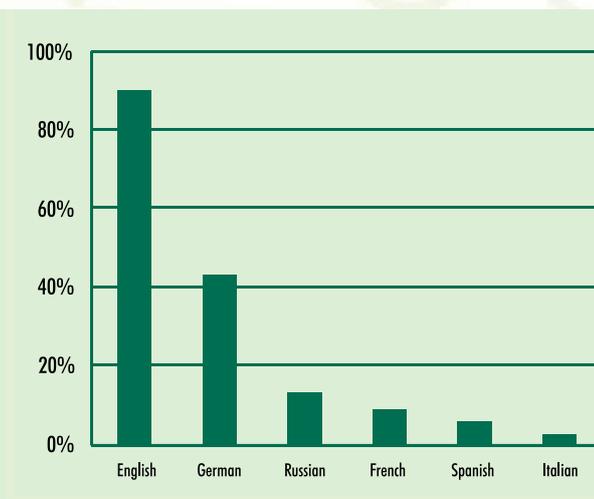
Source: CBOS

We should also not forget about the employees already working in the SSC/BPO companies who use foreign languages in their daily work. Almost all of the centres located in Poland deliver services in English. The second in terms of popularity is German, which according to ABSL data is used in 85% of the centres. Next in terms of popularity are French (63%), Italian (50%) and Spanish (48%).

NICHE LANGUAGES

In Poland, a steady increase of interest in learning less popular languages can be observed. This is reflected in the growth in the number of students in areas such as Hungarian and Romanian philology, as well as in the introduction of courses for these languages in private schools.

KNOWLEDGE OF FOREIGN LANGUAGES AMONG STUDENTS IN POLAND



Source: Study of Human Capital in Poland- 2010



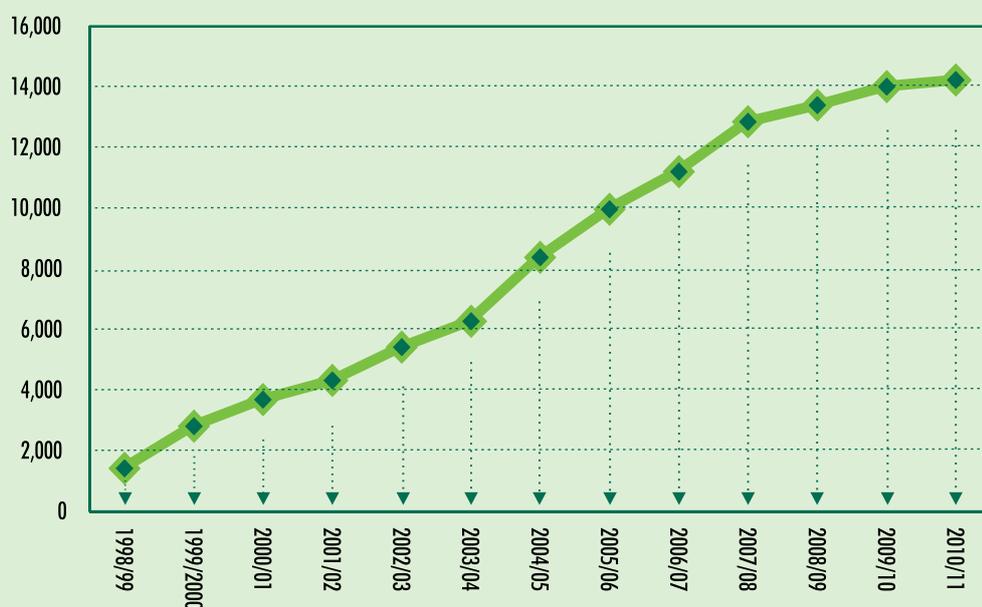
For example, last year there were 79 people studying Korean at the Adam Mickiewicz University in Poznan and the number of students of the Nordic languages in Gdansk was 215.

Knowledge of foreign languages can be even further developed during international exchange programmes, such as the enormously popular Erasmus scheme, as well as lesser-known exchange programmes, such as Campus Europae or Scholarship and Training Fund.

As for the Erasmus programme, the number of students going abroad every year has been increasing continuously since 1998; in the academic year 2010/2011 it exceeded 14,000 people.

Thanks to such programmes, not only the number of students who speak less popular languages but also those who understand foreign cultures increases. The knowledge of customs of such countries like Norway, Finland and the Netherlands might be crucial for a number of businesses.

NUMBER OF STUDENTS IN POLAND ON THE ERASMUS PROGRAMME



Source: Foundation for the Development of the Education System

SKILLED PROFESSIONALS

Poland is currently the undisputed leader in the SSC/BPO sector in Central and Eastern Europe. The number of people employed in this sector has been growing continuously since 2008 and, according to ABSL, in May 2013 exceeded 110,000 people working in more than 400 centres. It is also worth mentioning that the growth is stable and every year the ratio exceeded 20 percent. In total, between the end of 2009 and the middle of 2013, the sector created 63,000 new jobs, an increase of 134% in four and a half years.

