Destination: East

Current trends and attractive foreign expansion destinations in the face of geopolitical turbulence

Report prepared by PwC and PFR TFI
in co-operation with KUKE

November 2023

Contents

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2023 marks another year when the global economy faces major challenges, and that is certainly relevant for foreign direct investment flows as well. The challenging macroeconomic and geopolitical environment means that the impact of key trends on global economic processes and corporate business decisions is growing. The most significant examples include nearshoring, the energy transition and digital revolution or the rise of protectionism.

I am convinced that in such a dynamic economic environment we can find opportunities to develop Polish foreign direct investments. Such opportunities are opening up in the CEE and Asia. The CEE countries, which are geographically and culturally closer to us, as well as the less obvious, but rapidly growing Asian markets, are characterised by high resilience to economic and geopolitical turbulence and high business potential, which makes them attractive expansion destinations for Polish investors.

We are dedicated to ensuring that Polish companies develop on the global market, taking full advantage of the potential resulting from foreign expansion. PFR TFI, KUKE and other development institutions, offering specialised instruments for the promotion and development of expansion, are ready to support them on this path.

I believe that this report will not only be a source of relevant information, but also a practical tool to support entrepreneurs in making informed, bold investment decisions.

Piotr Kuba

Chief Investment Officer, Board Member, PFR TFI

The COVID-19 pandemic, the war in Ukraine, geopolitical turbulence - all these events shaped the picture of the global economy, including the FDI market. We can see this by looking at the numbers: in the second quarter of this year, the global FDI-to-GDP ratio was 1%, compared to 1.6 % a year earlier and an average of 2.2% in the 2010-2020 decade.

The entrepreneurial mindset is also changing: currently, geopolitical risk, alongside a substantial market, is the most frequently mentioned factor considered when analysing potential locations for foreign investment.

In response to these needs, we have aimed to identify attractive expansion destinations for Polish entrepreneurs by considering a dual approach - firstly, by searching among the already known expansion frontiers for those interested in investing in nearby countries, in Central and Eastern Europe, and secondly, by defining potential Asian markets for companies looking a bit further away, often more willing to take risks.

Through this exchange of experience, we hope that the percentage of those interested in overseas expansion will increase in the coming years and that companies that are more cautious today will see the benefits of investing in new markets.

Paweł Oleszczuk, PhD

Vice Director, Public Sector & Economics, PwC Poland

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Poland is becoming increasingly courageous in knocking on the door of two elite clubs: the 20 largest economies and the 20 leading exporters in the world. We are also very successful in attracting investment from other countries, being a beneficiary of the processes that have dominated the world economy as a result of pandemic and changes in the geopolitical situation. However, the pattern of foreign investments among Polish companies is distinctly worse.

The mission of development institutions is to change this, especially in relation to less obvious markets, outside the EU 'jurisdiction', where we feel quite comfortable. The way to do this is to share knowledge about the benefits and opportunities of international expansion and to indicate to Polish businesses specific markets where it is worth seeking investment opportunities. A thorough analysis of two regions already benefiting from global trends of near- and friendshoring has identified 20 countries with the greatest potential. However, the conclusions of the surveys among Polish businesses are particularly interesting, as they both show their current attitudes - after major changes in recent years - and opinions on the internationalisation of their activities, and provide hints to business support institutions on how they can fulfil their mandate more effectively.

At KUKE, we see a gradually growing interest among Polish companies in investments outside the country. To reinforce this trend, we offer attractive instruments to secure the investments as well as their financing, which significantly increases the security of expansion. This is particularly the case in Ukraine - we are the first country in Europe to introduce statutory solutions encouraging domestic business to invest and participate in the reconstruction of neighbouring country’s war-torn economy.

Janusz Władyczak

CEO, KUKE

01

Introduction

Key figures

28

EUR bn

Polish foreign direct investment position in 2022[1].

87%

of Polish foreign direct investment

is located **in Europe**[1].

90%

of Polish companies

indicate **geopolitical risk and sizeable market** as key factors in the analysis of a potential investment location[2].

41%

of companies investing abroad

declare plans to further expand internationally in the next 3 years[2].

55%

of surveyed companies

indicate **geographical diversification and risk mitigation** as the main benefit of foreign direct investment[2].

[1] Source: National Bank of Poland, Polish foreign direct investment in 2022 (accessed: November 2023)
[2] Source: CATI survey (n=240) among Polish medium and large enterprises conducted in October 2023. Polish enterprises are understood as companies with predominantly domestic capital.

International expansion in the face of geopolitical turbulence

2023 has brought a marked slowdown in the dynamics of global GDP, followed by a reduction in foreign direct investment flows. This decline is linked, among other things, to the energy crisis and is a direct consequence of the war in Ukraine.

The new reality represents changes in the balance of power in the global economy, increasing protectionism. This is reflected, inter alia, in the increasing number of restrictions imposed on trade and investment, translating into reduced tendency to invest outside the home countries.

In the face of these global changes, Polish foreign investments are growing, although in comparison to other EU countries and the potential of the economy, they are still not high. In 2018-2020, they averaged around EUR 1 billion per year, EUR 2.7 billion in 2021 and already EUR 6 billion in 2022. Essentially, European countries are consistently the main destinations for the international expansion of Polish companies. Investments from countries with a similar level of economic development as Poland are generally located closer than investments from highly developed countries. The average distance of an investment country from Poland is about 1,000 kilometres, which roughly corresponds to the Czech Republic. However, in developed countries, the geographical range of investments is much greater - in Germany and France it is 2,500 kilometres, and 5,000 kilometres in the UK. Therefore, this study also aims to provide Polish companies with inspiration for their investment directions. This report is the fourth edition in which we address the topic of foreign investment of Polish companies.

In this year's edition, we present the most interesting potential expansion destinations, focusing on the region of Central and Eastern Europe and Asia. We also define the most important trends that may influence the expansion of Polish companies in the future and describe the impact of the war in Ukraine on the investment attractiveness of the region, while providing key tips for companies interested in participating in the process of rebuilding the country after the war.

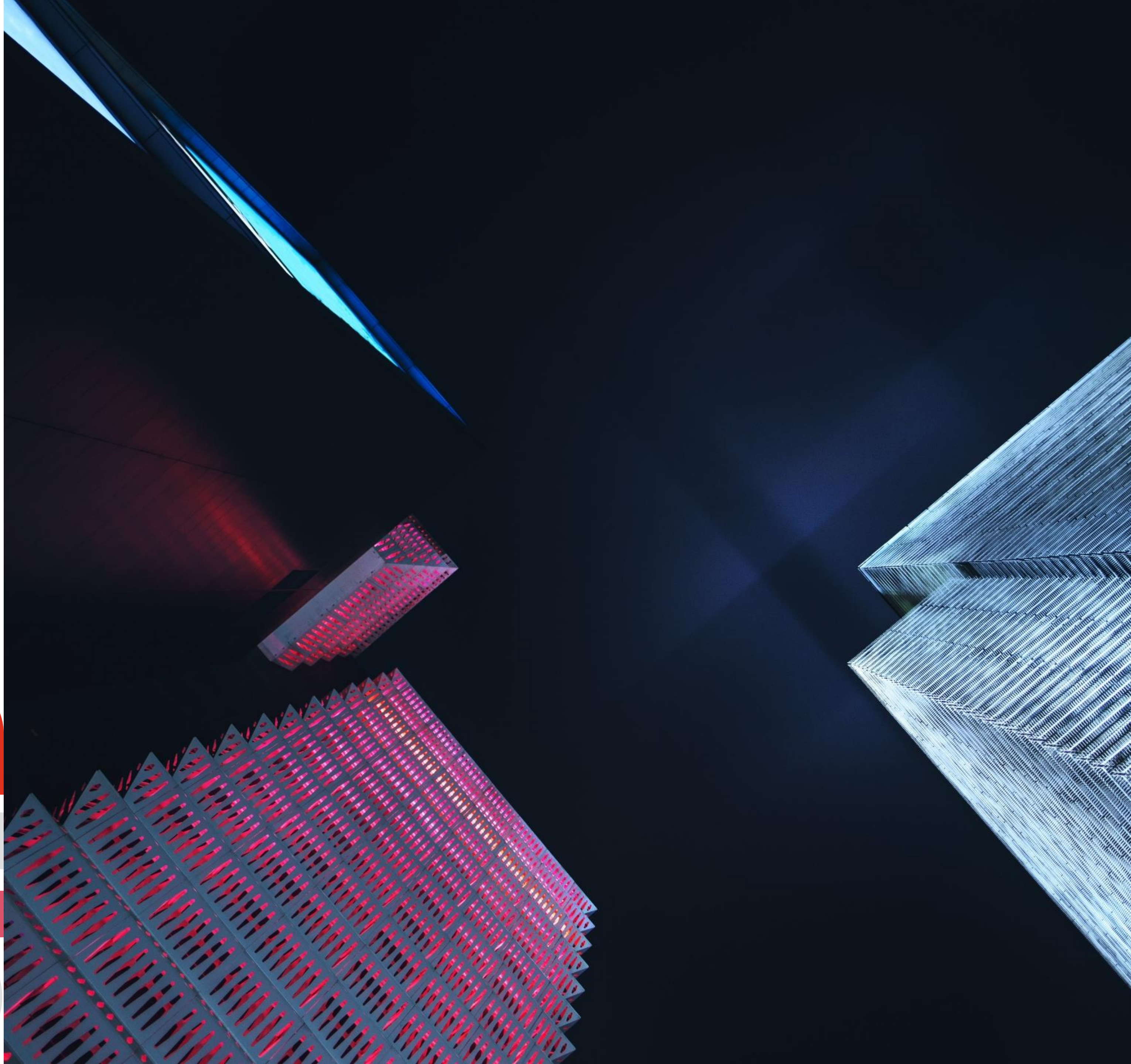
Our survey indicates that currently the most important factors for companies relate to the level of geopolitical risk and political stability, as well as the size of the market and the growth prospects of a given market. Our ranking is a response to these needs. We have identified attractive countries where Polish companies are already present to a significant extent (with a cumulative investment value of more than EUR 100 million), but also those, mainly in Asia, whose potential is yet to be discovered, where expansion may be more challenging, but at the same time characterised by high growth dynamics.

Development institutions play an important role in the execution of foreign investments by Polish companies, including PFR Investment Fund Company (PFR TFI), which manages the Polish International Development Fund, and the Polish Credit Export Agency (KUKE), which offers insurance and guarantee instruments for companies and the banks that finance them. Cooperation with these institutions facilitates and accelerates international business development.

We believe that the report will be an inspiring starting point for discussions on the new economic realities and the resulting opportunities for Polish companies to expand abroad.

02

Key trends in the FDI market



03

2.1

Polish foreign direct investment

European countries remain the most popular destinations for foreign direct investment by Polish companies

Directions of Polish foreign investments

Polish foreign direct investment position (total investment at the end of a given period), **amounted to EUR 27.8 billion in 2022 and was EUR 3.7 billion higher than in the previous year. Europe remains the most attractive region for investments of Polish companies, with 86.9% of all investments concentrated on the old continent**. Luxembourg*, the Czech Republic and Germany were the top three countries in terms of FDI stocks. Meanwhile, manufacturing, financial and insurance business and wholesale and retail trade were the top three most popular industries. Investment destinations in 2022 were dominated by Norway, the Czech Republic, Germany, Hungary and Luxembourg. Income from Polish FDI in 2022 amounted to a record EUR 6.2 billion and came largely from investments located in Norway, the Czech Republic and Germany.

The largest divestments in 2022 took place in Sweden and, as in previous years, resulted from the use of direct investment enterprises in that country. The aim of such activities is to raise capital from abroad in order to then lend the capital to “parent” companies in Poland. As a result of these activities, FDI position in Sweden in 2022 amounted to EUR -1.4 billion[1].

Polish foreign direct investment position in 2022

1	Luxembourg*	/ EUR 4.2bn	**6**	Netherlands*	/ EUR 1.3bn
2	Czech Republic	/ EUR 4.0bn	**7**	Hungary	/ EUR 1.3bn
3	Germany	/ EUR 1.9bn	**8**	Lithuania	/ EUR 1.2bn
4	United Kingdom	/ EUR 1.5bn	**9**	Romania	/ EUR 1.0bn
5	Cyprus*	/ EUR 1.4bn	**10**	Norway	/ EUR 1.0bn

* Note that foreign investment in Luxembourg, Cyprus and the Netherlands may be incentivised by tax optimisation issues.
[1] Source: National Bank of Poland

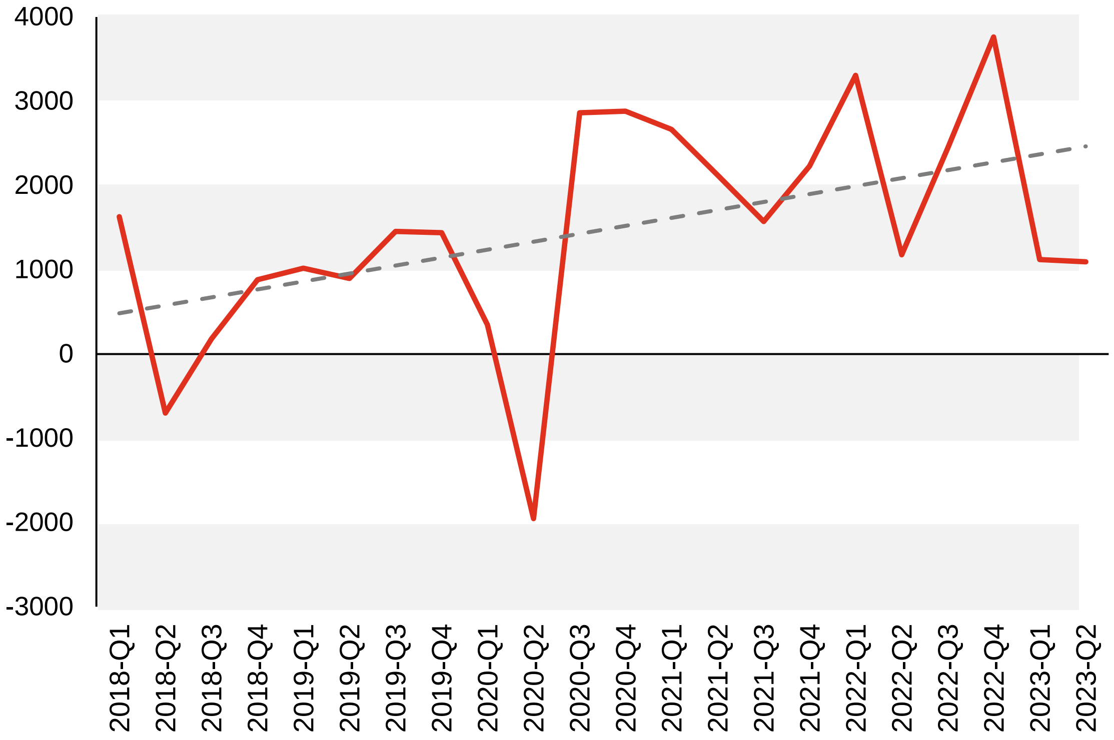
Polish foreign direct investment in the face of global market challenges

In 2022, the value of Polish FDI flows was higher than the year before

Poland remains active as an investor in foreign markets around the world. Data from the balance of payments (Eurostat, 2022 data) shows **that in y/y percentage terms, Polish FDI grew most dynamically in Latvia (+1,636%), the United States (+512%) and Slovenia (+323%). The top five is completed by the United Kingdom (+273%) and Belgium (234%).** However, it is important to acknowledge the high volatility in Polish investments and their directions, e.g. investments in Latvia amounted to EUR 48.6 million in 2022 and only EUR 2.8 million in 2021. This means that each major investment abroad, even in the largest markets, significantly affects the ranking in percentage terms due to their low underlying value.

It should be noted that, on the other hand, Poland remains one of the most attractive FDI destinations. According to the UNCTAD's World Investment Report 2023, Poland is ranked 4th in Europe and 14th in the world with EUR 28.1bn (-0.4% y/y) of incoming investments. Additionally, as indicated by Bloomberg, Poland, along with Mexico, Morocco, Vietnam and Indonesia, is an increasingly popular location for foreign direct investment, benefiting from such trends as nearshoring.

Outbound investment from Poland (flows, EUR million) and the 2018-2023 trend line



Source: Eurostat. Balance of payments, Bloomberg.

2.2

FDI market in the face of geopolitical turbulence

Macroeconomic challenges have slowed the growth rate of foreign direct investment

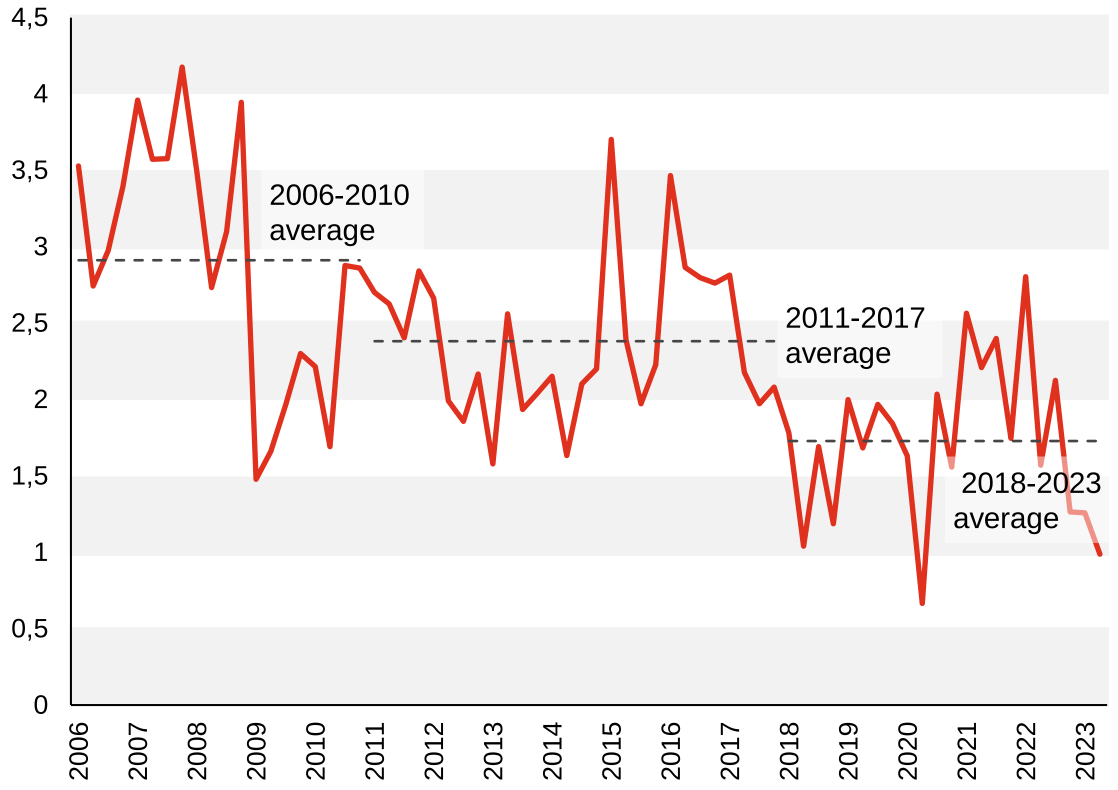
Global foreign investment

2023 witnessed a notable slowdown in global GDP growth, followed by a reduction in foreign direct investment flows. Balance of payments data shows that in the second quarter of this year, the global FDI-to-GDP ratio stood at 1%, compared to 1.6% in the previous year and 2.2% on average over the 2010-2020 decade (we exclude flows to tax havens such as Ireland, Luxembourg, the Netherlands and Singapore from the data). Thus, the FDI rate was the lowest since the second quarter of 2020, when the global economy lapsed into the deepest recession associated with the COVID-19 pandemic. Previously, such a low investment rate was recorded in early 2004.

The slowdown in 2023 is linked to the energy crisis, the inventory cycle and the saturation of the market with goods after the pandemic. The decline in global industrial production and exports in 2023 was the sharpest since the pandemic period and, setting aside this episode, since the 2009 financial crisis.

However, the weakening of investment flows is probably more than just a cyclical phenomenon. As of 2018, the average global FDI growth rate was 1.7%, while the average for the previous 18 years, also marked by various crises, reached 2.5%. **The slowdown may be the result of increasing protectionism and fragmentation of the global economy**. IMF data shows that since 2018, the number of restrictions imposed on trade and investment has started to increase significantly, which may translate into a tendency for companies to expand abroad.