Of this figure, the largest proportion (25,400) was employed in SSC/BPO centres in Krakow, followed by Warsaw (19,000) and Wroclaw (18,400), which for the past three years has grown the fastest of all the cities.

Between January 2012 and May 2013, the biggest number of jobs in the sector was created in Krakow. Wroclaw was again the fastest growing market with an increase of over 45% comparing to the beginning of 2012. The sharp rise is thanks to both new investors and the growth of the existing centres. The new entrants in Wroclaw included Becton Dickinson, setting up a procurement centre, Dolby Laboratories, which opened a new research and development facility and Qatar Airways with a new Customer Service centre.

2012 also marked the entrance to the Polish market of many new investors, including WNS Global Services, Metsä Group and Bayer, which opened its offices in the Tricity area. In Lodz Hewlett Packard established a new centre for HR processes, which eventually plans to employ as many as 500 people. Polish cable manufacturer Tele-Fonika decided to open its international sales department in Katowice. Cisco Systems Support Centre started its activity in Krakow and Poznan was chosen for the new office of Carl Zeiss. This means that almost every main city in Poland has gained a new investor in 2012.

The increase in the number of people employed in the service centres also means expanding the pool of candidates who understand the nature of work in the sector and have experience in servicing customers from abroad. The average length of service in the sector is about three years and is still growing.

At present, we can clearly distinguish a group of employees who see their future career in the business services sector. Many of these individuals continue to develop their skills, including learning additional foreign languages (including niche languages) and gaining internationally-recognised qualifications, such as the Association of Chartered Certified Accountants (ACCA) for finance and accounting or PRINCE 2 for project management.

EMPLOYMENT IN THE BUSINESS SERVICES SECTOR IN POLISH CITIES

	JAN 2012	MAY 2013	CHANGE IN %
KRAKOW	19,400	25,400	30.9%
WARSAW	14,200	18,900	33.1%
WROCLAW	12,600	18,400	46.0%
TRICITY	8,000	10,000	25.0%
LODZ	7,700	9,800	27.3%
SILESIA	6,900	8,100	17.4%
POZNAN	5,000	6,200	24.0%

Source: ABSL

GROSS MONTHLY SALARY (PLN) IN MODERN BUSINESS SERVICES SECTOR (ENGLISH SPEAKERS)

	MIN	OPT	MAX
F&A PROCESSES: GENERAL LEDGER			
JUNIOR ACCOUNTANT (1 – 2 YEARS OF EXP.)	2,800	3,600	4,800
ACCOUNTANT (2 – 3 YEARS OF EXP.)	4,000	5,000	5,800
SENIOR ACCOUNTANT (3+ YEARS OF EXP.)	4,800	6,200	7,200
TEAM LEADER (5 – 15 FTES)	7,000	8,400	10,400
PROCESS MANAGER (UP TO 50 FTES)	11,500	14,000	17,000
F&A PROCESSES: ACCOUNTS PAYABLE / ACCOUNTS RECEIVABLE			
JUNIOR ASSOCIATE (0 – 1 YEAR OF EXP.)	2,400	2,800	3,600
ASSOCIATE (1 – 2 YEARS OF EXP.)	3,000	3,800	4,600
SENIOR ASSOCIATE (2+ YEARS OF EXP.)	4,000	4,800	5,600
TEAM LEADER (5 – 15 FTES)	6,600	7,600	9,400
PROCESS MANAGER (UP TO 50 FTES)	9,000	12,000	16,000
CUSTOMER SERVICE			
JUNIOR SPECIALIST (NO PREVIOUS EXP.)	2,400	3,000	3,600
SPECIALIST (1+ YEARS OF EXP.)	3,000	3,800	4,200
TEAM LEADER (5 – 15 FTES)	6,000	7,400	8,200
PROCESS MANAGER (UP TO 50 FTES)	9,000	12,000	15,000
IT / TECHNICAL SUPPORT			
1ST LINE SUPPORT (0 - 1 YEAR OF EXP.)	2,800	3,600	4,400
2ND LINE SUPPORT	4,400	5,800	7,600
TEAM LEADER (5 – 15 FTES)	7,000	8,400	10,000
PROCESS MANAGER (UP TO 50 FTES)	11,500	13,000	16,000
HR PROCESSES			
JUNIOR SPECIALIST (0 – 1 YEAR OF EXP.)	2,800	3,200	3,800
SPECIALIST (1 – 2 YEARS OF EXP.)	3,600	4,200	4,600
SENIOR SPECIALIST (2+ YEARS OF EXP.)	4,400	5,000	6,000
TEAM LEADER (5 – 15 FTES)	6,800	8,000	9,400
PROCESS MANAGER (UP TO 50 FTES)	9,500	12,500	15,000
PROCUREMENT (ORDER MANAGEMENT)			
JUNIOR SPECIALIST (0 – 1 YEAR OF EXP.)	2,800	3,400	4,000
SPECIALIST (1 – 3 YEARS OF EXP.)	4,000	4,600	5,400
SENIOR SPECIALIST (3+ YEARS OF EXP.)	5,000	5,800	6,800
TEAM LEADER (5 – 15 FTES)	6,800	8,000	9,200
PROCESS MANAGER (UP TO 50 FTES)	10,000	13,000	16,000