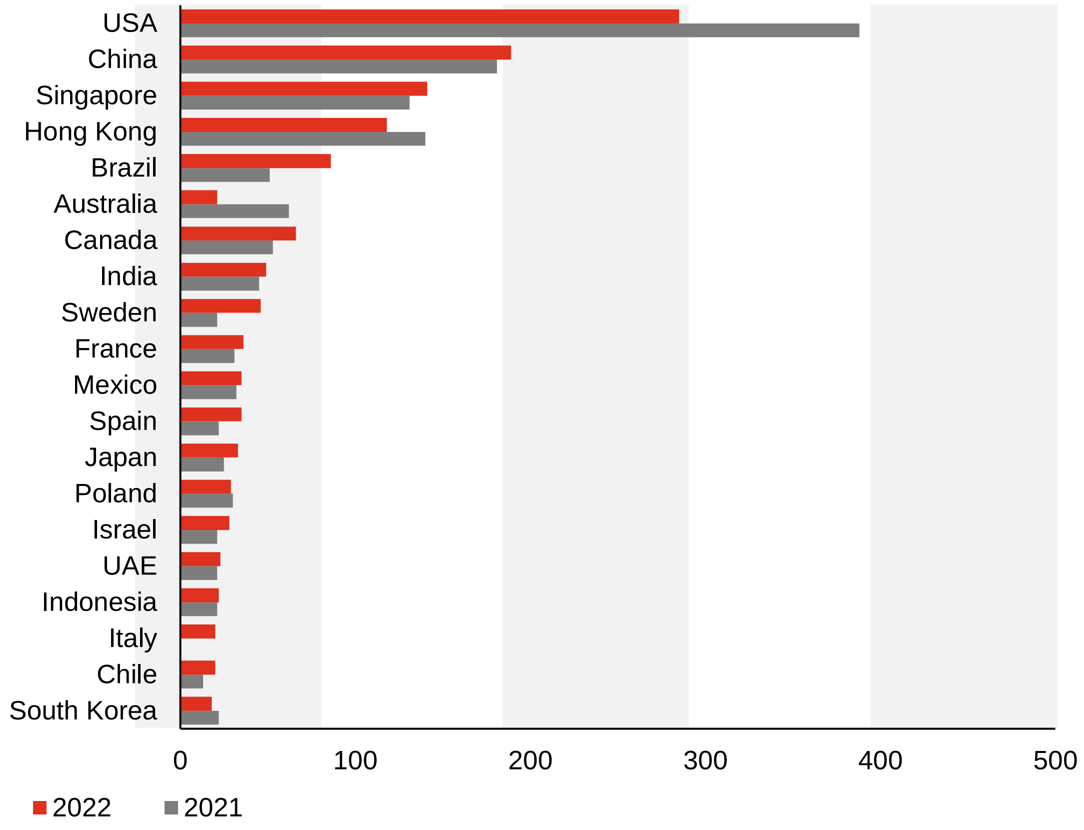
Global FDI flows by balance of payments (as % of GDP)



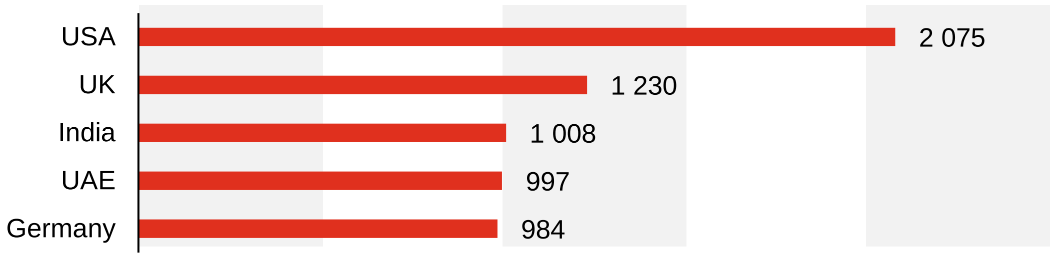
Source: IMF. Balance of payments.

The USA remains the most attractive destination for global FDI, although the advantage is diminishing in favour of Asian competitors

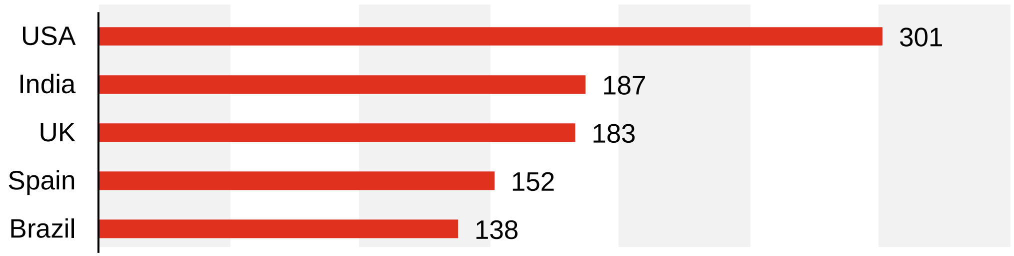
Top 20 global FDI destinations in 2022 compared to 2021 (USD billion)



Top five greenfield investment destinations (by number of projects)



Top five beneficiaries of IPF projects* (International Project Finance, by number of projects)



Source: UNCTAD. World Investment Report, 2023. * IPF – International Project Finance s a project finance concept that refers to international investment through an independent company (special purpose entity) and most often applies to large, capital-intensive projects (e.g. infrastructure).

Most Central and Eastern European countries have proved resilient to the market turbulence and war in Ukraine

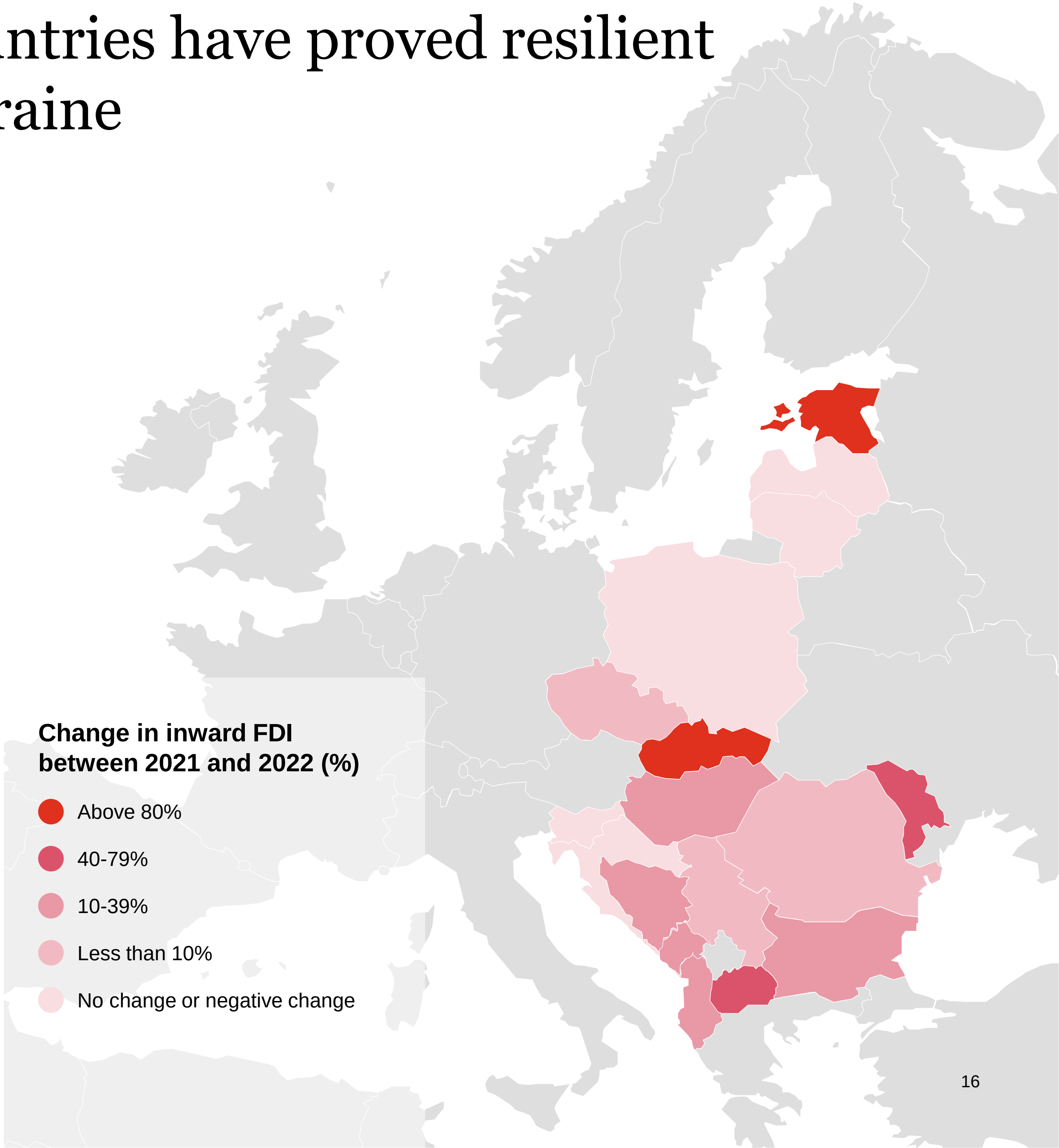
FDI inflows to Central and Eastern Europe remain relatively high

The countries of Central and Eastern Europe (CEE) collectively recorded an almost 8% increase in the value of inward FDI in 2022 compared to the previous year. Such a result is not evenly distributed across all countries due to, i.a. significant differences in their economic potential and individual transactions with large investors, which have a high share of the total invested funds and are so-called *outliers*.

The biggest "winner" of the last year was Slovakia, where there was a sharp rebound after two years of drastic declines in inward FDI. Given that a very large proportion of Slovak FDI is directly dependent on the eurozone, the country is reliant on the economic health of its European partners, especially Germany and France.

Estonia also ranked among the top FDI destinations in terms of year-on-year percentage growth. The favourable tax system, which includes the Estonian CIT, exempting companies from taxation until profit or dividends are distributed from the company, as well as the country's position as a world leader in terms of the level of digitalisation, make foreign investors keen to locate their investments there. In addition, the country has a large Russian-speaking minority, which may have encouraged company relocations due to the war in Ukraine.

Interestingly, the other Baltic countries, i.e. Lithuania (-24.7%), Latvia (-54.6%), recorded the largest negative changes (apart from Ukraine) compared to 2021. Poland, on the other hand, recorded only a slight decrease (-0.4%) and remained the largest recipient of FDI in the region in value terms.



Source: UNCTAD. Foreign direct investment: Inward and outward flows and stock, annual.

Central and Eastern Europe offers many advantages to foreign investors, though this in no way implies a lack of challenges

Central and Eastern Europe's potential as an FDI destination

The Central and Eastern European region could prove to be one of the biggest beneficiaries of foreign direct investment in the next few years. **One factor contributing to the high potential is the observed trend of strengthening the resilience of supply chains through *nearshoring*, i.e. the relocation of operations or services to a nearby area, usually with the same time zone, culture and language**. *Nearshoring* can largely be part of the "China Plus One" strategy; i.e. maintaining current factories in Asia while investing in an alternative production facility in Europe. CEE countries are predisposed to benefit from this trend due to their proximity, lower labour costs compared to the West, highly skilled workforce and presence in the European single market.

The funding coming from the European Union is also responsible for further growth. With the new financial perspective for 2021-2027, countries have received the necessary cash injection to stimulate the economy, which can also translate into increased foreign investment.

On the other hand, the region is struggling with high inflation, which in theory can discourage investors as it leads to a depreciation of the local currency, which threatens to reduce the value of assets against foreign currencies. The competitiveness of CEE economies is also affected by energy and raw material prices, which increase the cost of doing business and reduce margins. The Russian invasion of Ukraine and the COVID-19 pandemic have resulted in sharp price increases, but according to the World Bank, 2023 is expected to witness up to a few tens per cent decrease in the level of price increases in key categories (such as coal or natural gas).

Main indicators of investment attractiveness - ranking position*

Country	IMD World Competitive-ness Ranking	WIPO Global Innovation Index Ranking	Transparency International Corruption Perceptions Index	World Bank Logistics Performance Index	EF English Proficiency Index
Bulgaria	57	35	72	51	21
Czechia	18	30	41	43	23
Estonia	26	18	14	26	26
Lithuania	32	39	33	38	19
Latvia	51	41	39	34	25
Poland	43	38	45	26	13
Romania	48	49	63	51	17
Slovakia	53	46	49	43	15
Slovenia	42	33	41	43	-
Hungary	46	34	77	51	18

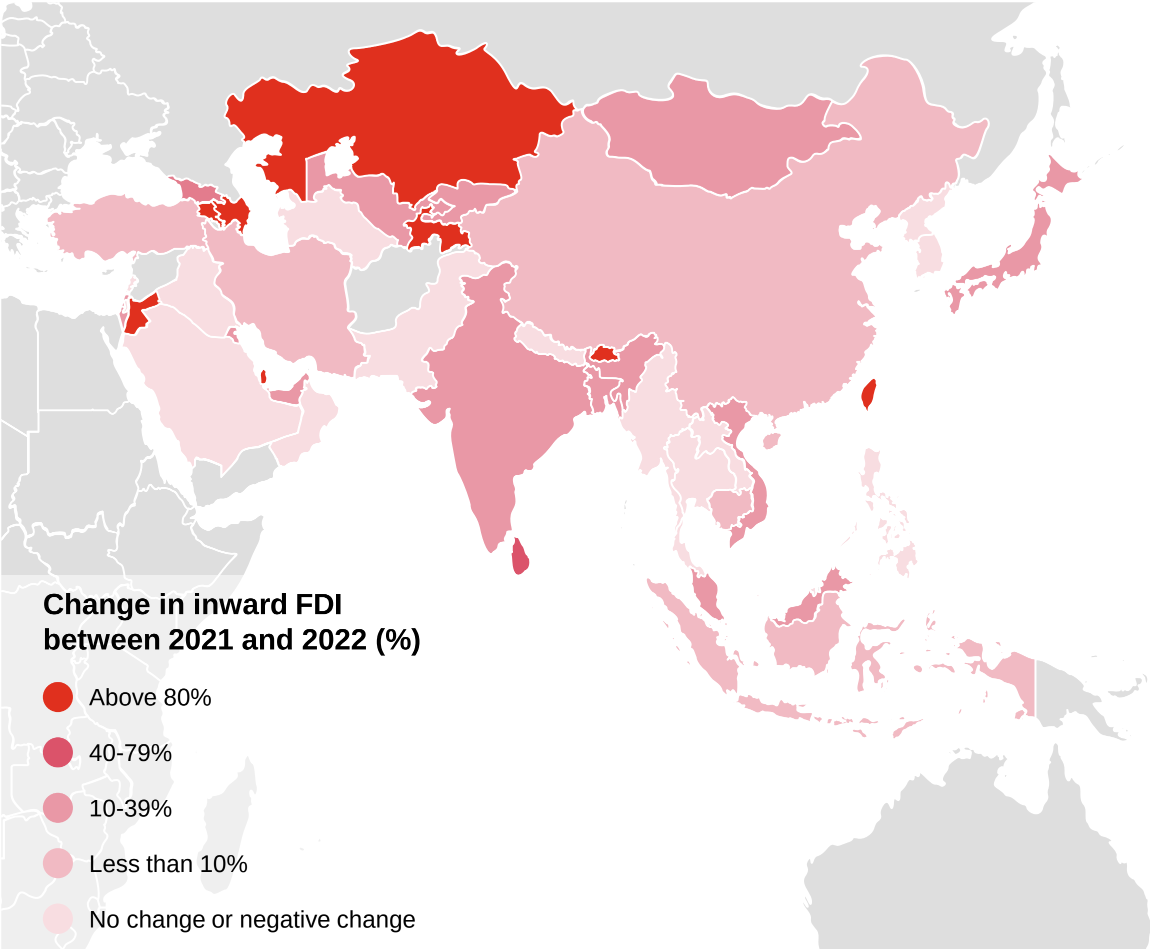
*Indicators presented for selected CEE countries

Foreign direct investment in Asia in 2022 was similar to the previous year's level

FDI in Asia is highly concentrated, with just five economies accounting for up to 80% of inflows

Asia accounts for about half of global FDI inflows, with a cumulative value of USD 662 billion in both 2022 and the previous year. While the West Asian and East Asian regions saw declines in inward FDI (-14% and -4%, respectively), the other regions recovered, ensuring that overall 2021 levels were maintained. China, Singapore, Hong Kong, India and the United Arab Emirates are the five countries that account for almost 80% of the total investment. At the same time, this illustrates the dominance of just a few destinations and points to the underlying or yet underestimated potential of other countries that are trying to attract foreign investors through various tax incentives (e.g. Malaysia) or policies focusing on free trade (e.g. Thailand). In the case of Malaysia, inflows increased by 39% y-o-y to USD 17 billion (a national record), while Thailand saw a 31% decline to USD 10 billion.

FDI flows in India increased by 10% to USD 49 billion. At the same time, the country became the third largest destination for greenfield investments and the second largest for IPF* (International Project Finance) projects. Among the largest greenfield projects were Foxconn (Taiwan) and Vedanta Resources' (India) investment to build one of India's first USD19 billion microchip factories and a USD 5 billion project to produce urea from green hydrogen in a joint venture between TotalEnergies (France) and Adani Group (India). As part of project financing agreements, Posco (South Korea) and Adani Group invested in the construction of a USD 5 billion steel plant in Gujarat.



Source: UNCTAD. Foreign direct investment: Inward and outward flows and stock, annual. * IPF – International Project Finance s a project finance concept that refers to international investment through an independent company (special purpose entity) and most often applies to large, capital-intensive projects (e.g. infrastructure).

A number of the FDI market trends and developments observed to date have been further reinforced by the war in Ukraine

New features in foreign direct investment

Nearshoring, friendshoring

Diversifying suppliers and securing supply chains through *nearshoring* and *friendshoring* is a phenomenon that companies believe will heavily influence the global FDI market in the coming years.

Geopolitical turbulence

The war in Ukraine and the geopolitical turbulence have increased uncertainty among businesses, but also shifted the energy market. The war has resulted in countries previously dependent on Russian oil and gas seeking to diversify their energy sources. As a result, the last year has seen high investment in the coal, oil and gas sector.

Digital transformation

The integration of digital technologies in (almost) all areas of a company, resulting in fundamental changes in the way businesses operate and deliver value to customers, is driving FDI in semiconductors, electronic components, as well as the ICT sector.

Energy transition

The decarbonisation of operations of both businesses and other elements of global economies remains one of the most important trends. In 2022, capital investment in renewables reached a record USD 343.6 billion, a 158% increase compared to the previous year. It is also the sector attracting the most investment for the fourth consecutive year.

Increasing protectionism

An increase in government restrictions limiting international trade and investment to protect domestic industries, raising concerns about the future of globalisation.

Trends observed in the foreign direct investment market (1/3)

Nearshoring, friendshoring

This trend accelerated during the COVID-19 pandemic. Entrepreneurs around the world have learnt, and sometimes at a high cost, what challenges globalisation can bring, including in particular global supply chains passing through multiple countries or entire geographical regions. **Rising transport costs and supply bottlenecks have resulted in a number of changes to companies' procurement, sales and production strategies - in order to secure continuity of supply, some have taken appropriate steps to move production and logistics to countries that are closer in terms of geography or culture,** while those companies that have not taken this step yet are considering the options available. This drives investment in new sites, distribution and logistics centres, but also in related technologies such as artificial intelligence, the internet of things or blockchain, which can be used to simplify logistics processes and optimise resource allocation.

Poland may be one of the main beneficiaries of this trend, due to its favourable geographical location, improving infrastructure and membership of the EU, providing access to the single European market. Although the war in Ukraine is significantly affecting the investment attractiveness of Poland and the CEE region, our country is perceived as a regional leader in logistics and transport, with highly specialised companies with global know-how. This positions Poland as one of the most attractive destinations for FDI in the transport sector, which reached USD 54 billion in 2022 from a global perspective.

Geopolitical turbulence and the energy sector

Russia's attack on Ukraine in February 2022 and the sanctions imposed by the West have had far-reaching effects on FDI trends, particularly in the energy sector. Countries that are heavily dependent on Russian oil and gas have pursued diversification; as a result, the number of mega-investment projects in the coal, oil and gas sector increased from four in 2021 to 21 in 2022, with a 538% year-on-year increase in capital investment in the sector. The implications for Russia are also evident, with the number of announced FDI projects falling to just 13 in 2022.

Eastern Europe's share of capital investment in coal, oil and gas dropped by almost 44% between 2021 and 2022, and this is undoubtedly a direct result of the Russian invasion. In contrast, other regions such as the Middle East and North America are benefiting. Qatar, for example, attracted the highest level of FDI in coal, oil and gas since 2009, surpassing USD 28 billion. On the other hand, the USA ranked second in the world in terms of attractiveness for coal, oil and gas projects in 2022, and third in terms of associated capital investment flows, with incoming projects worth an estimated USD 11.2 billion. 2022 results suggest that coal, oil and gas FDI will continue to perform well despite the energy transition gaining momentum, as described on the next page.

Source: World Bank, FDI Insights

Trends observed in the foreign direct investment market (2/3)

Digital transformation

Digital transformation is one of the most important trends in the FDI market, affecting every sphere of both professional and private life. Technologies being developed by R&D teams around the world are expected to provide companies with increased productivity, more efficient management of resources, faster and more accurate collection, processing and analysis of data, more efficient communication and the establishment of sustainable and substantial customer relationships. **Unsurprisingly, almost 290,000 more jobs were created in the IT software and services sector in 2022 than in 2021, representing an increase of 108%. The 41% year-on-year increase in the number of FDI projects announced in the sector means that one in four projects announced in 2022 was in IT software and services**. The sector attracted around USD 69 billion worth of capital with an 81% increase compared to 2021 and a 76% increase compared to 2019. On top of this is the impressive performance of the semiconductor sector, which was the third most capital-intensive sector, with an estimated investment of USD 91.6 billion in 139 projects in 2022. It should be noted that a record amount was invested in the sector last year, 8% more than in 2021 and almost nine times more than in 2019. Rising geopolitical tensions between the US and China, as well as supply chain instability, have forced companies and countries to rethink their investment strategies in the sector and change their approach to investment destination countries. Poland has also benefited from the trend, with Intel Corporation investing USD 4.6 billion in a new semiconductor factory near Wrocław, while discussions on the construction of another factory in Pomerania are underway with companies from Korea, Japan and Taiwan.

Energy transition

Diversifying the energy mix and increasing the share of renewable energy sources (RES) is one of the main goals of individual countries, regions and companies. However, obtaining energy from alternative sources is characterised by high capital intensity, which is why the RES sector was the largest area of FDI in value terms for the fourth consecutive year in 2022. Several mega-investments (projects worth more than USD 1 billion) contributed to the sector's strong performance. Egypt managed to attract 19 investments from green hydrogen start-ups, mainly in the Suez Canal Economic Zone. The localisation of FDI in the sector was highly concentrated. The top 15 countries attracted more than three quarters of FDI in the two years starting in 2021. In 2022, investment became even more concentrated, with five countries attracting 65% of global FDI.

The Polish energy industry, which is a strategic sector, attracts FDI from various parts of the world. One of the most important partners is the United States. The Westinghouse-Bechtel consortium signed a contract in September 2023 to design Poland's first nuclear power plant, and Westinghouse has also announced the establishment of an engineering centre and additional investment to support nuclear training and workforce development. Companies from the Nordic countries and Poland's neighbouring Germany, including pension funds looking for relatively low-risk investments, are also interested in our country's energy transformation.

Source: FDI Insights, Stockwatch, money.pl

Trends observed in the foreign direct investment market (3/3)

Increasing protectionism

Since 1990, international trade has increased incomes globally by 24% and, in the case of the 40% of poorest countries, by 50%. This growth has lifted more than one billion people out of poverty. Trade has also played a key role in shaping the global economy and the supply chains that are interdependent between continents. In 2022, global value chains accounted for 52% of world trade, up from around 48% in 2015. **However, the trade tensions and geopolitical challenges observed today are increasing the popularity of protectionist measures among politicians and governments leading to regionalisation and *reshoring***, which could threaten further economic and technological development. In 2022, the number of new restrictions on goods, services and investments increased by 14% compared to the previous year, reaching a total of more than 2,600. This is over six times more than in 2013. The largest increase was in investment restrictions, which totalled 239 last year, over four times more than in 2021. This has a negative impact on FDI flows, which are increasingly targeted at geopolitically friendly countries. The trend towards protectionism may impede cross-border capital flows, thereby limiting countries' external financing opportunities and hindering their economic development. According to IMF economists, low-income countries will suffer the most, and could lose access to key import and export markets, losing up to more than 4% of GDP permanently.

Source: World Bank

03

2.3

FDI market from the entrepreneurs' perspective

CATI survey among Polish entrepreneurs

As part of the development of the report, a CATI survey was conducted among Polish companies in October 2023. The survey was conducted on a sample of 120 large and medium-sized companies investing abroad (investment understood as the purchase of assets abroad). It addressed perceptions of changes in the FDI market and their possible impact on operations. The study also involved 120 companies that had not previously undertaken foreign investment as a so-called control group. This enabled us to compare findings according to the companies' experience in internationalisation. We were also able to compare the results with the previous edition of the survey (conducted in December 2021/January 2022).

On the following pages, we present the main findings of the survey, considering the differences related to the size of the company and the industry in which it operates.

Experience in international expansion

93
Non-investing companies

27
Non-investing companies having potential (e.g. the company is considering foreign investment or planning expansion, or the company has invested in the past)

120

54
Early stage investors (less than 2 years' experience)

42
Experienced investors (2-5 years of experience)

24
Companies investing abroad for > 5 years

120

Company size

133
Medium-sized companies

107
Large companies

240

Industry

57
Manufacturing

47
Wholesale and retail trade

33
Information and communication

26
Professional, scientific and technical activities

22
Construction

18
Transport and storage

37
Others

240

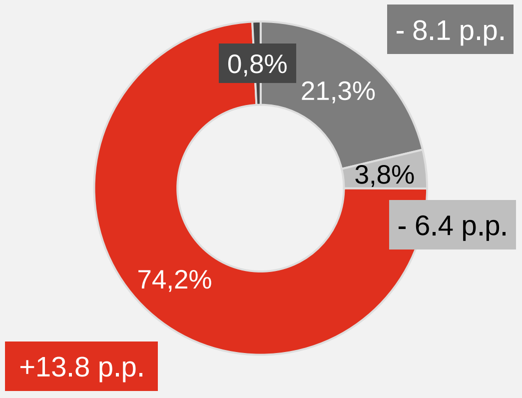
Foreign expansion plans of Polish companies - types of investments

Does your company plan to expand into foreign markets in the next 3 years?

In the context of foreign expansion plans, considered by the type of investment, there are definitely differences from the previous edition of the report. **Today, companies are much more cautious about their investment plans.** Only 21.3% of all companies declare new greenfield investments and 3.8% declare brownfield investments. This is a decrease of 8.1 p.p. and 6.4 p.p., respectively compared to 2021 and 2022.

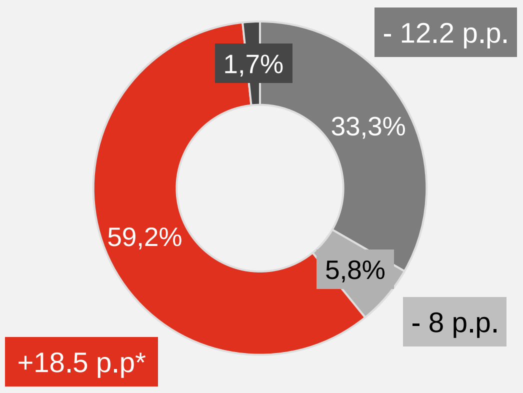
Investing companies show greater openness to new ventures, with 33.3% declaring plans for new greenfield investments (a decrease of 12.2 p.p. compared to the previous edition) and 5.8% for acquisitions or mergers (a decrease of 8 p.p.).

Total



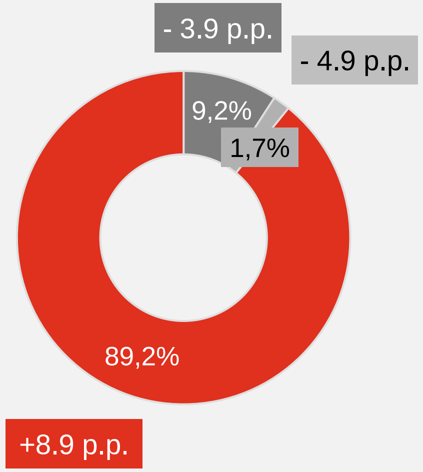
Note: the numbers in the rectangles next to the graph indicate the change from the previous edition (n=240)

Companies investing abroad



Note: the numbers in the rectangles next to the graph indicate the change from the previous edition (n=120)

Non-investing companies



Note: the numbers in the rectangles next to the graph indicate the change from the previous edition (n=120)

New investments (greenfield investments) · M&A (brownfield investments) · No plans · Difficult to say in what form

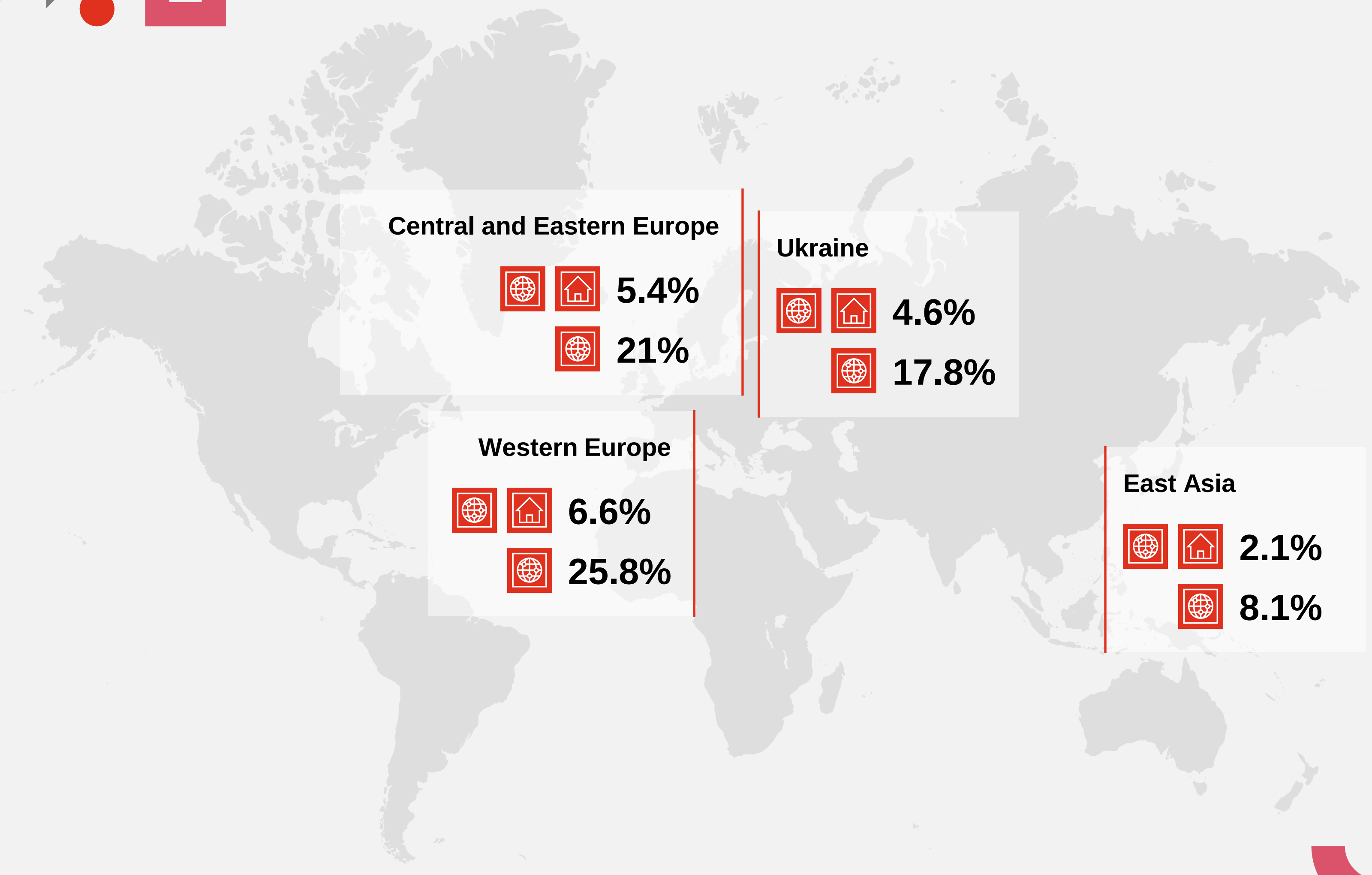
Source: PwC Analysis based on a CATI survey (n=240) among Polish medium and large enterprises in October 2023.

Expansion directions

Polish companies' investment plans are concentrated in Europe

The vast majority (74.2%) of surveyed companies declare that they have no plans to expand abroad. **Those that declare such an intention mainly point to nearby European countries** - mostly Western Europe (e.g. Germany, Scandinavian countries, Italy) and Central and Eastern Europe (e.g. the Czech Republic, Balkans, Baltic States). In the third place is Ukraine. The other destinations such as Middle East, Africa, North America, South or Central America, Australia and Oceania, and Asia are not as popular.

In declaring expansion plans, **large companies, already present abroad, demonstrate greater courage**. This shows how important networking effects and the exchange of experience with other companies are in the context of pursuing foreign investments.



Total

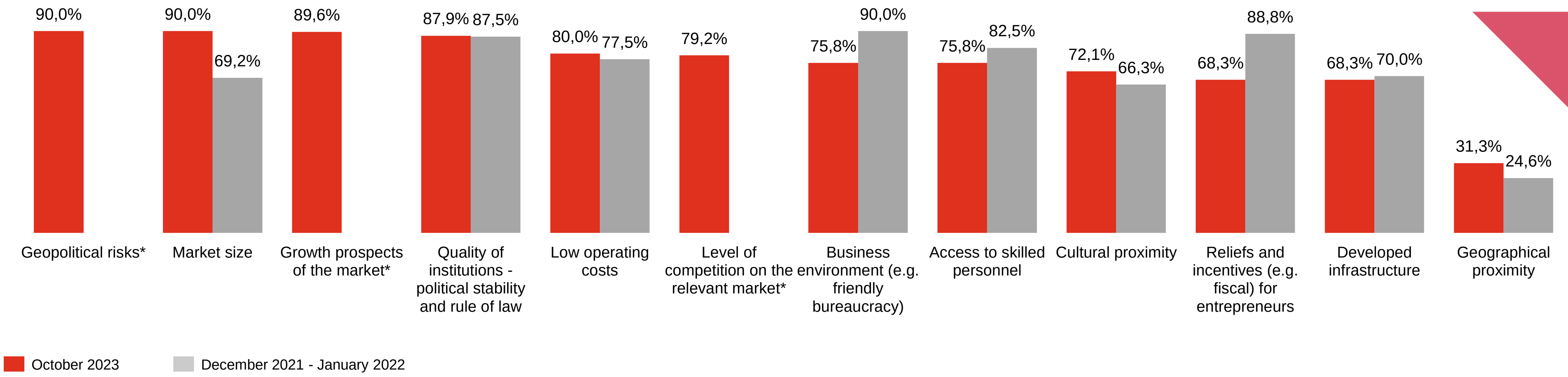
Companies with expansion plans (n=62)

Source: PwC Analysis based on a CATI survey (n=240) among Polish medium and large enterprises in October 2023.

PwC and PFR TFI in co-operation with KUKE

Geopolitical risk and market size are the most important criteria to consider when analysing a potential location

What factors do (or would) you consider when analysing potential locations for your next foreign investment?



Geopolitical turbulence can also be observed in the perceptions of respondents – **geopolitical risk, alongside market size, remains the most important criterion when analysing potential locations for foreign investment**. The growth prospects of a given market and the quality of institutions - political stability and the rule of law - are also of great importance. Compared to the previous edition, factors such as the conditions for doing business and reliefs and incentives (e.g. fiscal) for entrepreneurs became less important.

Source: PwC Analysis based on a CATI survey (n=240) among Polish medium and large enterprises in October 2023. and December 2021. – January 2022 * - new factors that were not surveyed in the previous edition

Foreign investment motivations

What do you consider to be (or could be) the main benefits of foreign direct investment for your company?

How to read the map?

The heat map indicates the percentage of entrepreneurs in each economic sector who have indicated particular benefits from FDI. The map should be read in columns.

For example: economies of scale - increased sales were identified as the main benefit of FDI by 44.7% of companies operating in the trade sector.

	Total (n = 240)	Manufacturing (n = 57)*	Retail (n = 47)*	Information and communication (n = 33)*	Professional, scientific and technical activities (n = 26)*
Geographical diversification and risk mitigation	**55.4%**	**64.9%**	**48.9%**	**51.5%**	**65.4%**
Securing supply chains	**47.1%**	**50.9%**	**34.0%**	**27.3%**	**50%**
Economies of scale - increasing sales	**42.9%**	**47.4%**	**44.7%**	**45.5%**	**46.2%**
Technology and good practice transfer	**38.8%**	**21.1%**	**46.8%**	**48.5%**	**34.6%**
Reducing operating costs	**36.3%**	**47.4%**	**21.3%**	**51.5%**	**21.2%**

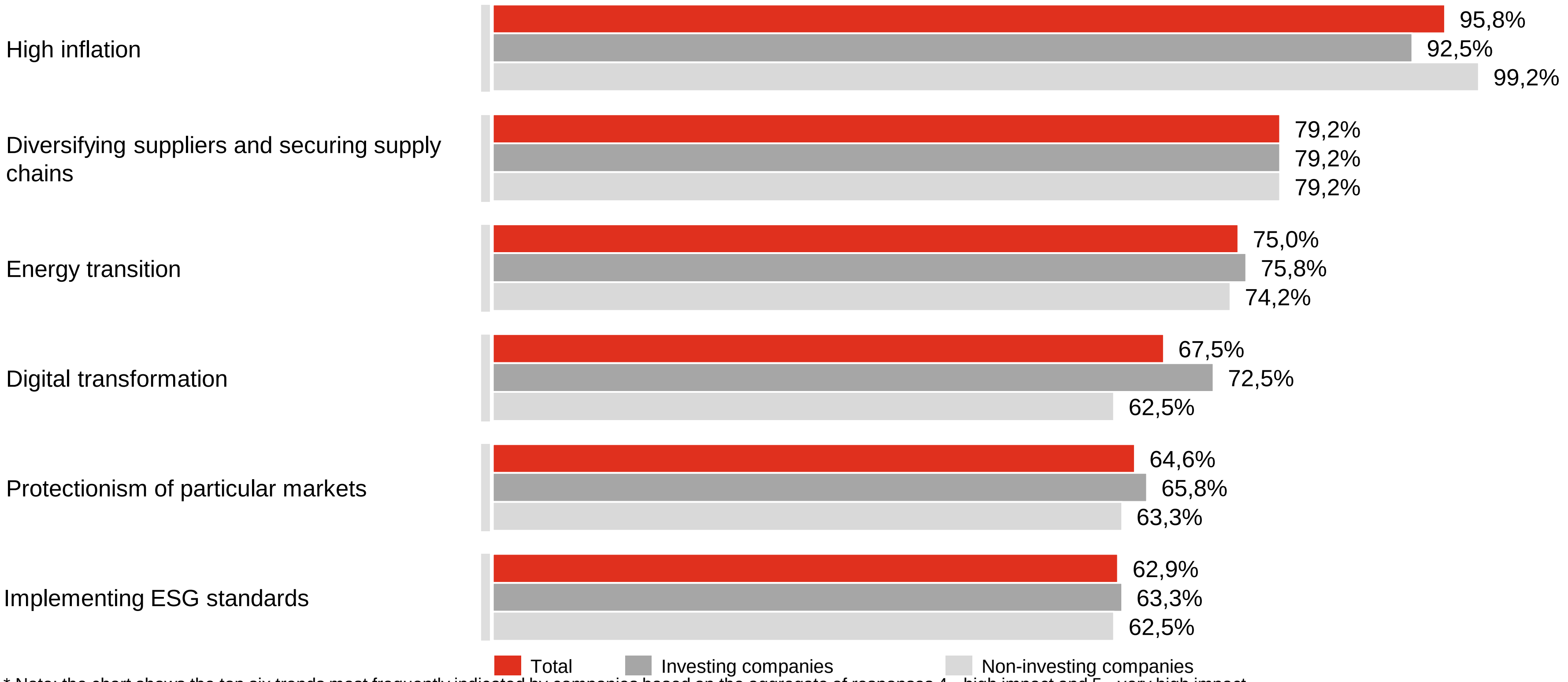
Geographical diversification and risk mitigation are the main benefits of FDI indicated by 55.4% of companies (an increase of 7 p.p. compared to the last year). It is also the main advantage mentioned by companies in the indicated sectors.

In addition to risk mitigation, the reduction of operating costs is also important for companies in the information and communication sector. Larger differences can be observed among the least important factors. For the retail and professional sector it is the reduction of operating costs, for manufacturing it is the transfer of good practices and for the ICT sector it is the securing of supply chains. This reflects the specifics of the individual industries.

* Note: the map shows selected sectors in which the surveyed companies operate, therefore values do not add up to 240.
Source: PwC Analysis based on a CATI survey (n=240) among Polish medium and large enterprises in October 2023.

High inflation, diversification and securing supply chains as well as energy transition are identified as key market trends according to Polish companies

Will the following events affect your business in the future? Please rate on a scale of 1 to 5*:



According to businesses, high inflation will have the greatest impact on company operations in the coming years (95.8% of indications). Non-investing companies attributed more importance to this phenomenon. Diversifying suppliers and securing supply chains came second (79.2% of indications), while energy transition came third. The latter category shows a large increase (13.8 p.p.) compared to the previous edition, demonstrating the growing importance of the global trend of sustainability and increasing awareness of ESG. Within the individual categories, no significant differences in responses can be observed according to investment experience. The only exception is digital transformation, rated higher by companies with a foreign presence.

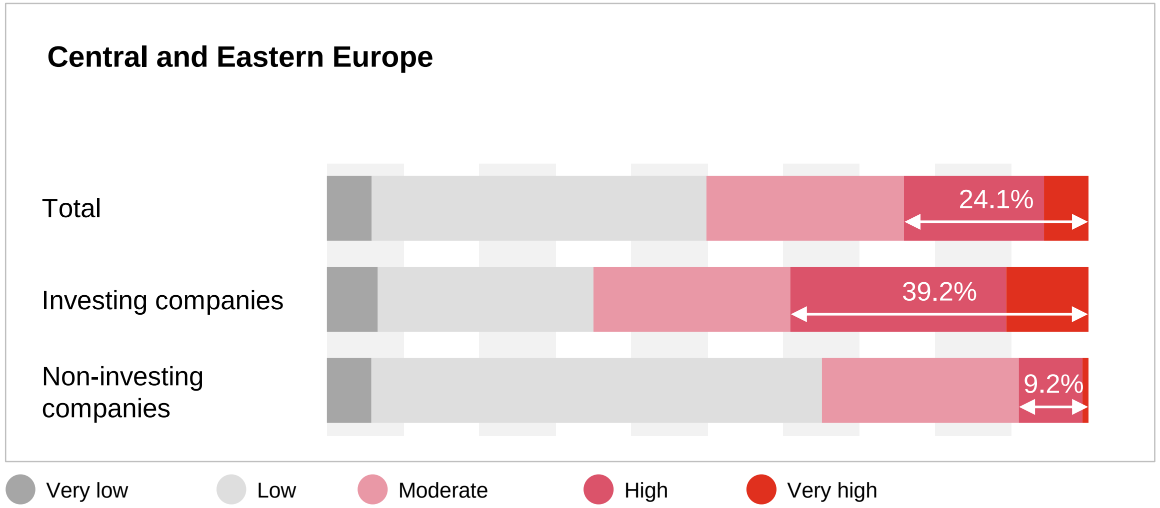
* Note: the chart shows the top six trends most frequently indicated by companies based on the aggregate of responses 4 - high impact and 5 - very high impact.
Source: PwC Analysis based on a CATI survey (n=240) among Polish medium and large enterprises in October 2023.