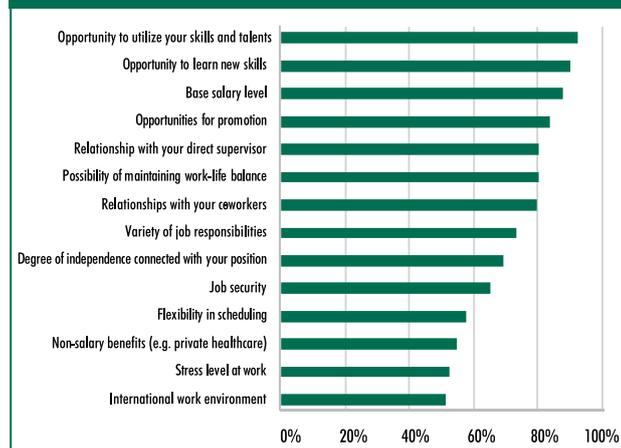
Source: HAYS Poland, FTES - Full-time employees

MOTIVATIONAL FACTORS

Employers in the sector increasingly have to face the challenge of how to most effectively attract and retain such specialists. It is worth noting that the vast majority of employees in the sector belong to the so-called 'Gen Y', people born in the 80's and 90's, which have a different approach to work than their older colleagues. Such people tend to separate work from personal life and more appreciate the opportunities for growth and self-realization than salary level.

The most important factors influencing job satisfaction were the opportunity to utilize one's skills and talents followed by opportunity to learn new skills.

THE IMPORTANCE OF VARIOUS FACTORS FOR JOB SATISFACTION AMONG SSC/BPO EMPLOYEES IN POLAND



Source: HAYS Poland survey, n=1060

SKILLED PROFESSIONALS MOTIVATIONAL FACTORS

One of the main factors considered in detail by investors when choosing a location are projected investment costs, including labour costs. Of course, in the modern business services, a knowledge-based industry, the cost of hiring an employee depends largely not on location, but on a range of other factors such as:

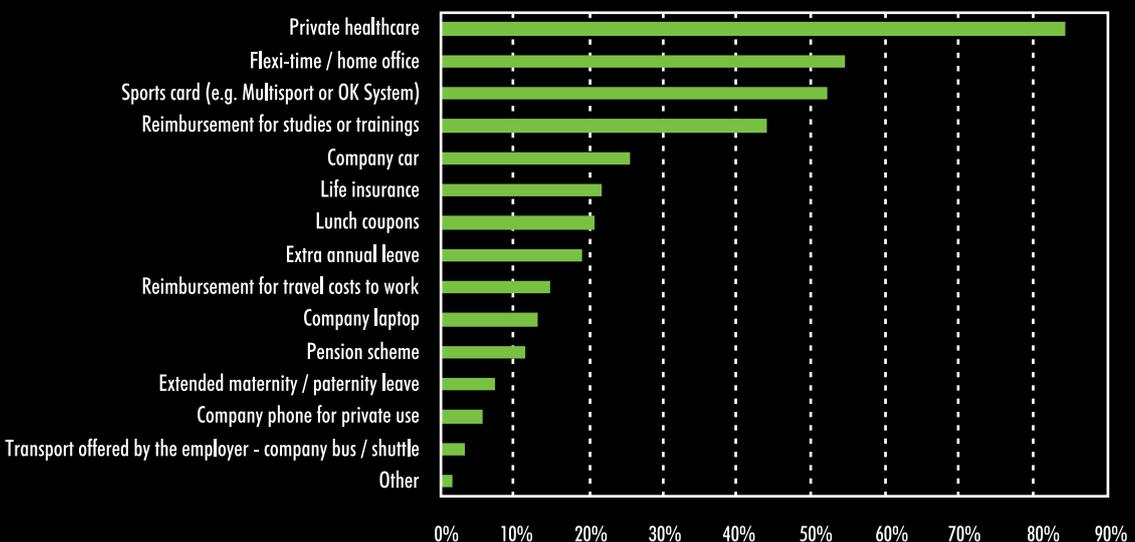
- ▶ Required skills (technology, knowledge of specific systems);
- ▶ Required work or professional experience in the business services sector;
- ▶ Knowledge of foreign languages: level of proficiency, number of languages spoken by the person as well as popularity of the language (in the case of rare languages, such as Scandinavian languages or Dutch, financial expectations can be up to 60% higher);
- ▶ Combination of knowledge of foreign languages with required skills (e.g. the combination of knowledge of specific IT systems with a foreign language other than English is very hard to find);
- ▶ Combination of relevant experience with knowledge of foreign languages e.g. experience

in a managerial position and knowledge of a niche foreign language;

- ▶ Availability of specific skills in the local market (e.g. number of graduates of a specific philology at the local university);
- ▶ Character and quality of city lifestyle (in the case of locations considered by employees as not very attractive it may be necessary to offer a higher salary in order for candidates to relocate from other towns or cities);
- ▶ Market saturation as well as cooperation between local centres;
- ▶ Employer branding – candidates are often ready to work for lower remuneration in return for the possibility of gaining professional experience in well-known and prestigious organisations.

All of these factors as well as the mobility of staff and differences between regions in terms of access to individual competencies reveal that sector salaries are only indirectly related to the location. In addition to base salary, non-monetary benefits are an important part of the reward package.

NON-SALARY BENEFITS PREFERRED BY SSC/BPO EMPLOYEES



Source: HAYS Poland survey, n=1060



**“IN ADDITION TO BASE SALARY,
NON-MONETARY BENEFITS ARE
AN IMPORTANT PART OF THE
REWARD PACKAGE.”**

**MAŁGORZATA JASIŃSKA
HAYS POLAND**

BPOLAND **OFFICE COST & AVAILABILITY**



SUPPLY OF OFFICE SPACE IN MAJOR CITIES

In early 2013 there was around 6.4 million sq m of modern office space located in Warsaw and the seven major regional cities. Warsaw is the largest and the most established market in the country, although other cities are quickly achieving the required level of quality and adjust to the market expectations. After the period of a slowdown, the construction activity has again accelerated. Nowadays there is over 1 million sq m under construction with 45% being developed in the regions. For the first time, tenants can choose from a number of options in many locations. The ready-to-use office space is essential to attract foreign investors, that usually, having taken the location decision, cannot wait long to move in. Currently, apart from Warsaw, where there is almost 340,000 sq m vacant and another 465,000 sq m under construction speculatively, the highest availability has been registered in

Poznan, Wroclaw, Lodz and Tricity. There is over 30,000 sq m vacant in each city. However such statistics do not show the true picture, as in practice, larger tenants can choose only from only 2 – 3 immediate offers. Once the constructions are delivered, the vacancy rates are expected to increase in majority of the locations. Having considered the space available within the next 18 months, the situation improves and in all major cities large companies should be able to find a decent office. However, they have no other choice but to opt for a pre-lease transaction.

There are also new players on the BPO map that might also turn out to be interesting option for investors. These are Szczecin, Lublin, Bydgoszcz, Olsztyn or Rzeszow. Those cities have already attracted some foreign corporations and soon will be able to offer a good quality accommodation

for the new entrants. Obviously, it is much easier to set up a new office in an experienced city, where high schools, local authorities and developers are aware of the market expectations. However the new locations can offer lower operation costs, fresh labour pool and more involvement in the cooperation with investors. In many cases, developers have already some experience in other cities and, supported by consultants, are able to meet the investors' requirements. In the future, other cities such as Radom, Kielce, Bialystok, Opole might also be considered as an alternative location for contact centers, subject to property availability, that at the moment is scarce.



OFFICE MARKETS SUMMARY

CITY	TOTAL MODERN STOCK (SQ M)	UNDER CONSTRUCTION (SQ M)	VACANT SPACE (SQ M)	VACANCY RATE	NO OF IMMEDIATE OPTIONS*	NO OF OPTIONS FOR 2014/2015*
WARSAW NON-CENTRAL	2,647,900	433,900	264,100	10.0%	15	19
KRAKOW	604,200	74,600	23,400	3.9%	0	11
WROCLAW	505,100	92,600	46,500	9.2%	2	13
TRICITY	390,000	84,000	47,000	12.1%	5	7
POZNAN	290,800	35,500	43,800	15.1%	2	5
LODZ	279,200	75,400	30,500	10.9%	2	7
KATOWICE	298,300	28,400	23,100	7.7%	1	8
SZCZECIN	145,100	47,400	19,700	13.6%	1	7
LUBLIN	114,900	38,500	3,800	3.3%	0	5
BYDGOSZCZ	40,000	0	8,100	20.3%	3	2
RZESZOW	95,000	0	8,000	8.4%	2	0

Source: CBRE; *(projects in pipeline over 4,000 sq m), data as of Q1 2013

AVAILABILITY OF OFFICE SPACE IN REGIONAL CITIES (SQ M).



Source: CBRE, data as of Q1 2013

BPOLAND OFFICE COST & AVAILABILITY



DEMAND FOR OFFICE SPACE

In 2012, both Polish and international companies, including BPO investors, leased over 600,000 sq m of office space in Warsaw and over 350,000 sq m in the regional cities, excluding renegotiations. Since the beginning of 2010 the regional markets have been again booming, with the global economic slowdown working in favour of low-cost locations. Large manufacturers, IT and other service providers are deciding more and more often to shift their operations from Western Europe and to look for low budget, nearshore locations such as Poland. Moreover, a number of already operating corporations, having appreciated the advantages of CEE locations, have been rapidly expanding not only within the same city, but also to other locations.