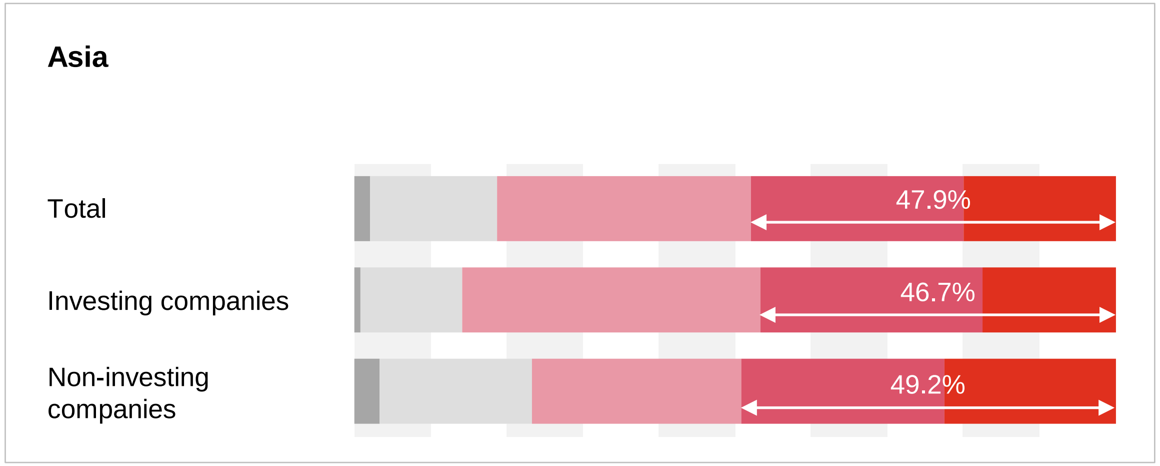
Assessment of investment potential in Central and Eastern Europe and Asia

According to entrepreneurs, Asia has greater investment potential than Central and Eastern Europe

The war in Ukraine and geopolitical turbulence are reflected in the assessment of CEE's investment potential, with only 24.1% of surveyed companies describing it as high or very high. The perception of the region is better among investing companies (39.2% rate the potential as high or very high, compared to 9.2% among non-investing companies), showing that presence abroad influences the perception of the effects of the conflict. Among investing companies, the impact of the war in Ukraine on potential is assessed negatively by 60% of respondents, while among non-investing companies the percentage reaches 80%.

Asia is much better perceived. A vast and fast-growing market with an affluent population leads nearly half of the respondents to rate it as a region with high or very high potential. Interestingly, no significant differences can be seen here according to experience in international capital expansion.





Source: PwC Analysis based on a CATI survey (n=240) among Polish medium and large enterprises in October 2023.

03

Ranking: the most attractive expansion destinations in the East

For the third time, we have selected the most promising expansion directions for Polish companies

Main ranking assumptions

The ranking aims to develop a list of the most appealing and attractive countries for the foreign expansion of Polish entrepreneurs. This time, we focused on the CEE region and Asia. **The new edition of the ranking covers two types of destinations: those already recognised among Polish entrepreneurs and those that are unknown and less frequently considered.** The first is a group of countries where Polish companies are already present to a noticeable extent, i.e. where the value of invested capital exceeds EUR 100 million. It can be stated that these are markets with blazed trails. The second group includes countries previously of lesser importance for Polish investments and therefore less known by Polish companies. Only countries with more than 5 million inhabitants (in the case of European countries) or 15 million inhabitants (in the case of Asian countries) were analysed in order to identify destinations with a larger potential market.

The ranking constructed in this way **provides Polish entrepreneurs with a wide range of investment arguments** that may be important for future decisions on capital expansion: for well-known directions they will be based on experience gained over the years, while for new directions, the economic potential and activity of competitors from other countries will be considered.

In summary, the ranking was based on four assumptions: **distinguishing recognised markets from non-recognised ones, the multidimensionality of the analysis, the consideration of destinations from Central and Eastern Europe and Asia, and the transparency of the analysis.**

Distinguishing between recognised and non-recognised markets

Dividing the ranking into countries known and unknown to Polish entrepreneurs in order to provide a variety of investment arguments.

Multidimensionality of the analysis

The methodology for developing the ranking takes into account different approaches in order to provide the most relevant results.

Consideration of CEE and Asian destinations

The analysis takes into account attractive destinations not only from Central and Eastern Europe, but also those located in Asia.

Transparency of the analysis

The methodology for developing the ranking is transparent in order to make the results easy to interpret and the ranking replicable over time.

In the process of selecting the most attractive destinations, we considered four types of factors relevant from the perspective of investors

General macroeconomic conditions

The group of macroeconomic conditions includes indicators such as nominal GDP, GDP per capita or projected economic growth dynamics, which made it possible to determine investment attractiveness through the prism of market size, the number of potential customers, the wealth and purchasing power of consumers, as well as the growth of customers' purchasing potential and market growth dynamics.

Factors directly related to attracting foreign investment are also included in this group: the change in total FDI inflows and the change in greenfield investment inflows. These show how a country increases its attractiveness to foreign companies, while greenfield investment reflects the number of new projects, excluding purely financial flows.

Quality of institutions

According to entrepreneurs, the stability of law and political system are among the most important factors considered when choosing a location for a potential investment. World Governance Indicators on the quality of the rule of law, as well as political and social stability are included in this group. They indicate the level of security for investors and also identify political risk. Changes in the indicators over the years have also been taken into account to reflect progress and reforms in the areas of rule of law and political stability.

Investment links with Poland

Investment links to Poland considered the change in the inflow of foreign direct investment into the country from Poland, the number of companies with foreign units in the country, as well as the number of companies with Polish capital or industries mentioned in government reports on investment conditions in the country. This allowed, firstly, an assessment of the “depth” of investment links (the sheer size of investment in a country may not reflect the degree of links, as sometimes a single company is responsible for the vast majority of investment) and, secondly, it allowed for a grading of the countries in which companies that make their decisions public are investing, which can indicate the scale of investment.

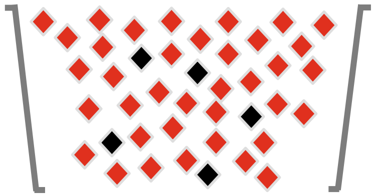
Commercial links with Poland

Commercial links with Poland considered the country's share of Polish goods exports, the number of products exported to the country (which shows product differentiation and reflects the depth of economic links) and the number of exporting companies. The depth of investment and trade links fosters the so-called networking effects and can facilitate potential investors' expansion into a given market through the exchange of experience regarding the operation of a given market, business culture, etc.

Identification of attractive investment destinations for Polish companies is the result of multidimensional analytical activities

Identification of the pool of countries and indicators covered by the analysis

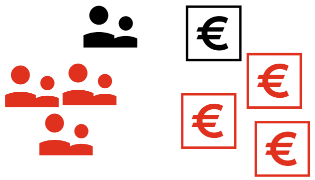
Selection of countries from Central and Eastern Europe and Asia and indicators subject to analysis



In the first step, 46 countries from these regions were identified. A list of indicators covered by the analysis was also determined. The indicators, as described earlier, included general macroeconomic conditions, quality of institutions, investment links with Poland and commercial links with Poland.

Identification of the degree of capital ties with Poland

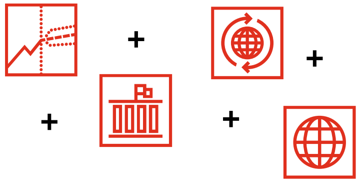
Identification of the two circles of countries analysed



In the next step, countries were divided into two groups: Group I (i.e. countries with Polish companies' presence where the value of invested capital exceeds EUR 100 million) and Group II (of less importance for Polish investors so far, where the value of invested capital is up to EUR 100 million). In order to include markets with greater potential in the analysis, a population size criterion was also added, i.e. above 5 million inhabitants for European countries and 15 million for Asian countries.

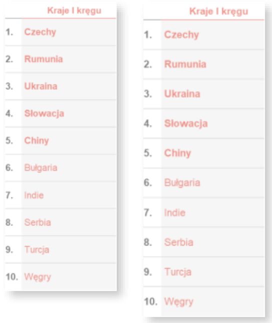
Analysis of indicators

Analytical activities related to the allocation of points to individual countries



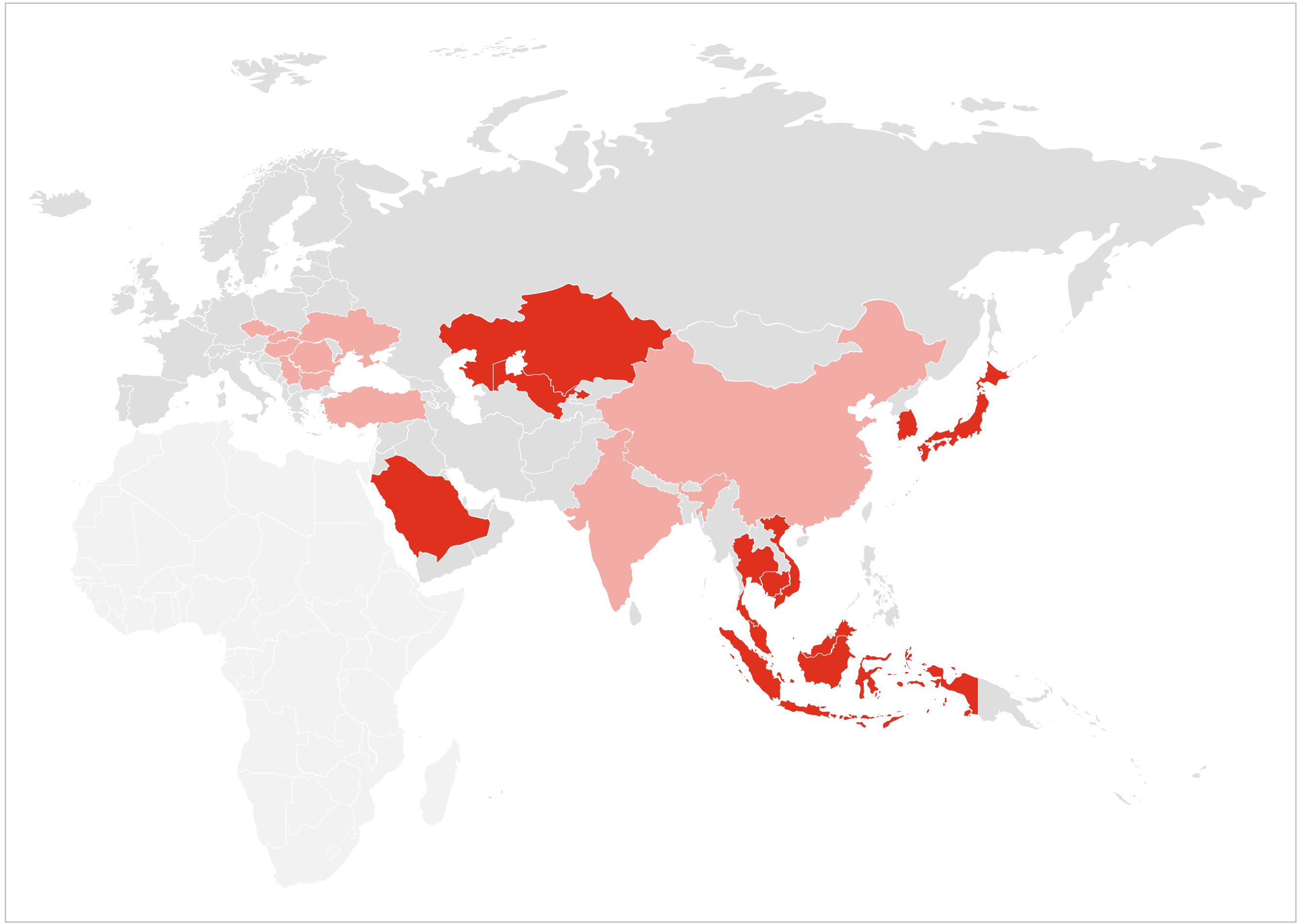
In the next step, the values of each variable for each country were assigned. The latest available data was used. The z-score for each variable was then determined separately for each country, i.e. the number of standard deviations from the mean. A weight (i.e. the role of a particular group of indicators in the final score) was also determined for each variable. In the next step, a score was assigned for each country, which is the result of the z-score and the weight of the respective variable.

Country ranking



As a final step, a list of top 10 attractive destinations for Polish entrepreneurs was identified in Group I, i.e. markets already recognised by Polish investors, and 10 countries in Group II, i.e. non-recognised markets. The results of the ranking are presented on the following pages of the report.

Ranking results

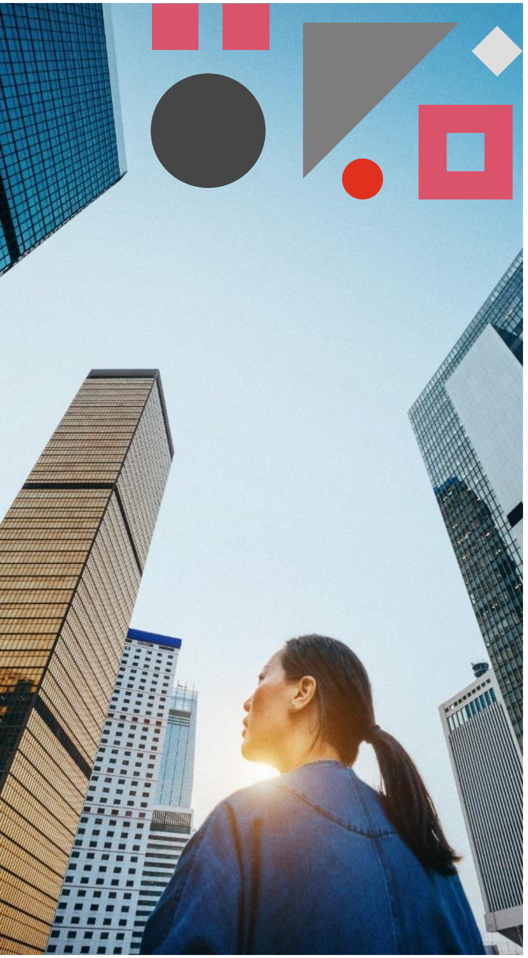


Group I countries	
1.	**Czech Republic**
2.	**Romania**
3.	**Ukraine***
4.	**Slovakia**
5.	**China**
6.	Bulgaria
7.	India
8.	Serbia
9.	Turkey
10.	Hungary

Group II countries	
1.	**Japan**
2.	**Kazakhstan**
3.	**Malaysia**
4.	**Indonesia**
5.	**Vietnam**
6.	Cambodia
7.	Saudi Arabia
8.	South Korea
9.	Uzbekistan
10.	Thailand

* It should be noted that war-torn Ukraine may be a more challenging destination, but existing economic relations and the potential for reconstruction create opportunities for entrepreneurs

The most attractive countries for Polish foreign investment - ranking results



In this year's ranking, we focused on destinations attractive to Polish companies in Central and Eastern Europe and Asia

Polish foreign investment is growing, although it is still not high. The average distance of the country of investment from Poland is much lower than that of more developed countries (e.g. Germany or the UK). **In order to provide Polish entrepreneurs with information on prospective directions for potential foreign expansion, we have developed a ranking of the most attractive countries in Central and Eastern Europe and Asia**. Recognised among Polish entrepreneurs, the markets of Central and Eastern Europe are a safe oasis, while Asian destinations may be an opportunity for companies interested in further expansion.

The new edition of the ranking takes into account two categories of destinations - the obvious and well-known (Group I) and the unobvious and less frequently considered (Group II). The demarcation line is the value of capital invested by Polish companies. For the first group, it is above EUR 100 million, while for the second group it is below this amount. Only countries with populations above 5 million for Central and Eastern Europe and 15 million for Asia were considered in order to identify larger markets.

The top five destinations of the Group I are: the Czech Republic, Romania, Ukraine, Slovakia and China. In Group II these are: Japan, Kazakhstan, Malaysia, Indonesia and Vietnam. It should be noted that the report includes directions for both those seeking a stable business environment and companies that are more prone to risk and may be looking for a potentially higher return on investment (e.g. Ukraine or Indonesia).

The following pages of the report present the most important indicators for the most attractive countries for Polish companies planning to expand abroad - the five countries of the Group I and Group II are described.

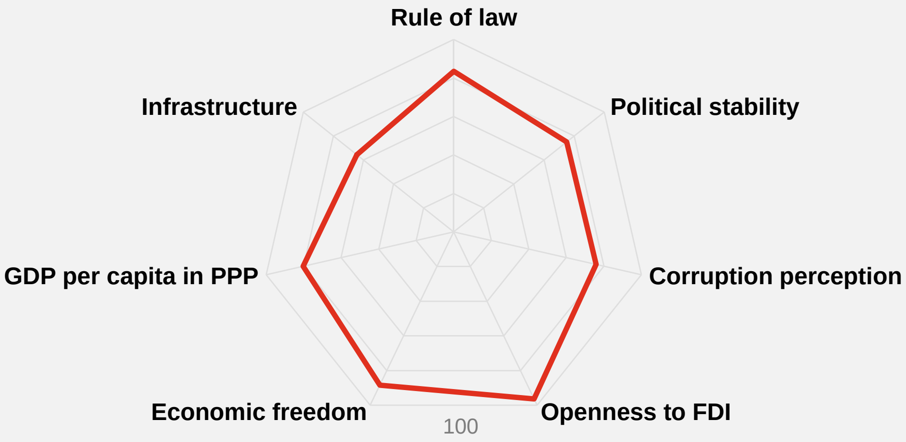
Czech Republic

Proven neighbour

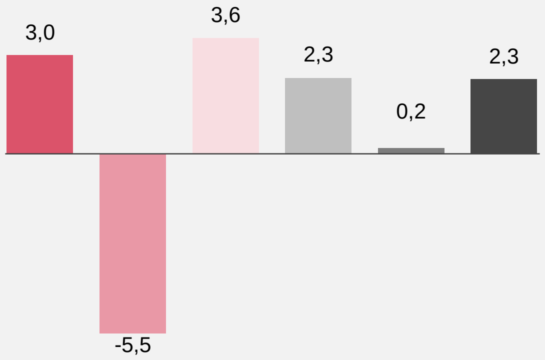
The Czech Republic is a relatively fast-growing market, with GDP growth of 2.3% in 2022. Although a decline in the economic growth is forecasted for 2023, a rebound is expected in 2024. The Czech Republic is an attractive destination for investors, not the least because of its relatively high ranking in indicators of the rule of law or political stability. It also ranks high in the Index of Economic Freedom and has low restrictions on foreign direct investment. The potential of the Czech Republic as a destination for Polish companies is also determined by strong commercial and investment relations, which fosters “networking” effects: existing economic ties with a given country can significantly facilitate foreign expansion by building up a pool of knowledge about the functioning of a given market. Proximity to Poland and cultural similarities facilitate business communications and logistics. The Czech market is characterised by a high level of technical and engineering acumen, offering access to a growing base of skilled workers. The Czech Republic is also a leader in innovation in the CEE region, with a strong focus on sectors such as automation and robotics. According to CzechInvest, investment in these sectors has increased by 50% over the past five years. A significant sector is ICT, which is growing at an annual rate of 3-4%. The Czech Republic is also investing heavily in RES, and the share of renewable energy in the energy mix is expected to rise to 22% by 2030, which opens up opportunities for Polish companies in the energy sector. The automotive sector is strong in the Czech Republic, and the industry is one of the most developed in Europe. The Czech Republic also offers various forms of support for foreign investors, including tax breaks and grants for research and development, which can be an incentive for innovative companies. For more information: link.

Investment environment - indicators

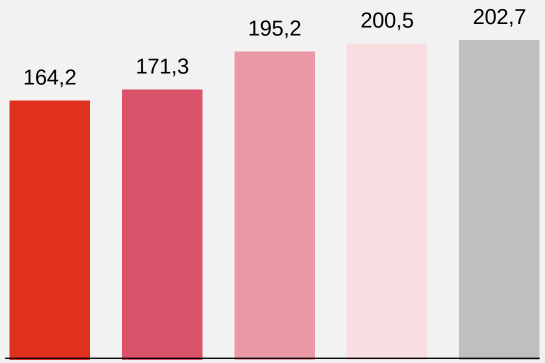
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



2018 2019 2020 2021 2022 2023* 2024*

Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

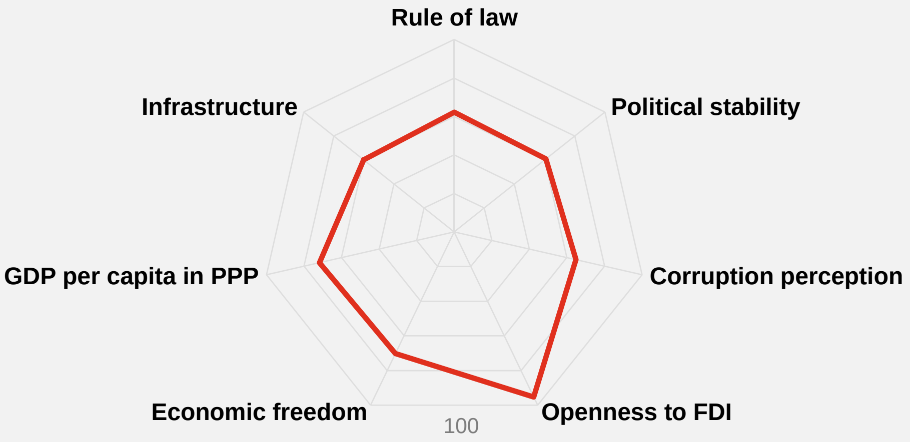
Romania

Growing EU market

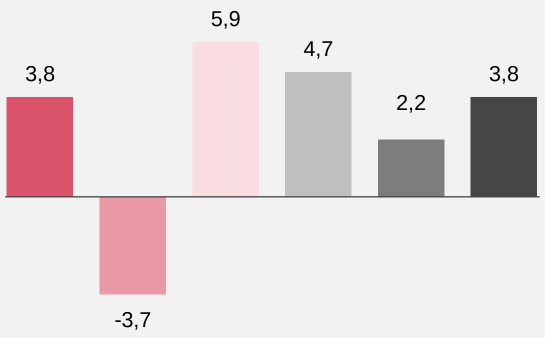
Romania is the second most attractive market for Polish companies among the identified countries. In 2022, Romania recorded GDP growth of 4.7%. Although it has a quite high economic risk (mainly due to a potential recession and high inflation), the IMF forecasts indicate a slowdown in the economic growth only in the following year (to 2.2%). The value of foreign investment located in the country has also been growing in recent years, i.e. in 2022 it amounted to USD 116 billion, an increase of 2.1% compared to the previous year. The undoubted advantages of the Romanian market include a large market; the country has a population of more than 19 million people, growing consumer purchasing power and relatively low labour costs (the average annual salary was EUR 13,000 in 2021, while the EU average was EUR 33,500), which can make the market particularly attractive for manufacturing companies. Infrastructure investments, such as the Via Carpatia, which will integrate the transport systems of northern and southern Europe, represent a major opportunity to increase logistical efficiency and connect supply chains. Business services and IT services sectors are growing rapidly in Romania. Similarly to other EU markets, the country is also developing green energy, which opens up opportunities for investment in the RES sector. Romania has high potential in sectors such as food processing, automotive, retail and e-commerce, but also tourism and hospitality. A favourable environment for foreign investors is also created by a variety of incentives, including special economic zones operating in the country, low restrictions on foreign direct investment, and a user-friendly and intuitive tax system. Polish companies may also benefit from Romania's close geographic location and integration within the European Union. For more information: link.

Investment environment - indicators

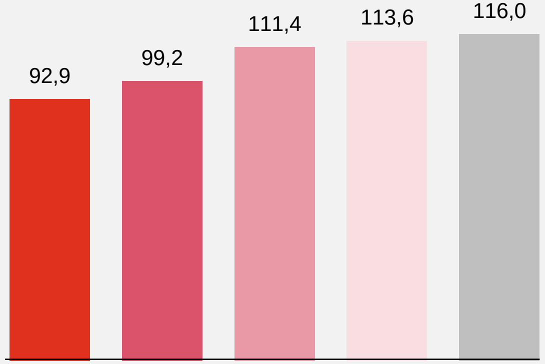
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



2018 2019 2020 2021 2022 2023* 2024*

Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

Ukraine

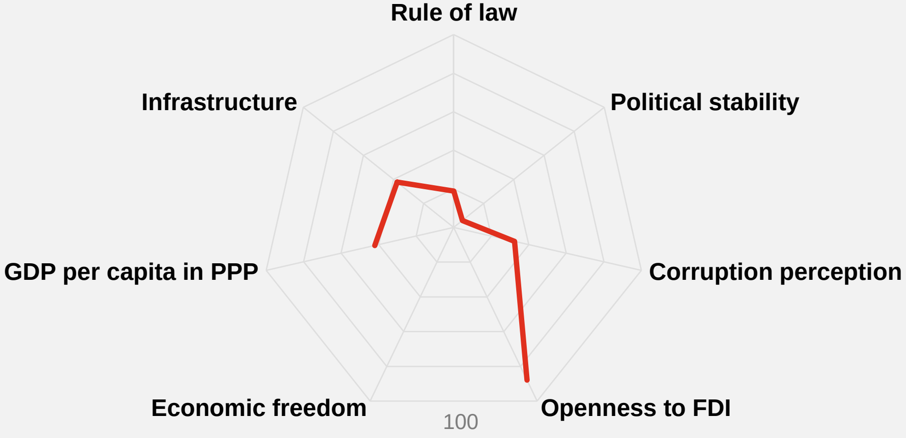
Support for reconstruction

Although investment in Ukraine should be approached with caution due to the ongoing hostilities, the country's post-war reconstruction also presents opportunities for foreign companies. We are linked with Ukraine by geographic and cultural proximity, as well as joint reconstruction efforts. Reintegration into the European and global economy is in our mutual interest. 2022 was a very difficult year for the Ukrainian economy due to Russian aggression, with GDP falling by more than 29%, inflation rising to 20.2%, critical infrastructure destroyed and almost a quarter of the working-age population unemployed. However, Ukraine offers a large consumer market, a well-educated and cost-competitive workforce and generous natural resources. The country has had a large pool of skilled workers in the IT services and software research and development sectors for years, and it is not uncommon for specialists in this field to be recruited to multinational corporations and technology giants with regional branches in Poland, such as Microsoft, Google, Intel, Samsung and Amazon.

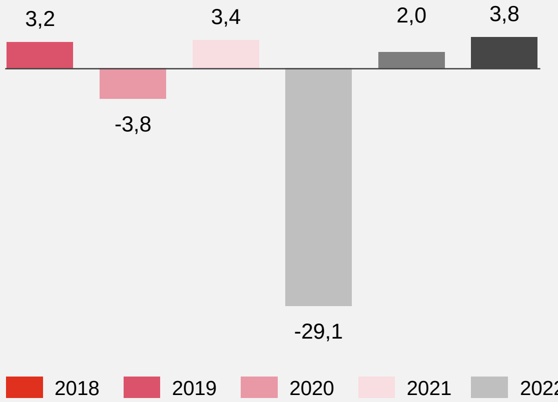
The Ukrainian government continues to improve legislation to maximise the potential it has, with a number of bills on corporate governance and other economic reforms aimed at bringing Ukrainian law in line with current EU standards and regulations. Ukraine is also currently in the process of integrating with the EU, which could potentially offer Polish investors significant benefits, including through the four freedoms of the single European market: free movement of goods, services, people and capital. The reconstruction of Ukraine is also expected to attract hundreds of billions of dollars from governments, international financial institutions and the private sector. Corruption, particularly in the judiciary, remains a challenge in the market. For detailed information for entrepreneurs interested in expanding into the Ukrainian market, see Chapter 4. For more information: link.

Investment environment - indicators

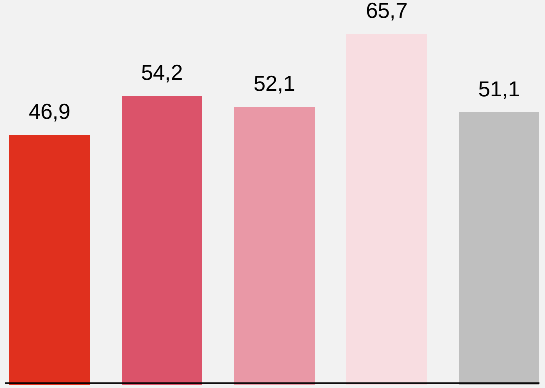
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

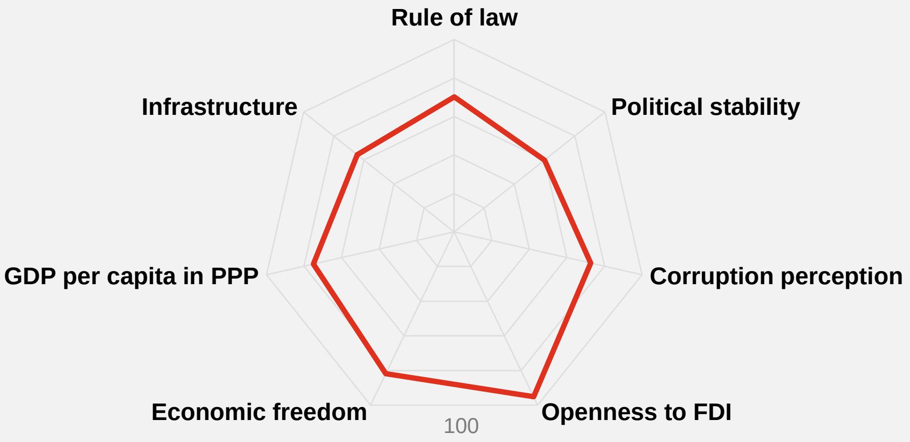
Slovakia

Close partner

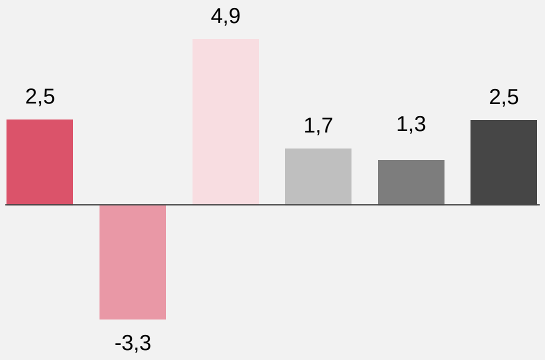
The Slovak economy recorded GDP growth of 1.7% in 2022 (a decrease of 3.2 p.p. compared to the previous year). IMF forecasts indicate that this growth will be even lower in 2023, at 1.3%. This is influenced by the repercussions of the pandemic, but also by the war in neighbouring Ukraine and the associated high inflation and energy crisis. Slovakia's highly industrialised economy has been particularly affected by rising energy prices. Foreign investment is also declining in the country (with a total value of USD 57.4 billion in 2022). However, the Slovak government is making efforts to attract high-value-added investments, and EU funding from the Recovery and Resilience Instrument is an opportunity for growth in areas such as the green economy, R&D, infrastructure and digitalisation. EU and eurozone membership make the country's banking sector resilient to turbulence. Sectors with high potential include the production of automobiles and their parts (Slovakia is the largest per capita producer of automobiles in the world), the production of machinery and transport equipment, electronics, as well as the chemical and pharmaceutical industries. Independence from energy imports from Russia is also an opportunity for growth in this sector. Slovakia, similar to other countries in the region, is also developing its technology and IT sector, business services (BPO) also remains a promising area. The country ranks 33rd in the world in the Index of Economic Freedom (Index of Economic Freedom, the Heritage Foundation), thanks to its stable business climate and booming entrepreneurship. Slovakia is also undertaking efforts to fight corruption, which is reflected in its increasingly high ranking in the Corruption Perceptions Index developed by Transparency International.

Investment environment - indicators

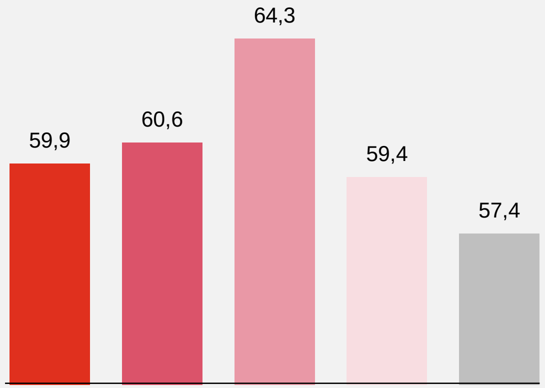
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



2018 2019 2020 2021 2022 2023* 2024*

Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

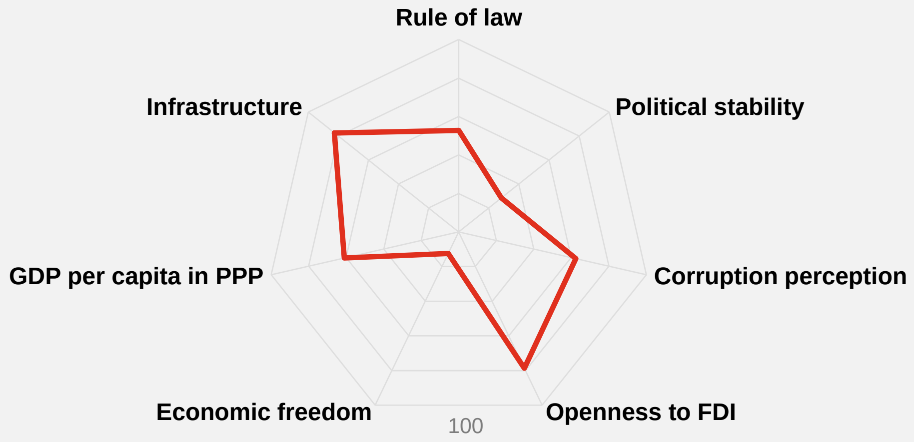
China

Decelerating powerhouse

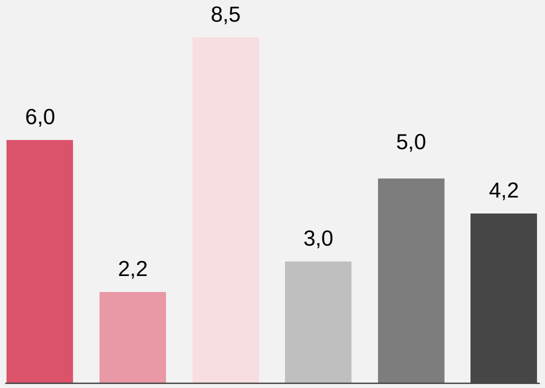
China is the world's second largest economy. Achieving dynamic GDP growth to date, the Chinese economy has recently been decelerating. In 2022, GDP growth was 3%, while it is forecasted to rise to 5% in 2023. Although these are still relatively high results, when comparing with historical levels of around 6-7% in 2015-2019, a slowdown is evident. China's share of global GDP was also declining in 2022 and 2023. While the cumulative value of investments placed in the country makes China the world's second-largest economy in this respect (after the USA), investment inflows have slowed in 2022, partly due to the “zero COVID” policy introduced. Investor enthusiasm has also been muted by China's close relations with Russia following the outbreak of war in Ukraine, as well as the trade war with the USA and geopolitical tensions over Taiwan. Relatively low indicators of the rule of law, political stability and economic freedom (China remains one of the lowest-rated countries in the world in this respect) and high restrictions on FDI (such as requirements to form joint venture partnerships with local companies or the closure of certain sectors to foreign companies) also remain a challenge for investors. However, China still represents a major market, a developed infrastructure and efficient transport and logistics networks, as well as a highly skilled workforce. The “Made in China 2025” initiative, a strategic plan aimed at high-tech development, is creating new opportunities in sectors such as robotics, artificial intelligence, IT and biotechnology. While the immense Chinese market opens up many business opportunities, potential investors need to be mindful of the relatively complex legal and regulatory system and be aware of the risks associated with political changes, which may affect their business. For more information: link.

Investment environment - indicators

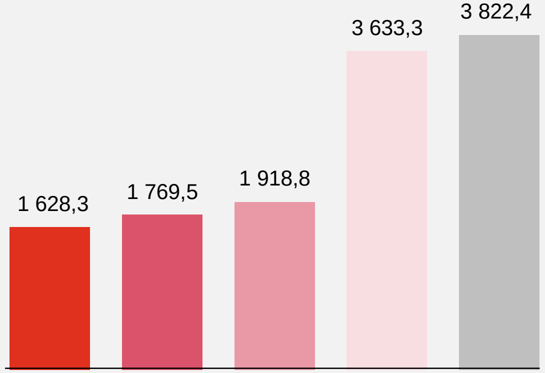
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



2018 2019 2020 2021 2022 2023* 2024*

Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

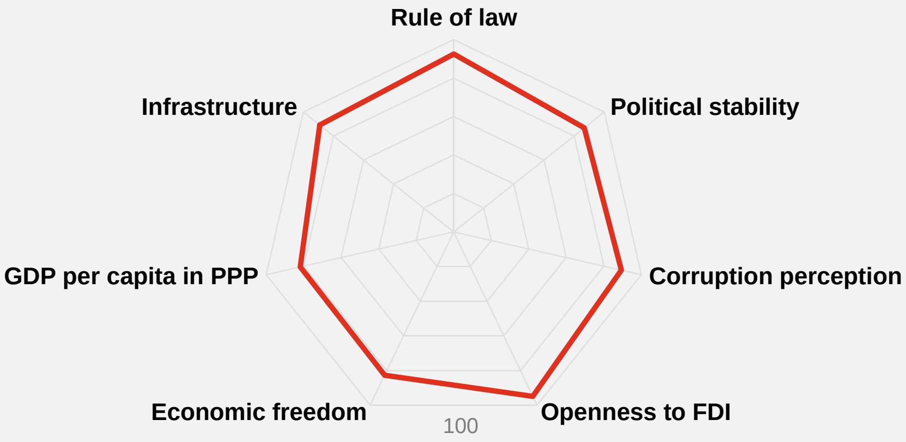
Japan

A country of thriving innovation

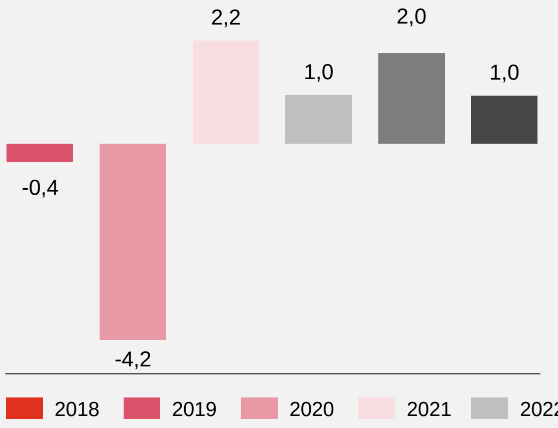
Japan is the world's third largest economy. Although it does not record such spectacular GDP growth as economies in the developing world (GDP growth was 1% in 2022 and is expected to be 2% in 2023), it offers many opportunities for investment. Japan is characterised by political and economic stability, which is key for investors looking for a secure and predictable investment environment. It records high rates of rule of law, low levels of corruption, has a very well-developed infrastructure and a large market, as well as a highly-skilled, wealthy population and a high quality of life. Japan is one of the most innovative economies, producing high-tech goods. It is an attractive market for investment in high technology, robotics, electronics or pharmaceuticals, as well as the automotive sector. Japan also has a well-developed intellectual property protection system, which can be particularly important for companies investing in new technologies. Despite a very high level of development, foreign direct investment as a percentage of GDP is the lowest among OECD countries (5.4% at the end of 2022). Accordingly, the Japanese administration has announced a plan aimed at attracting human and financial resources from abroad, with the goal of increasing inward foreign direct investment to Japan to around 20% by 2030, creating opportunities for foreign companies. Foreign investors need to be mindful of a specific business culture with a high level of formalism and hierarchy. They should also pay attention to the strict regulations, the encapsulated nature of the market and the extensive bureaucracy. For more information: link.

Investment environment - indicators

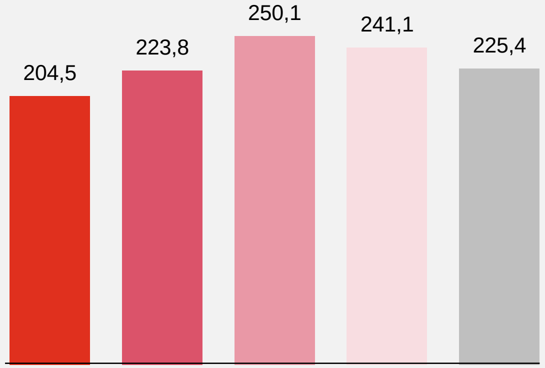
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



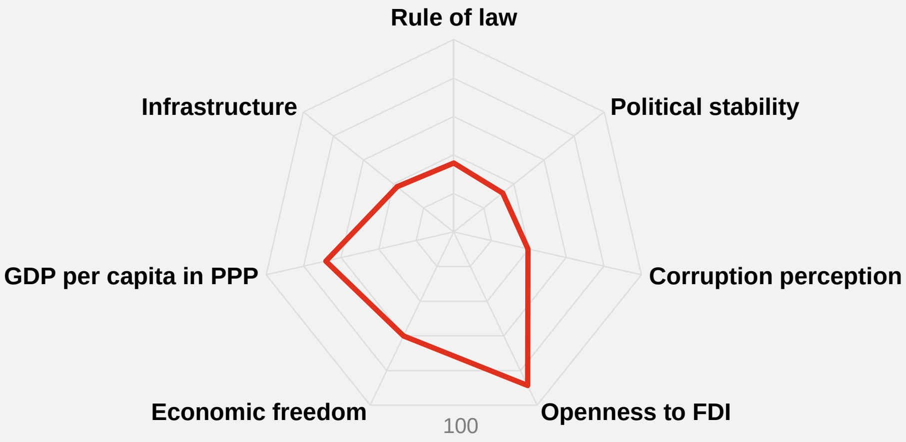
Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

Kazakhstan

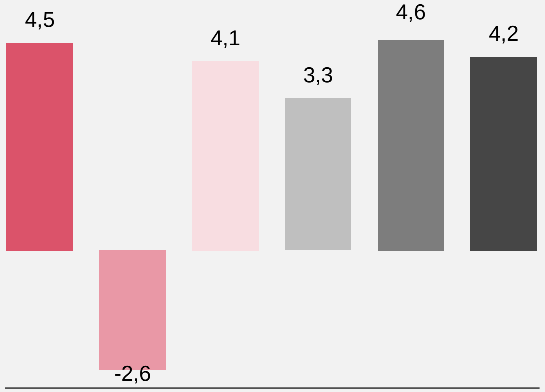
Rising tiger of Eurasia

Kazakhstan has made significant progress towards modernising its economy since the 1990s. Today, it records high GDP dynamics, characteristic of developing countries. GDP growth in 2022 was 3.3%, while in 2023 the Kazakh economy is expected to grow at 4.6%. Since 2020, levels of foreign direct investment located in the country have been increasing. In the last year, the balance of FDI in Kazakhstan amounted to USD 154.2 billion. Although there are still many challenges ahead for the country: ensuring political stability, the rule of law and fighting corruption, the Kazakh administration is undertaking significant reforms in these areas. The perception of Kazakhstan in the eyes of foreign investors is also influenced by the economic ties with Russia. For some, Russian aggression against Ukraine may discourage investment in a country with such a long border and ties to Russia, while for others, the country may be an interesting alternative to Russia or Belarus. Kazakhstan is rich in natural resources, including oil, natural gas, coal and metals and minerals. The mining sector therefore accounts for a significant part of the economy and is of interest to investors.
On the other hand, the Kazakh government is taking steps to diversify the economy and reduce dependence on the mining sector. This opens up new opportunities in sectors such as agriculture, manufacturing and new technologies. Kazakhstan also has the unquestionable advantage of being strategically located and situated between Asia and Europe, making the country an important transport hub, especially within the framework of the “New Silk Road” initiative linking China to Europe, and fostering infrastructure development. The country also has a relatively young and growing workforce, as well as a growing middle class. However, investors should be mindful of the political challenges. For more information: link.