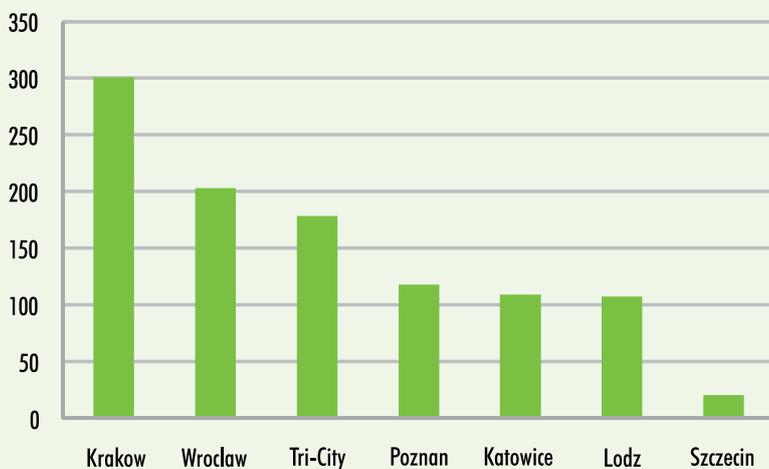
Offshoring investors typically prefer secondary cities, where the costs of operations are lower; however so far

Warsaw has been the most popular location amongst BPO operators with 55 centres open. Non-central locations, near the Chopin Airport and the planned A2 ring-road, are very comparable to other cities in terms of rental levels and unequalled in terms of office quality and availability.

The second location, ranked among the top 10 global offshoring locations, is Krakow with 43 openings. The city specializes mostly in IT services but also in finance and accounting. The third position has been taken by Wroclaw (38 centres), the most advanced and experienced in terms of local support. It is extremely popular with manufacturing and high-tech companies setting up their research & development centres. BPO operations in Poznan include companies that appreciate the convenient location, as well as the city's manufacturing and trading traditions. Corporations often open financial and accounting centres in Poznan to serve their branches in Poland and Germany. In recent years Lodz, Tricity and Katowice have also become attractive to manufacturing and outsourcing companies. New stars on the map include Szczecin, Lublin, Bydgoszcz or Rzeszow with an improving infrastructure and large labour pool to compete with the established locations.

In the nearest years we still expect a number of corporations expanding and also entering the market. In many cases the agreements signed five years ago should expire with a potential for occupiers to improve the quality of the offices. Therefore the leasing activity should remain high.

OFFICE TAKE-UP ('000 SQ M) IN REGIONAL CITIES WITHIN THE LAST THREE YEARS



Source: CBRE

“IN THE NEAREST YEARS WE STILL EXPECT A NUMBER OF CORPORATIONS EXPANDING AND ALSO ENTERING THE MARKET. THEREFORE THE LEASING ACTIVITY SHOULD REMAIN HIGH.”

**DANIEL BIENIAS
CBRE**

BPOLAND

OFFICE COSTS & AVAILABILITY

RENTS AND LEASE TERMS FOR OFFICE SPACE

Currently the prime asking rents for the highest quality office space in Poland range from EUR 12 – 16 /sq m/month in the best buildings in the regional cities as well as non-central Warsaw and up to EUR 25 - 26 /sq m/month in Warsaw Central Business District. The average rates however are much lower, particularly in the most developed areas. Tenants may also count on many incentives, lowering the effective rent even by 15 - 25%.

With growing vacancy rates, we expect the downward pressure on rents throughout 2013. Many locations, however, should retain a stable trend.

RENT - quoted net in EUR or in some cases in PLN and payable in PLN in advance with 23% VAT. Rents are subject to annual indexation to the Euro - Zone CPI.

SERVICE CHARGES - Include water, electricity, security, heating, air-conditioning, service, cleaning of common areas, taxes, insurance and all other maintenance and operational costs of the building and common areas. Service charges are more often quoted in PLN net plus 23% VAT. A typical service charge in an A-class building vary from EUR 2.50 up to 6.00 /sq m/ month.

PARKING PLACE - the fee for a parking space would be around EUR 50 - 200 per month depending on a building's location. Parking spaces are allocated according to a parking ratio. Depending on the location, the ratio may vary from 1 space per 70 – 100 sq m of leased office space in the city centre to 1 per 25 – 50 sq m outside the centre.

COMMON RATIO - calculated as a percentage of the space added to the net rentable area. These include lift lobbies, ground floor lobby, toilets available for all tenants and guests, rest areas and corridors etc. Market standards for the add-on factor in Warsaw are in the range of 5 -10%.

SECURITY DEPOSIT - 3 - 6 months' rent or a bank guarantee.