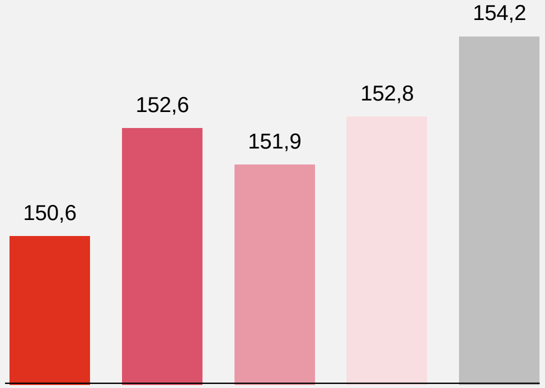
Investment environment - indicators
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



2018 2019 2020 2021 2022 2023* 2024*

Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

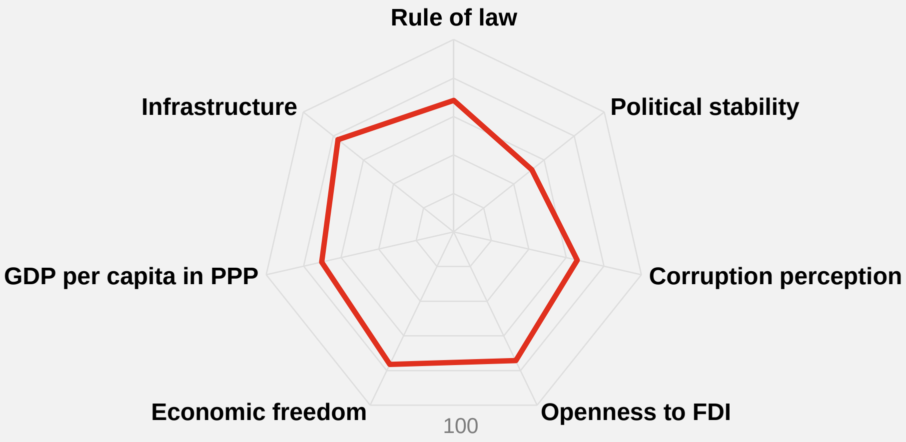
Malaysia

Representative of the young Asian tigers

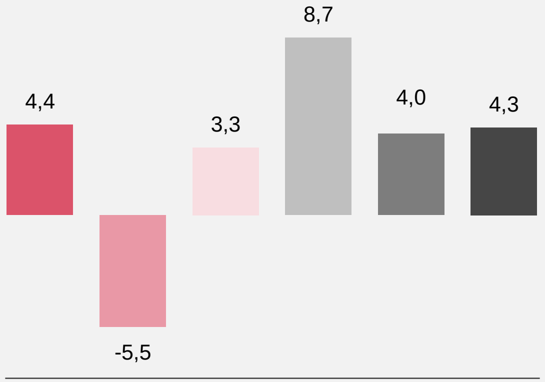
Malaysia is among the most dynamic economies in the Southeast Asian region. In 2022, Malaysia's GDP growth reached 8.7%. Although for the following years of 2023 and 2024 the IMF forecasts a slowdown of this dynamic to 4 and 4.3% respectively, these are still optimistic projections, particularly given the sensitivity of the Malaysian economy to changes in the macroeconomic and geopolitical environment. Malaysia, as well as Indonesia and Vietnam, described on the following pages, are part of the so-called *Tiger Cub Economies* - developing countries in the Southeast Asian region that have adopted the same export-oriented economic and technological development strategy as their neighbours: South Korea, Singapore, Taiwan and Hong Kong (collectively referred to as the Asian Tigers). In 2022, net FDI inflows to Malaysia amounted to USD 14.73 billion, registering a decline from USD 20.25 billion in the previous year. Malaysia's investment climate is defined by its strategic location and access to Southeast Asian markets, abundant natural resources, a highly developed ICT sector, a skilled, English-speaking workforce and a robust ecosystem of manufacturers and suppliers in key sectors including medical devices, semiconductors and solar panels. In addition, the newly elected Malaysian government is stimulating the attraction of FDI through, among other things, financial incentives for manufacturing companies relocating to Malaysia and the extension of income tax incentives and tax breaks for investment in the aviation sector. In September 2023, the government published the "New Industry Master Plan 2030", which includes changes to investment incentives for foreign companies prioritising the creation of high-value jobs and opportunities for domestic companies to join global supply chains. For more information: link.

Investment environment - indicators

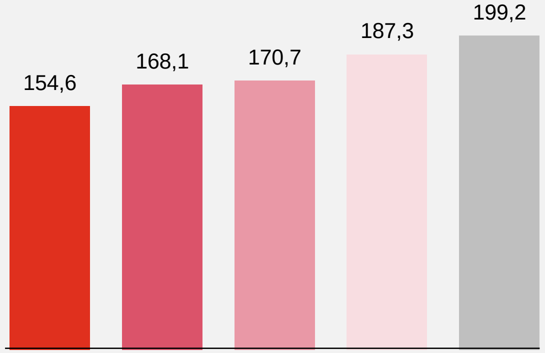
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



2018 2019 2020 2021 2022 2023* 2024*

Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

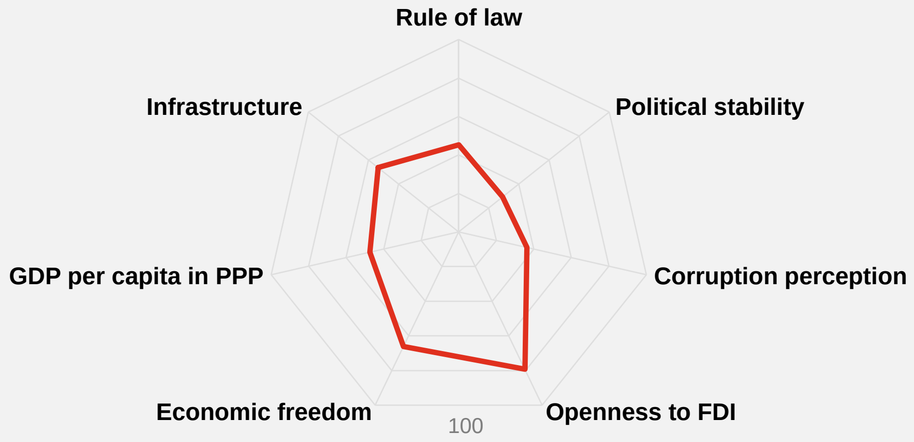
Indonesia

Emerging giant

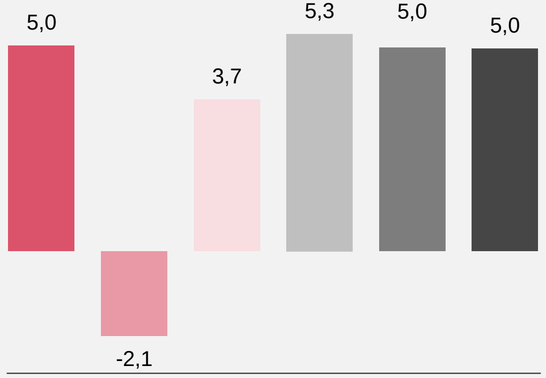
Indonesia has a population of more than 279 million people, more than 125 million of whom are of working age. It is the fourteenth largest country in the world, the largest market in ASEAN, a member of the G20 and the country with the largest number of Muslims in the world. Its GDP of USD 1 trillion ranks it as the sixteenth largest economy in the world, and seventh in terms of purchasing power parity. GDP growth in 2022 was 5.3%, thus levelling off at pre-pandemic COVID-19 levels. The country's dynamic development has been heavily influenced by foreign Chinese entrepreneurs, whose companies form what is known as a “bamboo network” - a network of business links between companies owned by families of ethnic Chinese or Chinese expatriates in Southeast Asia. Investment potential in Indonesia is undoubtedly high, but foreign investors highlight that restrictive regulations, legal and regulatory uncertainty, economic nationalism, trade protectionism and vested interests complicate the investment climate. This is the state of affairs that the current government is trying to change, having withdrawn the so-called Negative Investment List of 2016, liberalising access to almost all sectors for foreign investment, with the exception of seven “strategic” sectors that remain under supervision. Positive changes in foreign ownership restrictions have occurred in the ICT, energy, transport and trade sectors, among others. In 2021, the government established a risk-based online single application system (OSS) to streamline the process of issuing business licences and import permits. Indonesia has ambitious plans to expand access to renewable energy, build mining and mineral processing industries (with a particular focus on electric vehicles and related components), improve agricultural production and infrastructure, including the construction of roads, ports, railways and airports, as well as telecommunications and broadband networks. For more information: link.

Investment environment - indicators

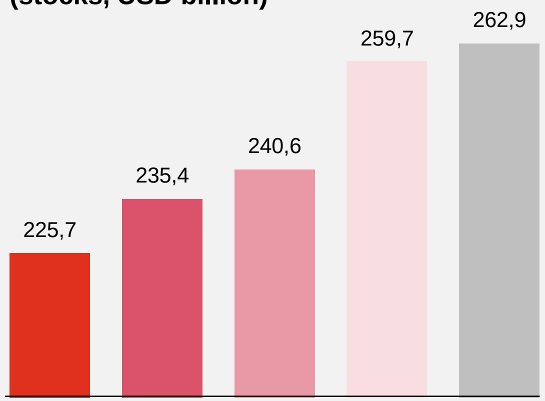
(100=most favourable result; the indicator shows the ranking position in relation to the total population of the countries surveyed)



GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



2018 2019 2020 2021 2022 2023* 2024*

Source: IMF WEO, UNCTAD, OECD FDI Restrictiveness Index, World Bank. World Governance Indicators, World Bank, Logistics Performance Index, The Heritage Foundation, Index of Economic Freedom, Transparency International, Corruption Perception Index.

Vietnam

Friendly partner

Vietnam is the eighth most populated country in Asia and through foreign investment since the 1980s has made an economic transformation from a centrally planned economy with a high share of agriculture to one of the world's major industrial manufacturing centres. Vietnam's GDP reached USD 410 billion in 2022, with momentum definitely picking up after the slowdown caused by the 2020-2021 pandemic, with an 8% GDP growth in 2022, compared to 2.6% in 2021 and 2.9% in the previous year. Despite the nearly 9,000 kilometres separating Warsaw and Ho Chi Minh City, economic cooperation between the countries is flourishing. The Vietnamese diaspora, estimated to comprise around 30,000 people, is a frequent intermediary in trade as it can easily cope with bureaucratic institutions and an underdeveloped distribution system. In addition, Poland is a traditionally friendly country, due to its assistance during the Vietnam War, which also has a positive impact on trade relations. Foreign direct investment continues to be of great importance to Vietnam as an engine of economic growth. The government is pursuing policies that generally favour FDI, especially for companies involved in export-oriented manufacturing. Factors attracting the interest of foreign investors include political stability, strong economic growth, a young, increasingly urbanised and educated population, competitive labour costs, a growing number of trade agreements (including a free trade agreement with the EU in force from 2020) and relatively low energy prices. However, Vietnam's challenges in terms of FDI include corruption, regulatory uncertainty in key sectors, a relatively complex legal system, including IP enforcement, a shortage of skilled labour, restrictive employment practices and slow government decision-making processes. For more information: link.

Investment environment - indicators

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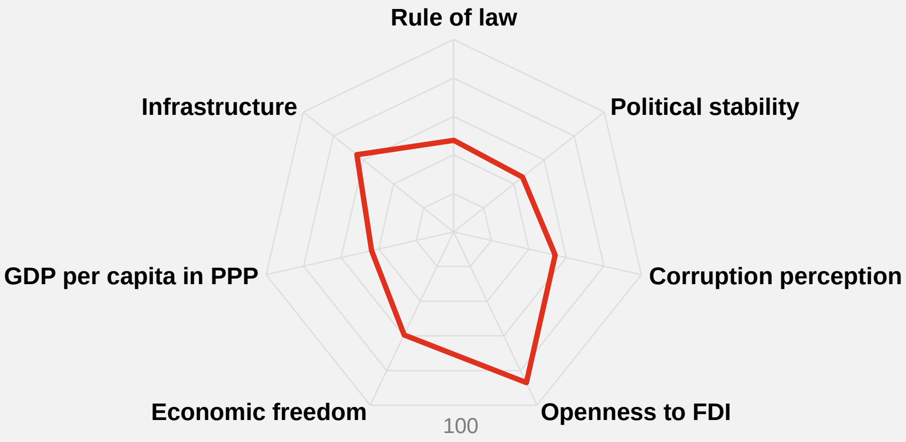
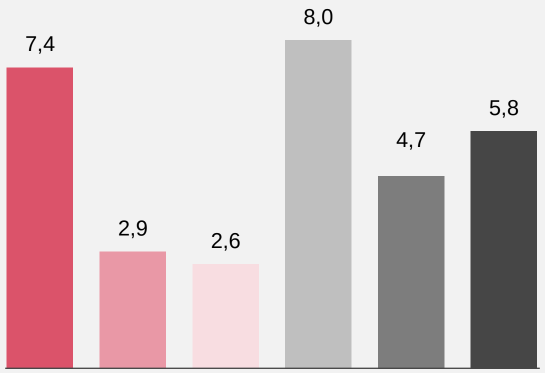
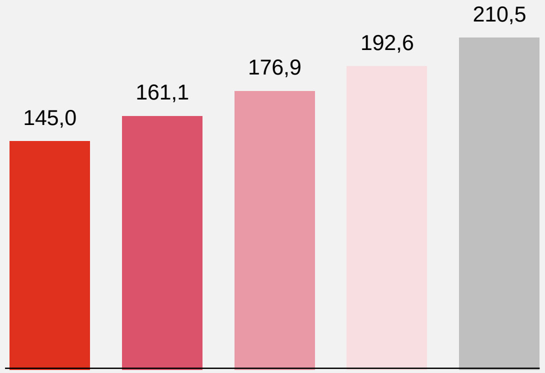


GDP growth (%)



Foreign investment located in the country (stocks, USD billion)



2018 2019 2020 2021 2022 2023* 2024*

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04

FDI market amid war in Ukraine

Impact of the war in Ukraine on the outlook for foreign direct investment

The war in Ukraine and regional FDI

Russia's ongoing aggression against Ukraine since February 2022 has had far-reaching negative consequences for both sides of the conflict, as well as for the economies of the Central and Eastern European (CEE) region and global foreign investors. Despite falling energy prices having a significant impact on inflation in the CEE region, economic growth prospects remain challenging. High inflation, restrictive monetary policy and weak global demand are contributing to the worsening economic outlook. Smaller economies in the region, focusing mainly on energy-intensive manufacturing, are exposed to greater downside risks from reduced external demand. Navigating difficult market conditions has a negative impact not only on day-to-day operations, but also on foreign direct investment (both inbound and outbound), as the investment attractiveness of the entire region has deteriorated. However, this does not mean a lack of investment interest. Polish companies are actively allocating capital in regional markets and seeking out opportunities related to the reconstruction of Ukraine, while entrepreneurs from the war-torn country are relocating their operations to neighbouring countries, including Poland, thus positively stimulating the domestic economy.

A survey of entrepreneurs conducted as part of the report on the impact of the war in Ukraine on the investment potential of the CEE region leaves no room for doubt – **71% of respondents assess the impact negatively and only 24.1% consider CEE as a region with high or very high investment potential.** On the other hand, **Ukraine was on the podium of our ranking among the countries in the Group I, which indicates considerable potential for Polish entrepreneurs.** Support in the reconstruction is not only a benefit for the war-torn country, but also an opportunity for businesses. Therefore, we have decided to prepare a short guide for those interested in expanding into this market. At the same time, we would like to emphasise that the information contained in the following pages of the report is not exhaustive and should not be treated as a complete guide for entrepreneurs, but only as a set of key facts about the Ukrainian market. Our survey also shows that **43% of companies indicate the facilitation of business contacts as an important instrument of support in undertaking investments in Ukraine.**

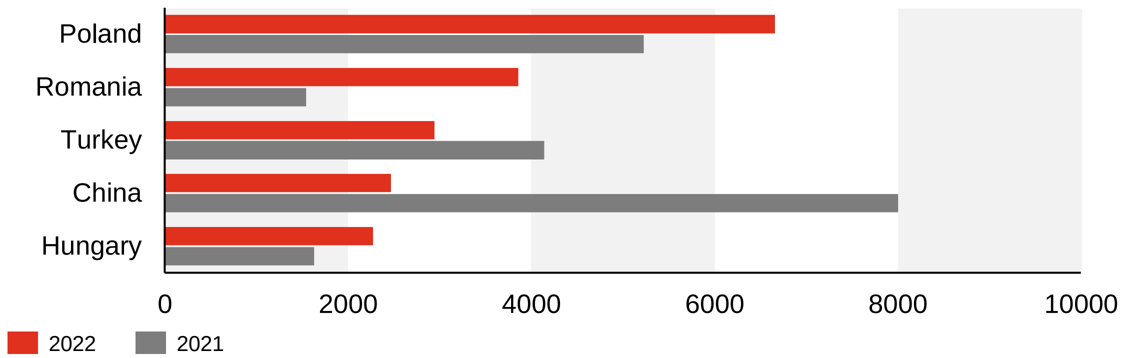
Consequences of the war in Ukraine

Russia's invasion of Ukraine caused a collapse in trade, particularly foreign trade, and significantly affected the geographical structure of imports and exports. Due to the Russian blockade of Ukrainian ports on the Black Sea, rail and road transport have gained in importance - these are now the two main forms of transport securing Ukraine's trade. The war has also had an impact on the consolidation of the European Union as Ukraine's main trading partner, both in exports and imports. In addition, **Poland, for the first time ever, became Ukraine's largest trade partner.** This is influenced, i.a. by the suspension of import duties, quotas and trade defence measures on Ukrainian exports to the European Union known as autonomous trade measures (ATMs) in force until June 2024. At the same time, it is important to note the indefinite ban on imports of Ukrainian agricultural products to Poland, which could have a negative impact on the economic relations between the two countries.

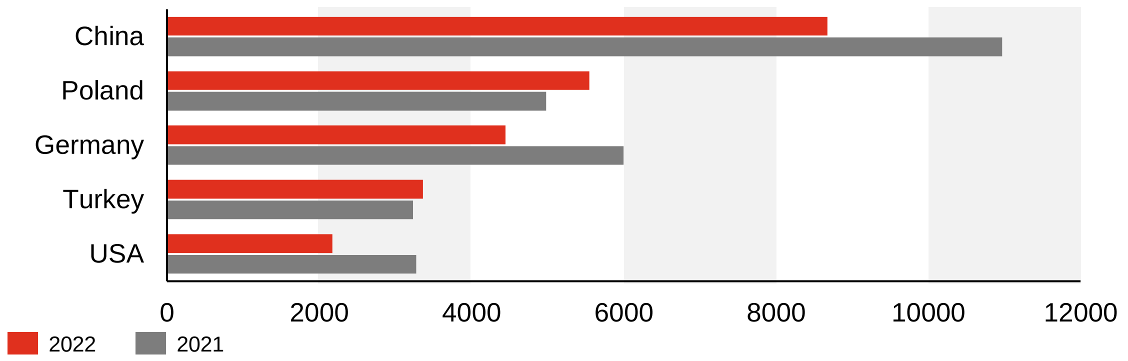
In 2022, Ukrainian exports dropped by 35.1% and imports declined by 24.2%. The largest export categories are cereals (21%), animal and vegetable fats and oils, decomposition products (13%) and iron and steel (10%). The Russian invasion has reduced Ukraine's exports in all sectors of the economy. While the impact was relatively small for agricultural and food commodities (down 15.5%), in the other sectors of importance to Ukraine's export activity, the recorded decline was very significant. Sales of metallurgical products fell by 62%, while sales of minerals fell by 49%. **Poland, Romania, Turkey, China and Hungary are the largest buyers of Ukrainian goods.**

On the other hand, the most important categories in imports are mineral fuels, oils and distillation products (23%), vehicles other than railways, trams (9.5%) and electrical, electronic equipment (9%). **China remains the largest supplier of goods (equivalent to USD 8.7 billion), followed by Poland (USD 5.6 billion), Germany (USD 4.4 billion), Turkey (USD 3.4 billion) and the United States (USD 2.2 billion).**

Top 5 largest buyers of Ukrainian goods in 2021 and 2022 (USD million)



Top 5 largest suppliers of goods to Ukrainian market in 2021 and 2022 (USD million)



Source: PwC Analysis based on data from OSW and the State Customs Service of Ukraine

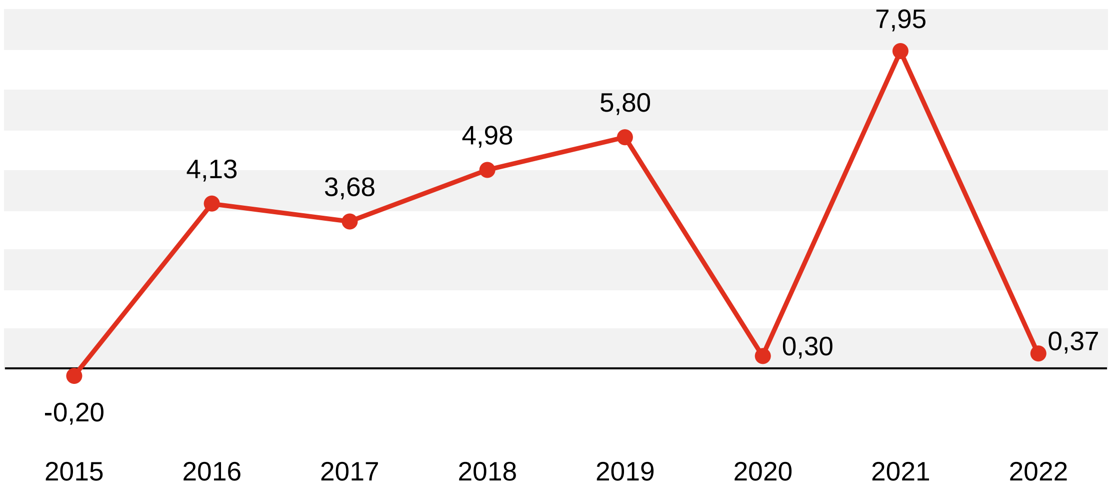
Ukraine attracts foreign direct investment through the creation of dedicated organisations and electronic platforms

The Ukrainian government has for many years considered attracting investment as one of its highest priorities. In 2014, it established the National Investment Council as a consultative and advisory body to the President, and in 2016 the UkraineInvest investment promotion office was established to attract and support FDI. UkraineInvest's mission is to provide investors with a comprehensive service, helping them to find and/or initiate a project and then guiding them through all the necessary regulatory processes. As of February 2023, UkraineInvest is supporting 17 projects for a total of USD 2.3 billion.

As part of efforts to attract FDI, the law "On State Support of Investment Projects involving Significant Investment" was passed in December 2020, introducing **new financial and operational incentives for companies that invest at least EUR 20 million in one of a dozen defined industries**. Companies will also gain a number of tax and customs exemptions and favourable access to land and necessary infrastructure. **Existing incentives, such as generous depreciation rates for most fixed assets, including property, plant and equipment, also remain in place. In addition, foreign investors remain exempt from customs duties for any in-kind contributions brought into Ukraine for the company's statutory fund**. However, certain restrictions apply and import duties must be paid if a company sells, transfers or otherwise disposes of assets.

In 2022, a unique electronic platform "Advantage Ukraine" was created to attract foreign investors to the Ukrainian economy. It is an investment initiative of the government, covering more than 500 projects and investment opportunities in 10 sectors of the economy.

Inward FDI (inflow) in Ukraine 2015-2022 (USD billion)



Direct investment in Ukraine: inflows in 2022 by top 5 countries

Netherlands	Switzerland	Germany	United Kingdom	Luxembourg
USD 537m	USD 362m	USD 283m	USD 267m	USD 262m

Source: PwC Analysis based on World Bank and National Bank of Ukraine, *Flows: Direct Investment Flows by Instruments, Regions, Countries, Types of Economic Activity*

Ukraine needs cross-cutting support to rebuild the country

Exports of goods and services from Poland to Ukraine before the war (2020)

Top 5 commodity categories

- Machinery and equipment; electronic equipment
- Products of the chemical or allied industries
- Vehicles, aircraft, watercraft and interoperable transport equipment
- Plastics and articles thereof; rubber and articles thereof
- Base metals and articles of base metals

Top 5 service categories

- International travel
- Telecommunications, IT and information services
- Construction services
- Other business services
- Financial services

Current pressing reconstruction needs (2024-2025)

- Emergency power restoration
- Health care infrastructure and systems (redevelopment of hospitals, health centres and rehabilitation services)
- Transport infrastructure (focusing on emergency repairs for critical infrastructure)
- Agriculture and agro-technology (storage and handling, modernisation/technology, agrochemicals, machinery)

Post-conflict modernisation (2026-2032)

- Digital infrastructure
- Energy
- Pharmaceuticals
- Modernised physical infrastructure to facilitate logistics (ports, rail, bridges, roads, airports)
- Machinery and equipment
- Agriculture and agri-technology
- Institutional reform
- Financial services
- Information and communication technologies (ICT)
- Modernisation of housing and social infrastructure
- Urban planning and design
- Security and defence

Source: PwC analysis based on SWAID and NBP

Poland-Ukraine relations, established over the years and supported by government agencies, predispose Polish companies to enter the Ukrainian market

The existing relations between Poland and Ukraine

Poland was the first country to recognise Ukraine's independence in 1991. Since then, the two countries have steadily increased political, economic, scientific and cultural cooperation, and it has grown to unprecedented proportions in the face of war. According to estimates by the Kiel Institute for the World Economy, including aid for refugees, Poland has spent EUR 11.9 billion, or almost 2% of GDP, on helping Ukraine. This is the third largest amount after the USA and Germany, but the largest in terms of percentage of GDP. In addition, Ukrainian citizens came to Poland in large numbers to seek shelter from the war - they received support both at the national level (e.g. access to various social programmes) and at the local level (regional social initiatives, provision of accommodation or employment by entrepreneurs).

The following page describes examples of support offered by development institutions.

Institutions supporting economic cooperation and exports to Ukraine

PFR Grupa Polskiego Funduszu Rozwoju / PFR TFI	Polish Development Fund (PFR) and PFR Investment Fund Company (PFR TFI)
KUKE Grupa PFR	Polish Export Credit Agency (KUKE)
Polska Agencja Inwestycji i Handlu Grupa PFR	Polish Investment and Trade Agency (PAIH) Foreign Trade Office in Kyiv
POLSKO-UKRAIŃSKA IZBA GOSPODARCZA	Polish-Ukrainian Chamber of Commerce

Poland is the first country to introduce comprehensive regulations and incentives for domestic business to invest in Ukraine

Ukraine is undoubtedly in need of urgent support in the areas of industry, infrastructure and business, due to the numerous losses of both the population and the economy. In addition, expertise in the administrative and regulatory dimension is also needed, as the country is planning to join the European Union, where the standards for the functioning of member states are complex and often strict (such as in the case of EU climate policy).

PFR Group solutions

Polish companies that are interested in entering the Ukrainian market or resuming such activities can take advantage of the PFR Group's instruments. PFR has set up the Polish-Ukrainian Economic Cooperation Hub, whose main objective is to stimulate economic cooperation in the region and support joint strategic projects between Poland and Ukraine. The package prepared for entrepreneurs includes both diverse advisory services (e.g. verification of business partners or analysis of export potential) and financial instruments, including guarantees and insurance from KUKE (more information is provided in the opposite section) or co-financing of investment projects by the Polish International Development Fund of PFR TFI. The creation of a dedicated fund for implementing investments with Polish partners exclusively in Ukraine is also under consideration.

In addition, the Polish Investment and Trade Agency, together with the Ministry of Development and Technology, has launched a tender for Polish companies interested in resuming exports and participating in the reconstruction of Ukraine in 2022, with the aim of creating a Catalogue of Polish Companies and establishing relationships with Ukrainian partners and international institutions that also plan to participate in the reconstruction. Interested parties can still apply for participation by filling in the application form.

KUKE instruments

Poland is the first country to provide full insurance coverage, including for war-related losses (political and force majeure risk). At the end of September 2023, the relevant amendment to the Act on Insurance Guaranteed by the State Treasury came into force, through which the KUKE's (the Polish Export Credit Agency) activity on the Ukrainian market is now based on three pillars:

1. Supporting the export of Polish companies: KUKE has been providing – as the only export credit agency in Europe - insurance for receivables when selling to Ukrainian counterparties after Russian invasion.
2. Securing investments of Polish companies in Ukraine (including against political risk and force majeure, i.e. also war) and guaranteeing Polish banks the repayment of up to 100% of the value of financing granted for investments in this country. This also includes insuring branches of foreign companies that decide to operate in Ukraine from the territory of Poland.
3. Securing the participation of Polish companies in projects related to the reconstruction and modernisation of Ukraine. The KUKE can become involved if at least 30% of the work and supplies in a given project come from Poland.

Projects in Ukraine can be financed through external funding provided by international organisations

THE WORLD BANK

World Bank

International multilateral development banks such as the World Bank are providing financial support to Ukraine during the war and are already announcing extensive post-war reconstruction efforts. As of February 2022, the World Bank Group has mobilised more than USD 38 billion, of which more than USD 29 billion has been paid (as of 13 November 2023). Polish entrepreneurs can compete in public tenders, which are published on the World Bank's procurement portal. The contracts cover diverse sectors of the Ukrainian economy, as well as the area of science and public administration, and are open to all interested companies that are not excluded from participating in the proceedings. The estimated process of selecting a contractor for a given contract takes approximately six months.

European Bank for Reconstruction and Development

European Bank for Reconstruction and Development (EBRD)

At the end of 2022, the EBRD was the largest institutional investor in Ukraine, financing more than 520 projects with a cumulative value of more than USD 18bn. A further USD 4bn is currently under discussion for investment in Ukraine. EBRD's support for Ukraine focuses on five main areas: trade finance, energy security, critical infrastructure and liquidity for municipalities, food security and the private sector. Part of the funds are used for public procurement, in which entrepreneurs from all over the world, including Poland, can participate. The tendering process usually lasts between 6 and 9 months and OJEU (the Official Journal of the European Union) rules apply to it. Entrepreneurs interested in participating in the EBRD public tenders must register on a dedicated tendering platform.

EUROPEAID

European Union

The EU has been supporting Ukraine through financial, political, military and humanitarian assistance since the beginning of the war. For example, in October 2023, the European Parliament approved the creation of a new financial instrument of EUR 50 billion for 2024-2027 to support Ukraine's reconstruction and modernisation. The facility will create a blueprint for reforms and investments to be supported by the Union and a web portal dedicated to financial assistance to Ukraine and its objectives. For Polish entrepreneurs, this may provide a unique opportunity to actively participate in the reconstruction of the country and to take advantage of external funding, which will be provided through public tenders. All current tenders are available on the EU public procurement website and are open to any entrepreneur based in one of the Member States (unless otherwise specified in the tender documentation). The tendering process usually lasts between 6 and 9 months and the OJEU (the Official Journal of the European Union) rules apply to it.

IFC

International Finance Corporation (IFC)

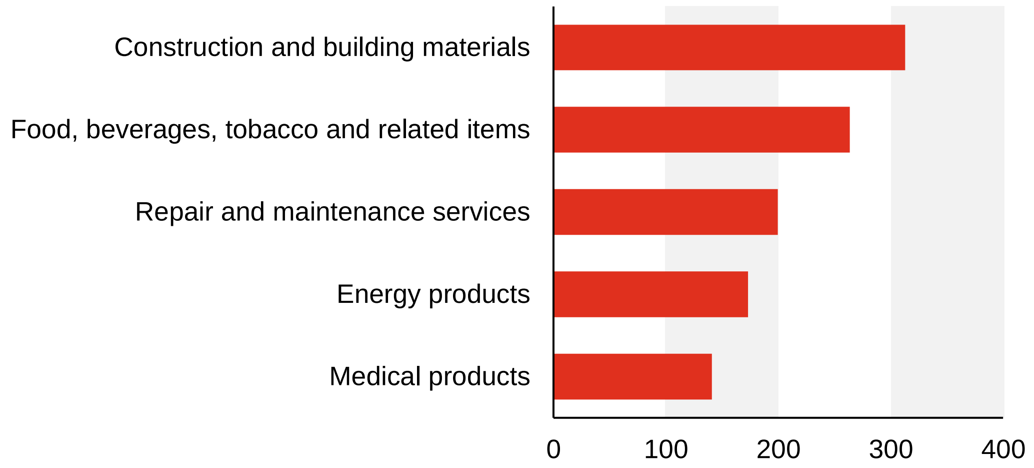
IFC, which is part of the World Bank Group, is working on an "Economic Resilience Action" (ERA) that will provide the IFC with a framework to address the financing needs of the private sector during Russia's invasion of Ukraine and prepare for the reconstruction phase, in close coordination with the World Bank. To date, the IFC has committed USD 2 billion to support the private sector in Ukraine. Polish entrepreneurs with an idea for a project related to the reconstruction of Ukraine can contact the IFC directly to obtain external funding for its implementation either through their own network or by sending a proposal to one of the industry departments or the regional field office closest to the location of the proposed project. The IFC has a regional office for Central Europe in Warsaw, located on Emilii Plater 53 at the Warsaw Financial Centre, and it typically takes between 6 and 9 months to secure financing.

Key information for Polish entrepreneurs on public tenders in Ukraine

Ukraine has a modern electronic system for public procurement called ProZorro. The e-procurement system is designed to automate all procedural steps and exclude potential fraud by procurers, buyers and bidders. ProZorro remains one of Ukraine's most successful recent reforms in public administration and is considered by the World Bank as a model for e-procurement reform. Since the beginning of the war, the ProZorro platform claims the following achievements:

- 94,000 tenders were conducted for an amount of UAH 120 billion, or approximately USD 3.4 billion;
- more than 23,000 companies entered competitive procurement;
- the difference between the total amount that the contracting authorities planned to allocate to their contracts and the amount for which contracts were concluded through tenders was UAH 6 billion, or approximately USD 168 million;
- in total, more than 2 million contracts worth UAH 311 billion, or USD 8.7 billion, were reported in the electronic system.

Top five categories by number of orders in 2022 (in thousands)



How can Polish entrepreneurs gain access to tenders?

On the ProZorro website (prozorro.gov.ua), companies can find information on all tenders. However, **the website does not allow participation in tenders** – to participate, companies should register on one of the private platforms listed on the right. The bidder can choose any platform. All platforms are connected to ProZorro and display the same procurement information. Regardless of the platform used, the tender data will be exactly the same. Once the platform has been selected, the bidder must go through the registration and authorisation process. **Registration and authorisation takes time, thus remember to register in advance.**

Selected public procurement platforms with an English interface

- Zakupivli.pro
- Smarttender.biz
- E-tender.ua
- Zakupivli24.pb.ua

Source: PwC Analysis based on SmartTender

Market conditions in Ukraine - key insights (1/2)

Establishing a business

The two most common types of companies in Ukraine are limited liability companies (LLCs) and joint stock companies (JSCs). JSCs are further divided into public and private companies, with the main difference being that a public JSC can offer its shares through a public or private placement, while a private JSC can only allocate its shares through a private placement. Other types of companies (additional liability companies, full liability companies (general partnerships), companies with diversified liability (limited partnerships), private companies, cooperatives, etc.) are available, although they are rarely used in practice.

If a company is to be purchased, it is possible to: (i) acquire shares through share purchase agreements; (ii) acquire assets through asset purchase agreements; (iii) merge two or more companies into a new one; (iv) issue additional shares through a capital increase through acquisition by a new shareholder (acquirer); and (v) incorporate a new company.

When setting up a company, the following should be considered: (i) setting up your own company to acquire a business, parts of a business or selected assets, or (ii) purchasing a relatively new company with the shortest possible operating history (i.a. due to the reduced risk of capital ties with entities with non-transparent ownership and the less complicated analysis of such ties). In some cases, prior approvals may be required before incorporation. If it is planned to conduct business in Ukraine, business partners should be selected with the utmost care.

Taxes*

- Corporate income tax (CIT) is 18% with a few exceptions for certain business sectors.
- Value added tax (VAT) is 20%, 14%, 7% or 0%, depending on the type of transaction.
- Personal income tax (PIT) is 18%.
- The statutory limit for tax arrears is generally three years.
- Property tax depreciation applies for 15-20 years.
- Penalty tax interest ranges from 25-50%.
- Withholding tax on dividends (subject to credits/exemptions under international tax treaties and domestic legislation) is 15% (5% or 10% under a double tax treaty).
- Withholding tax on interest (subject to reductions/exemptions under international tax treaties and domestic legislation) is 15% (10% under a double tax treaty).
- Withholding tax on royalties (subject to reductions/exemptions under international tax treaties and domestic legislation) is also 15% (10% under a double tax treaty).

* Figures as at November 2023.

Market conditions in Ukraine - key insights (2/2)

Wages

Wages in Ukraine remain low compared to Western standards. In January 2022, the minimum monthly wage was raised from UAH 6,500 ($238) to UAH 6,700 ($245). The minimum monthly wage was also maintained in 2023. The highest wages have traditionally been in the financial and aviation sectors; the lowest wages are paid to workers in agriculture, education, food services and public health.

Dispute settlement

If a dispute cannot be resolved amicably, the applicable method of dispute resolution is through court proceedings. A foreign or Ukrainian legal entity or individual entrepreneur may apply to a competent Ukrainian court or to a relevant arbitral tribunal or institution in or outside Ukraine to resolve a dispute. In Ukraine, court proceedings are conducted by commercial courts, administrative courts and general courts. The general courts resolve civil, criminal, commercial, administrative disputes and cases of administrative offences.

According to legal requirements, the courts at each stage must hear the case within a reasonable timeline, but no longer than two months from the commencement of the proceedings. It is more common for the courts to extend this time limit if the circumstances of the case necessitate it. Generally, it takes between 9 and 12 months to obtain a final decision on a case, taking into account all appeals to the judicial instances; however, in some cases it can take much longer.

Permits that may be needed

- Emission permit (*dozvil na vykydy* in Ukrainian). The emission permit is issued by the Ministry of Environmental Protection (for Group I hazardous substances); for other substances, permits are issued by the State District Authorities.
- Construction permit (*dozvil na budivnytstvo* in Ukrainian) is required if an entrepreneur intends to construct or modify certain types of structures. The construction permit is issued by the State Architectural and Construction Inspectorate.
- Permit for construction/reconstruction of highly dangerous objects (*dozvil na budivnytstvo/rekonstruktsiyu obiektiw pidvyschenoi nebezpeky* in Ukrainian). The permit for construction/reconstruction is issued by the State Agency for Work Safety.
- Permit to commence particularly hazardous work (*dozvil na pochatok vikonannya robit pidvyschenoi nebezpeky* in Ukrainian) is required for work which, according to Ukrainian law, qualifies as highly hazardous work. The permit is issued by the State Agency for Work Safety.
- Permit for the storage/use of hazardous substances (*dozvil na zberigannya/vikoristannya nebezpachnykh rechovin* in Ukrainian) is required for activities with hazardous substances. The permit is issued by the State Agency for Work Safety.

05

Cooperation and support in the foreign investment

The role of the PFR Group in the development of foreign expansion of Polish companies

PFR GROUP

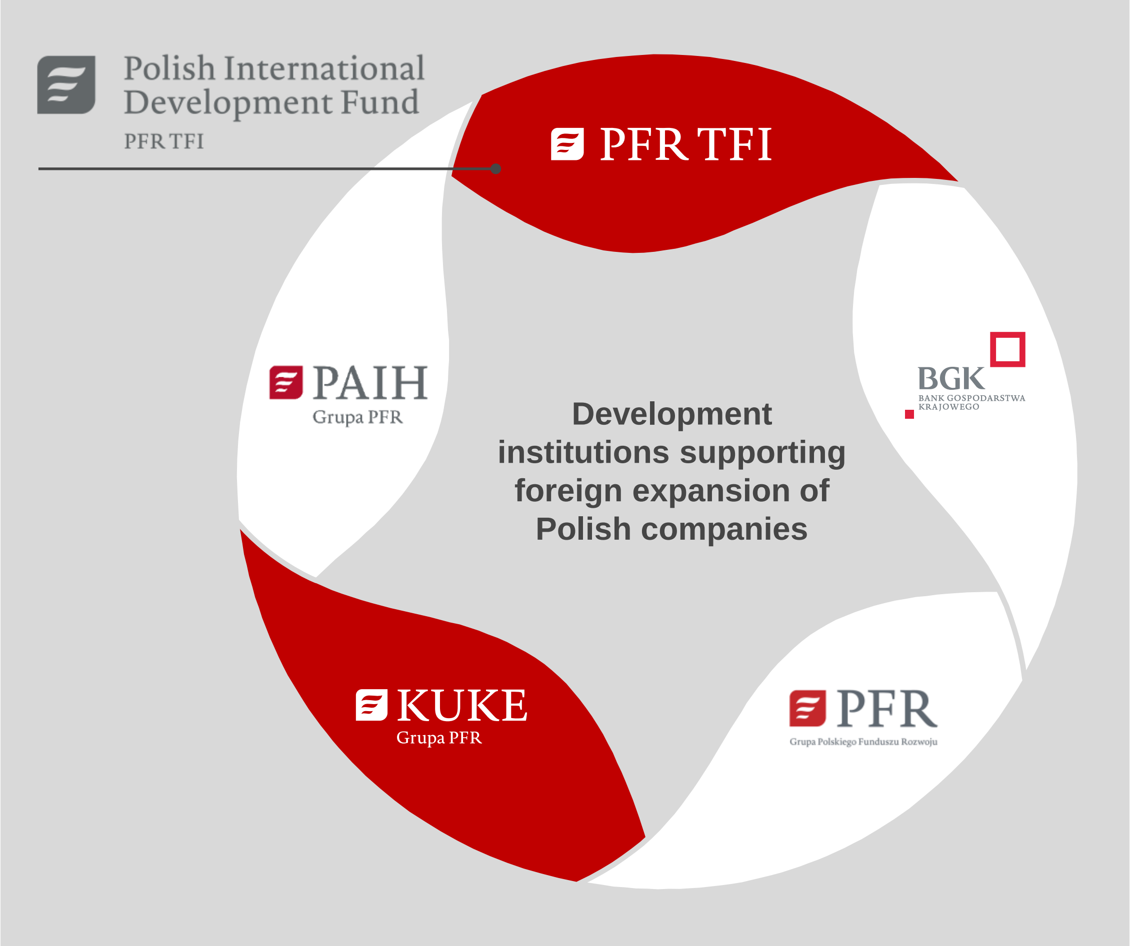
The development institutions gathered in the PFR (the Polish Development Fund) Group support the foreign expansion of Polish companies by offering comprehensive solutions in terms of consultancy, financing, as well as promotional activities.

Polish International Development Fund 2 CEIF (Fundusz Ekspansji Zagranicznej 2 FIZ AN) managed by PFR TFI, co-invests with Polish companies in international markets, offering financing tailored to the investor's needs. The fund can finance up to half the value of a foreign investment and share the business risk of the project. It can invest almost anywhere in the world, in all sectors.

KUKE (the Polish Credit Export Agency) for more than 30 years has supported the foreign expansion and development of Polish companies by offering solutions in the form of various types of insurance, contract and payment guarantees as well as factoring. It also provides instruments that encourage banks to finance trade contracts, domestic export-generating investments and foreign acquisitions undertaken by their clients.

Polish Investment and Trade Agency (PAIH) conducts activities to promote the Polish economy and Polish brands internationally, provides access to information on the economic and legal environment and offers support in complying with administrative procedures.

Bank Gospodarstwa Krajowego (BGK) offers, among other things, financing for short- and long-term export contracts.



The Polish International Development Fund increases the financial strength of Polish companies on international markets by financing up to 50% of the investment value

Polish International Development Fund 2 CEIF - principles of cooperation

With a target capitalisation of PLN 600 million, the fund co-invests with Polish companies in their foreign subsidiaries, implementing greenfield and brownfield projects. The fund's participation allows to increase the scale of its investments on international markets.