OFFICE HEADLINE RENTS IN POLISH CITIES (EUR/SQ M/MTH)

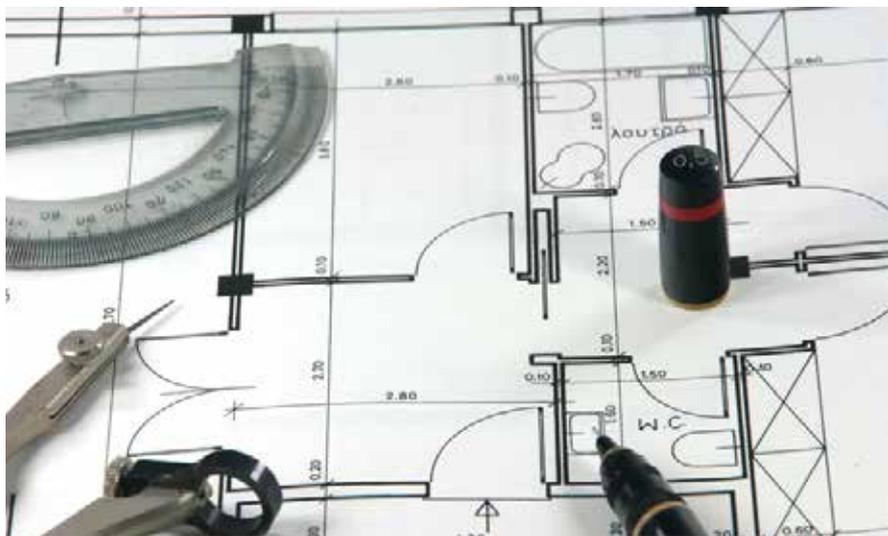
CITY	PRIME HEADLINE RENT (SQ M/MONTH)	PRIME EFFECTIVE RENT (SQ M/MONTH)	AVERAGE HEADLINE RENT (SQ M/MONTH)	AVERAGE TENANT INCENTIVES (RENT FREE MONTHS)	SERVICE CHARGES (SQ M/MONTH)
WARSAW CITY CENTRE	EUR 27.00	EUR 25.00	EUR 22.00	5	PLN 25 – 27
WARSAW NON CENTRAL	EUR 15.50	EUR 12.00	EUR 14.50	6	PLN 15 – 17
KRAKOW	EUR 16.00	EUR 13.00	EUR 14.00	5	PLN 13 – 15
WROCLAW	EUR 15.50	EUR 13.00	EUR 13.00	5	PLN 15 – 18
TRICITY	EUR 14.00	EUR 11.50	EUR 12.50	5	PLN 15 – 19
POZNAN	EUR 15.00	EUR 12.50	EUR 13.00	5	PLN 15 – 20
LODZ	EUR 13.50	EUR 12.00	EUR 11.00	6	PLN 12 – 16
LUBLIN	EUR 12.00	EUR 10.00	EUR 9.00	5	PLN 12 – 13
SZCZECIN	EUR 12.00	EUR 10.00	EUR 12.00	5	PLN 12 – 20
KATOWICE	EUR 12.00	EUR 10.00	EUR 11.00	5	PLN 12 – 15
BYDGOSZCZ	EUR 12.00	EUR 8.00	EUR 10.00	5	PLN 12 – 16
RZESZOW	EUR 12.00	EUR 8.00	EUR 10.00	5	PLN 12 – 15

BPOLAND OFFICE COSTS & AVAILABILITY

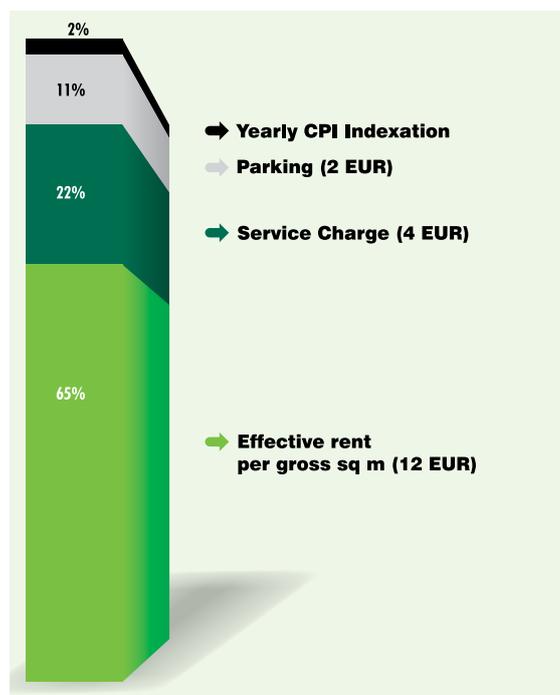
DEVELOPERS' INCENTIVES FOR TENANTS

Fit-out costs - the landlord gives the tenant the budget for the fit-out (negotiable) and finishes the space up to the assumed budget. Other extraordinary expenses needs to be covered by tenants, however such costs as office move, furniture, interior design or logo on a façade can be still negotiable. The less advanced projects, developers are more flexible.

Rent free period - ranges from 1 to 1.5 month per each year of the lease agreement, depending on the lease length, and the landlord's contribution to fit-out and other capital costs.

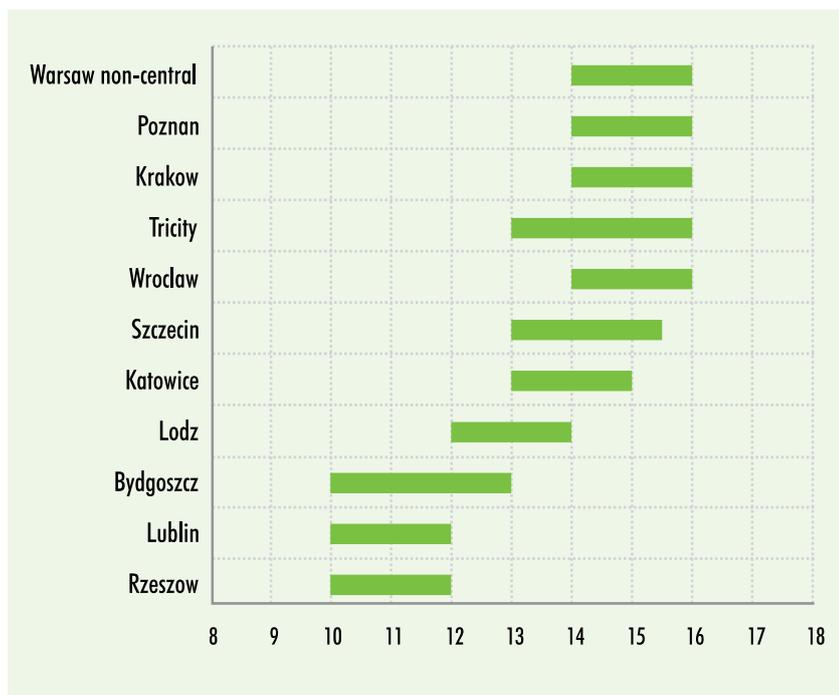


AVERAGE COSTS OF OFFICE LEASING (EXCL. VAT)



Source: CBRE

OFFICE PRIME HEADLINE RENTS IN POLISH CITIES (EUR/SQ M/MTH)



Source: CBRE

BPOLAND GRANTS & INCENTIVES



INVESTMENT INCENTIVES

The main objective of the investment incentives is to boost the innovation and productivity of the Polish economy by increasing the inflow of technologically advanced investments and creating highly productive jobs.

The total amount of state support provided to an investor cannot exceed the admissible amount of regional aid, which results from multiplying the eligible costs and maximum aid intensity in the region.

For large enterprises, the maximum aid intensity amounts to 30/40/50 percentage points of the eligible costs increased by an additional 20 percentage points for microenterprises and small-sized enterprises and 10 percentage points for medium-sized enterprises.

The eligible costs cover two-year labour costs of newly employed staff or investment outlays (whichever is the higher).

Beneficiaries should ensure the sustainability of project results for a minimum of 5 years or, in the case of small- and medium-sized enterprises, for a minimum of 3 years following project completion.

The most popular instruments of state support for investors in the service sector are:

- ▶ Government grants;
- ▶ EU Funds;
- ▶ CIT exemption.

Corporate income tax exemption is available only in Special Economic Zones. SEZs are separated areas in selected regions of Poland intended for conducting business activities under preferential conditions.

There are 14 special economic zones in Poland, together with subzones present in more than 100 locations. Permits for conducting business activities in the SEZ are issued by way of a tender or negotiations following a public invitation. They will operate until 31 December 2020.

INVESTMENT INCENTIVES FOR THE SERVICES SECTOR (SSC&IT)

INSTRUMENT	CONDITIONS		SUPPORT AMOUNT
	INVESTMENT OUTLAY	NEW JOBS CREATED	
EMPLOYMENT GRANT	PLN 2 MILLION	250	PLN 3,200 – 15,600/PER ONE JOB CREATED*
CIT EXEMPTION	EUR 100,000	NEGOTIATIONS	TO 2020 OR UP TO THE MAXIMUM LIMIT OF STATE AID



OTHER INCENTIVES

Exemption from real estate tax – the possibility of decreasing the tax rate or full exemption for a specified period of time. Exemptions are available only in certain communes, which adopted resolutions on exemptions. Tax rates are set by local authorities with maximum tax rates in 2013 at PLN 22.82/sq m for non-residential buildings connected with business activities and PLN 0.88/sq m for land connected with business activities.

Reduction in corporate income tax for the acquisition of new technology - the reduction cannot exceed 50% of the amount of expenditures incurred by the taxpayer for the acquisition of new technology.

TAX EXEMPTIONS			
TAX	RATE	TAX-PAYER	NOTES
CORPORATE INCOME TAX	19%	LEGAL ENTITY	REVENUE DERIVED ABROAD IS ALSO SUBJECT TO TAX
TAX ON DIVIDENDS	19%	SHAREHOLDERS IN COMPANIES LEGAL ENTITIES AND NATURAL PERSONS	

Source: PAliZ

BPO GRANTS & INCENTIVES



TRANSFER PRICING

The Polish Transfer Pricing regulations generally follow the OECD Transfer Pricing Guidelines. However, the scope and level of detail of the Polish Transfer Pricing Regulations are limited compared with the OECD Transfer Pricing Guidelines.

Methods:

The Polish tax regulations contain five OECD transfer pricing methods, consisting of the following:

- transactional methods (comparable uncontrolled price, resale price, cost-plus methods);
- transactional profits methods (profit split, transactional net margin methods).

Transactional methods have priority in application; however the comparable uncontrolled price method is the most preferred.

DISTRIBUTION OF INCOME FROM POLAND

Dividends disbursed from Poland are subject to 19% withholding tax (WHT). The DTT (Double Taxation Treaty), which Poland is a party to, provides for a reduced rate of WHT (5%, 10% and 15%) and is usually dependent on holding a certain share in the company paying the dividend. At the same time, tax exemptions for dividends disbursed to companies having their registered office in Poland, the European Union (EU) or European Economic Area (EEA) and in Switzerland may apply.

WITHHOLDING TAX FROM POLAND

The following payments made abroad by Polish companies are subject to WHT:

- ▶ dividends and other payments resulting from participation in the profits of a company;
- ▶ interest;
- ▶ royalties;
- ▶ remuneration for intangible services, such as: consulting, accounting, market research, legal services and others.

The WHT rate is 20% (except for dividends – 19%). Similarly to dividends, lower rates resulting from the DTT may apply provided the Polish company has in its possession the tax residence certificate of the recipient.

Some DTTs also provide for a 0% interest rate (for example the DTTs concluded by Poland with Sweden, the USA and France).



“BENEFICIARIES SHOULD ENSURE THE SUSTAINABILITY OF PROJECT RESULTS FOR A MINIMUM OF 5 YEARS OR, IN THE CASE OF SMALL- AND MEDIUM-SIZED ENTERPRISES, FOR A MINIMUM OF 3 YEARS FOLLOWING PROJECT COMPLETION.”

**IWONA CHOJNOWSKA-HAPONIK
POLISH INFORMATION AND FOREIGN INVESTMENT AGENCY**

BPOLAND SWOT ANALYSIS - SUMMARY

STRENGTHS

- ▶ High availability of educated specialists,
- ▶ Geographical location of Poland,
- ▶ Relatively low average salary,
- ▶ High institutional support for the outsourcing activity.

WEAKNESSES

- ▶ Limited cooperation between higher education facilities and outsourcing companies,
- ▶ Infrastructural problems of many Polish office hubs,
- ▶ Lack of available office space in smaller cities,
- ▶ Beaurocracy.

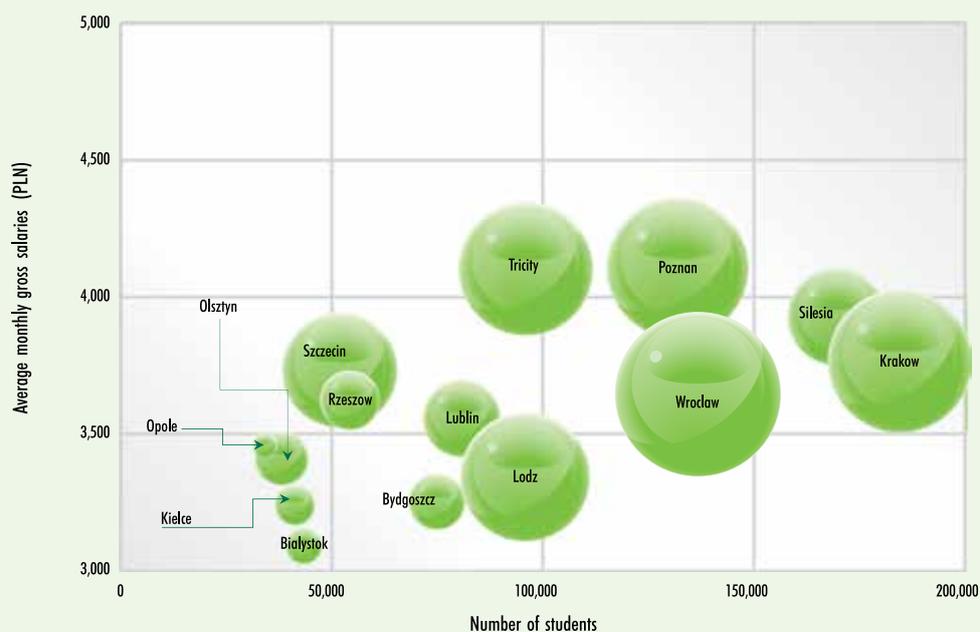
OPPORTUNITIES

- ▶ Intensive development of KPO, ITO and R&D centres,
- ▶ Growing interest in outsourcing activity,
- ▶ Relatively worse economic fundamentals of direct competitors.

THREATS

- ▶ Competition from other BPO locations,
- ▶ Growing costs of operations.

REGIONAL CITIES COMPETITIVENESS MATRIX



The size of the bubbles relates to the current availability of modern office space in sq m. i.e. space under construction and vacant.

Source: CBRE, CSO, 2012

“STABLE ECONOMIC AND POLITICAL ENVIRONMENT, HIGHLY EDUCATED, MULTILINGUAL STAFF AND AVAILABILITY OF TOP QUALITY OFFICE SPACE ARE KEY STRENGTHS OF THE LOCAL MARKETS AND THE BASIS OF FURTHER DEVELOPMENT OF THE BPO SECTOR IN POLAND.”

**JOANNA MROCZEK
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