The fund continues the mission of the Polish International Development Fund CEIF, which has concluded more than 20 agreements with Polish partners since 2016, investing more than EUR 100 million in 8 countries, with a total value of projects in which the fund has participated of around EUR 300 million.

Equity or debt financing tailored to the size and type of project

Typical fund investment: EUR 3-20 million

Investment horizon: 5-10 years

Risk sharing in proportion to the fund's exposure

Operational control on the part of the Polish partner - the fund is always a minority investor

Terms of cooperation - repurchase of shares at market terms or fixed IRR, up to 10 years, or debt financing at market terms

Flexible operating model, decision-making and process speed

This material is for marketing and information purposes only and does not constitute an offer within the meaning of the Civil Code Act of 3 April 1964 or a commitment on the part of the Polish International Development Fund 2 CEF (the "Fund") to participate in an investment project and provide financing. The decision on the involvement of the Fund will be made after a detailed analysis and evaluation of the investment project. The data and information presented do not constitute investment advice or the provision of investment recommendations, nor does it constitute the provision of tax advice or legal assistance. The material uses these sources of information, including information on historical investments made by the Polish International Development Fund CEF, which PFR TFI S.A. - analyzing with the utmost care - considers reliable and credible. At the same time, PFR TFI S.A. cannot guarantee that the sources in question are comprehensive and fully reflect the facts. Any assessments contained in this material express only the opinions of their authors.

KUKE secures foreign investments of Polish companies and their financing

For companies investing abroad, KUKE provides insurance for the expenditures incurred for the realisation of the investment together with the possibility of securing financing. This provides the company with funds for foreign direct investments under convenient conditions, and its assets are not secured against credit and can be used for other financing needed for the company's development.

How does funding insurance work?

Searching for funding

An entrepreneur wishing to make a foreign investment visits its bank in search of financing (investment/ acquisition loan).

Finding opportunities

When looking for financing opportunities, the bank or entrepreneur contacts KUKE.

Analysis and offer

KUKE, following an analysis of the project and the entrepreneur's financial condition, presents the bank with a proposal of the terms and conditions for obtaining funding insurance.

Mobilisation of funding

KUKE issues the insurance policy, the bank releases the funding and the entrepreneur implements the planned investment.

Ongoing loan servicing

The bank handles the investment loan. In the event of default on the loan, KUKE pays compensation directly to the bank and realises the collateral.

The investment insurance can cover existing investments and the maximum cover period is up to 20 years. The maximum repayment period for an insured investment loan is 14 years. It is possible to obtain insurance for a loan arranged by a local subsidiary, without encumbering the balance sheet of the Polish parent company. The insurance cover includes losses incurred in connection with a foreign direct investment as a result of events defined as force majeure or political risk.

The "Shop in Poland" solution, in turn, enables domestic companies to participate in projects around the world as suppliers of goods or service providers. KUKE, through its network of international contacts, searches abroad for projects that Polish companies can join, and also organises and secures their financing.

Laude Smart Intermodal foreign investment

About the company

Laude Smart Intermodal is one of the largest logistics operators in Poland. The company was founded in 2008. It specialises in intermodal transport. It employs several hundred employees.

Directions of capital expansion

- Germany
- Ukraine

Company strategy and operations

Laude Smart Intermodal has been operating on the international markets for 15 years, connecting eastern and western transport routes through Poland. It focuses on intermodal transport and the execution of container transport. It owes its success to the Laude system, based on an innovative approach and patented solutions for the construction and carriage of cargo in specialised containers, allowing it to reduce costs and increase freight tonnage. The company can play a key role in the implementation of EU trade with Ukraine and the reconstruction process in that country. Laude has its own rail terminal in Zamość, located along wide and normal-gauge railway lines, which is equipped to handle goods and containers crossing the Polish-Ukrainian border. The terminal can handle up to 15,000 TEU containers per year.

Motivations for foreign capital expansion

The prospect of the reconstruction of Ukraine and the development of the European Union's economic cooperation with this country and, in a broader context, also with Moldova, Kazakhstan and other Central Asian countries, requires the construction of efficient and resilient logistics chains. Laude has already been present in these markets for years. In Ukraine, it has been operating continuously despite the outbreak of hostilities and operates a significant part of the container shipping market. In the coming years, the company plans to invest around EUR 250 million in the development of a rail bridge between Ukraine and the EU. Assets including locomotives, wagons and containers, purchased as part of the investment programme, will enable a significant increase in freight transport capacity. Germany, where the group is developing its operations through a subsidiary, Laude Assets, also plays a major role in the broader logistics chain linking Ukraine to Europe.

Co-investments with the Polish International Development Fund CEIF

In December 2021, the fund and Laude Smart Intermodal jointly invested EUR 20 million in Laude Assets, based in Duisburg, Germany. The fund co-funded almost half of the investment value. The company in Germany concentrates assets for the provision of intermodal services in Western Europe.

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Laude Smart Intermodal executes intermodal transport not only in Poland. We also operate in Ukraine, where we serve 70% of the container transport market, as well as in Central Asia and Germany. When deciding to expand abroad, we chose directions that were not obvious at the first glance. This is no coincidence. From the very beginning, we knew very well that our strategic business goal was an east-west transport link. By gaining experience on international markets and consistently investing in assets, including locomotives, wagons and containers, and additionally in modern transhipment terminals in Poland, we have built a logistics bridge connecting the European Union with the East, which we want to continue to develop.

We have all the assets for Laude to play a key role in the process of rebuilding Ukraine and, more broadly, developing EU trade with the Eastern European and Central Asian region. Our subsidiary in Germany, in which we have invested together with the Polish International Development Fund, is key in this process. It enables us to increase the scale of our operations in western markets.

Marcin Witczak
CEO, Laude Smart Intermodal

Photo: Laude Smart Intermodal

Pekabex Group foreign investment

About the company

The Pekabex Group is a leader in modern system construction in Poland. The company has been operating on the Polish market and abroad for more than 50 years. It employs more than 2,000 people.

Directions of capital expansion

- Germany

Company strategy and operations

Pekabex operates in the modern prefabricated construction sector. It provides solutions for the design, manufacture and assembly of building structures based on the technology of prefabrication of reinforced concrete elements, as well as general contracting and development of investments. The company has five factories in Poland and one in Germany allowing it to produce around 230,000 m^3 of building structures per year. Today, Pekabex is the leader in system building in Poland and is successfully strengthening its position in Scandinavia and Western Europe. The company's strategic goal is to be among the five largest construction companies in Europe in the system building segment and to increase sales revenues from foreign markets to approximately 30% from the current 25%.

Motivations for foreign capital expansion

The Polish market is too small for the Pekabex Group to ensure stable growth. Diversification is also particularly important in the sector in which the company operates, in order to hedge against economic fluctuations in individual markets. In order to overcome these barriers, the company is consistently strengthening its position in Europe and implementing construction projects abroad, mainly in Scandinavia and Germany. The German market is of particular interest. Pekabex aims to strengthen its position beyond the Oder. For this purpose, the company acquired a company in Bavaria - Upper Franconia. Having its own plant in Germany enables it to increase its production capacity. In 2022, the company produced 27,000 m^3 of components, the longest of which were up to 45m long. It also makes it possible to offer customers better terms of cooperation, by bringing production closer to the end customer. It also changes the perception of the Group in this market, increasing credibility and negotiating power.

Co-investments with the Polish International Development Fund CEIF

The agreement between Pekabex and the fund was signed in December 2020. The aim of the cooperation was the acquisition of 100% of the shares in the German company FTO Fertigteilwerk Obermain GmbH. The purchased factory is complementary to the plant in Poland: it also specialises in the production of prefabricated elements, but relies on other sources of suppliers and potential customers, and offers synergies in terms of technological development. The total value of the transaction was EUR 12.25 million. The fund's commitment amounts to EUR 2.94 million, the fund took a 24% stake in the German company.

Foreign expansion is part of Pekabex Group's strategy. It enables not only the further development of the company and an increase in turnover, but also diversification, which is so important in turbulent economic times. This has already proved itself many times in our history.

As one of Poland's largest construction companies, we are aware that the entire environment around us - our Polish and international suppliers and business partners - grows with us. We want to be a role model not only of efficiency, but also of good relations. I believe that by offering high-quality solutions, as well as professional and timely delivery of complex projects in foreign markets, we are Poland's ambassador in these countries.

Our strategic goal is to be among the largest European companies in the system building sector, so we are constantly analysing the possibilities of development on foreign markets, searching for business opportunities. The experience of our first international investment, the acquisition of a company in Germany carried out in cooperation with the Polish International Development Fund, has been very positive, and the transaction has brought the expected results.

Robert Jędrzejowski
CEO, Pekabex

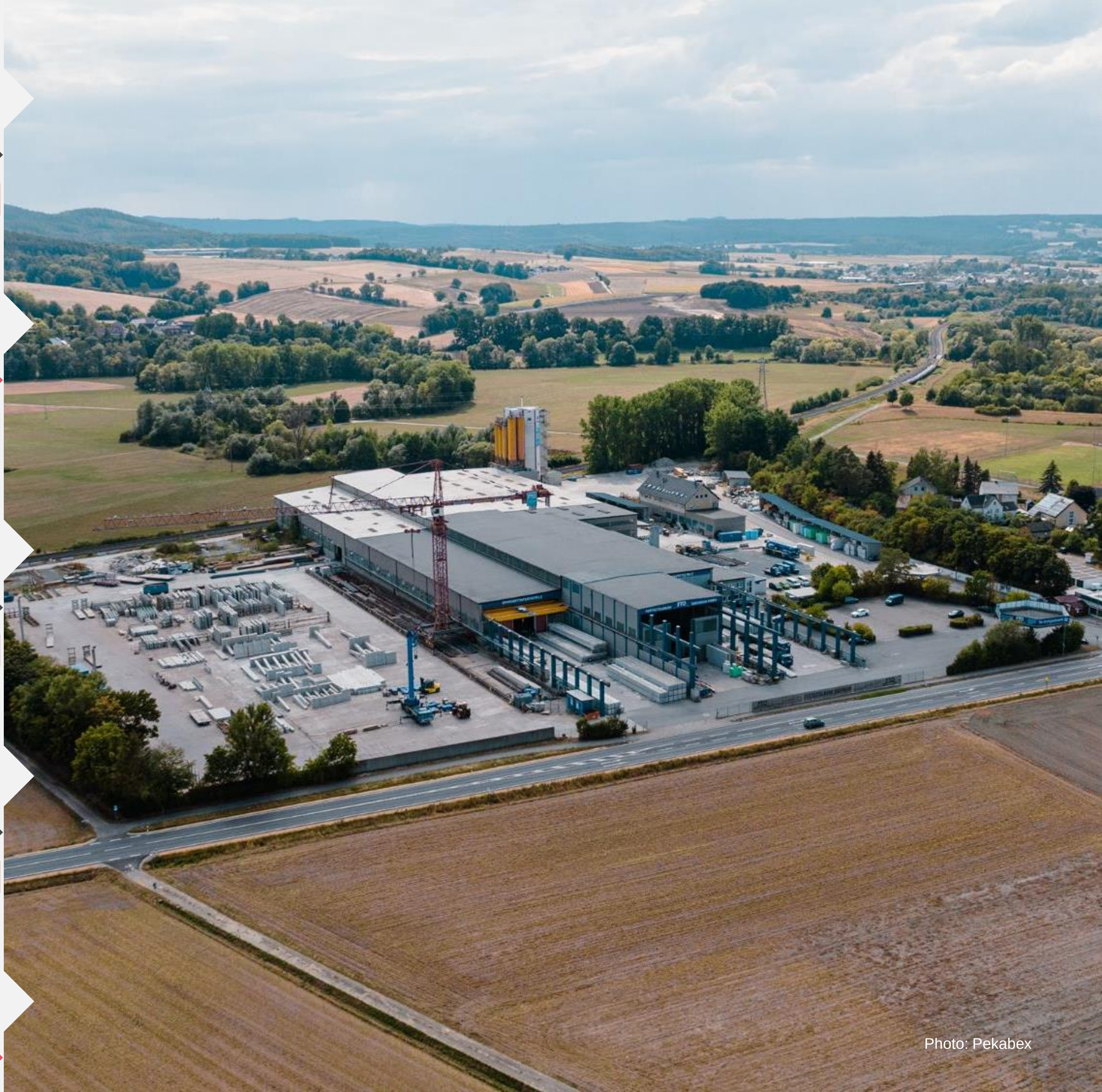

Photo: Pekabex

Rainbow Tours foreign investment

RAINBOW

About the company

Rainbow Tours is one of the largest tour operators in Poland. The company was established in 1990 and has been listed on the WSE since 2007.

Directions of capital expansion

- Greece

Company strategy and operations

Rainbow is a leading tour operator in Poland and Central and Eastern Europe with its own multi-channel sales network (outlets, online, call centre) and a technologically advanced booking system. The company's travel portfolio includes trips to almost 100 countries, to over 150 tourist destinations, including Greece, Italy, Spain, Portugal, Croatia, Turkey, as well as more exotic destinations. The company has been consistently building its brand in the consumer market, adapting to trends by offering and constantly supplementing a diverse range of trips. It is also expanding its activities to cover all areas of the tourism market, including developing the segment for the organisation of business or integration trips.

Motivations for foreign capital expansion

One of the company's key challenges is to improve margin levels. The way to do this is through vertical integration, in the case of this company, starting a hotel business. Since 2015, Rainbow has been investing in creating its own hotel chain in Greece under the White Olive brand. It currently has 5 hotels in Zakynthos, Rhodes and Crete, with nearly 1,500 beds operating on an All Inclusive basis. This allows the hotels to improve their occupancy rates, as well as to extend their operation, which positively translates into the results achieved. The 2023 season was a record-breaking one, with White Olive hotels serving more than 45,000 guests from more than a dozen countries: most from Poland, the Czech Republic, the UK, Germany, France, Scandinavia, Romania and Bulgaria. The investment in hotel operations allows Rainbow to strengthen its position in the European Union market and improves the company's competitiveness.

Co-investments with the Polish International Development Fund CEIF

In 2021, the Polish International Development Fund invested EUR 9 million in White Olive A.E., becoming its minority shareholder. The capital raised is dedicated to further business development, including the acquisition and refurbishment of new hotel facilities. The company is currently planning to expand its hotel base in Crete, Rhodes and Zakynthos.

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In Europe, there is a strong consumer trend of shifting spending from consumer goods to leisure and leisure-related goods. Customers prefer to invest in experiences rather than buying another thing. Rainbow is a beneficiary of this trend.

At White Olive, a chain of company-owned Greek hotels, we are consistently pursuing the strategic objective of optimising the revenue generated. We achieve this goal by expanding our target markets and diversifying our distribution channels, including online sales and sales through our own website. We are increasing the share of sales to individual customers at the expense of sales to large European tour operators. We are also focusing on providing the highest possible quality of service, as evidenced by more than 85% of very good and good ratings, which in the holiday hotel business is a far above average result.

We are consistently investing in the development of hotels - we are currently planning the expansion of three facilities, which will increase the accommodation base by a further 400+ beds. The funds for this come i.a. from the Polish International Development Fund. The investment will enable us to achieve synergies with our existing hotel infrastructure, thereby increasing profitability.

Edyta Romanowska
CEO**,** White Olive A.E, Greek subsidiary of Rainbow Tours

Photo: Rainbow Tours

SUNEX foreign investment

About the company

SUNEX is a leading manufacturer of innovative solutions based on renewable energy sources, listed on the WSE.

Directions of capital expansion

- Germany
- Austria

Company strategy and operations

SUNEX was founded in 2002. The company offers intelligent systems used in heating and solar technology based on heat pumps, photovoltaics, solar air conditioning collectors and hybrid packages with control systems. It also develops products to support the storage of energy obtained from RES-based systems, together with the full associated assortment necessary to create complete and customised solutions.

Motivations for foreign capital expansion

In 2023, 84% of SUNEX Group's sales were realised in foreign markets, mainly Western Europe. Half of all revenues were provided by the German market and 31% by the Austrian market. In 2022, the overseas SUNEX plant was transformed into the subsidiary SUNEX GmbH, which specialises in the sale (mainly online) of equipment used in heating and solar technology supplied by SUNEX. In 2023, SUNEX acquired Austrian company Krobath Bad Heizung Service GmbH, specialising in commercial heating and ventilation, gas and water installations, which began expanding in Lower and Upper Austria after the acquisition (including the launch of showrooms).

The company has its own research and development department, which contributes to the development of automated and intelligent product solutions. Activities in external markets and cooperation with foreign partners allow both to expand competences in the field of RES equipment and their integration and to ensure diversification of revenue sources.

Financing foreign expansion - co-operation with KUKE

In January 2023, SUNEX finalised the acquisition of a 100% stake in Krobath for EUR 4.3 million. The Austrian company's revenues amount to around EUR 20 million per year. The acquisition was financed with its own funds and a loan from PKO BP in the amount of EUR 3.4 million, which was insured by KUKE up to 95% of the funding. The KUKE supports Polish companies in their expansion in 200 markets by, among other things, offering banks repayment insurance for financing granted for acquisitions, greenfield and brownfield investments.

The development of the industry must be examined over the long term. Drivers for further growth will include EU regulations (climate and energy policy targets), which place increasing emphasis on a low-carbon economy, and the dynamic trend towards independence from a single energy source. Undoubtedly, the renewable energy industry is gaining prominence and is becoming very forward-looking, with the generation of energy from the sun, wind or water becoming easier and more accessible. Our goal is to join the ranks of the largest renewable energy companies that can operate in the European market, offering comprehensive solutions. One way of achieving this is through acquisitions. We are looking for acquisition opportunities in Germany, but we also do not rule out acquisitions in other European countries.

The company's financial situation is very good, and we also have access to external financing. Polish RES companies have the opportunity to become significant players in Europe. Instruments provided by support institutions such as the KUKE or by banks also support this.

Marek Kossmann
CFO, Board Member, SUNEX

Fot. SUNEX

06

Summary

Summary

The cumulative value of foreign investment made by Polish companies amounted to EUR 27.8 billion in 2022, an increase of EUR 3.7 billion compared to the previous year. Europe remains the most attractive region for investments for Polish companies, with 86.9% of all investments concentrated on the old continent.

2023 has brought a distinct **slowdown in the dynamics of global GDP, followed by a reduction in foreign direct investment flows**. This slowdown is linked to, among other things, the energy crisis and is a direct repercussion of the war in Ukraine. The new reality represents changes in the balance of power in the global economy and growing protectionism. In addition to geopolitical turbulence, the FDI market is currently being affected by the energy transition and digital transformation.

Entrepreneurs are less prone to pursue capital expansion into foreign markets than before - only one in four companies declares such plans, although the percentage is higher among companies already investing abroad at 44%. **Factors such as geopolitical risk or the size of the market are of great importance in the analysis of a potential investment destination**.

For the third time, we have selected the most promising expansion directions for Polish companies, this time focusing on the markets of Central and Eastern Europe and Asia. This year's edition of the ranking takes into account two categories of directions: obvious and well-known (Group I) and less obvious and less frequently considered (Group II). The demarcation line is the value of capital invested by Polish companies (EUR 100 million). **Attractive destinations in Group I include the Czech Republic, Romania and Ukraine, while Group II includes Japan, Kazakhstan and Malaysia.**

Entrepreneurs who decide to expand capital into foreign markets do not have to take on the entire risk of the investment. **There are institutions in Poland whose aim is to support the internationalisation of Polish companies** on a financial level and to share the risk of the expansion. Among them are **the Polish International Development Fund 2 CEIF managed by PFR TFI** and **KUKE**. These institutions also support entrepreneurs interested in participating in the reconstruction process in Ukraine.

Data sources and methodology

As part of the work on the report, we used a variety of analyses and data sources, the assumptions of which are described below.

Quantitative analysis

Based on a quantitative analysis, we identified major trends related to geopolitical turbulence and the war in Ukraine affecting the FDI market. We based our analysis of global FDI flows between countries on the International Monetary Fund's balance of payments data on investment flows of all countries in the world. We sourced data on FDI flows from Poland to individual countries from Eurostat (originally from the National Bank of Poland). Annual data is available for the period up to 2023, while quarterly data[1] for Poland is available up to the second quarter of 2023. Additionally, macroeconomic data from the IMF World Economic Outlook database, OECD, World Bank and UNCTAD, as well as rankings from Transparency International and The Heritage Foundation were used to describe the countries.

CATI survey among Polish companies

In the course of the project, a CATI telephone survey was conducted among Polish enterprises. The survey was conducted on a sample of 120 large and medium-sized companies investing abroad (investment was understood as the purchase of foreign assets). It addressed perceptions of changes in the FDI market and their possible impact on operations. The study also involved 120 companies that had not previously undertaken foreign investment within a so-called control group. This enabled us to compare findings depending on the experience of the companies.

Qualitative analysis

The qualitative analysis was based on desk research on global trends capable of affecting the FDI market. The following trends were identified: nearshoring and friendshoring (diversifying suppliers and securing supply chains), geopolitical turbulence (war in Ukraine), digital transformation, energy transition and increasing protectionism. These are described in detail in the report.

Ranking directions for Polish investments

The report also presents a ranking of the most prospective investment destinations for Polish companies in Central and Eastern Europe and Asia. The ranking took into account macroeconomic indicators, quality of institutions, investment and commercial ties with Poland. The data underpinning the ranking came from the IMF World Economic Outlook, IMF Balance of Payments, UNCTAD, the World Bank, Eurostat and the Central Statistical Office. Countries were divided into two groups: directions recognised among Polish companies (where the value of invested capital exceeds EUR 100 million) and non-recognised directions (where capital involvement is lower). Countries with a population of less than 5 million for Central and Eastern Europe and 15 million for Asia were also eliminated from the final list. This ensured that only larger markets, more attractive to entrepreneurs, were included.

[1] It should be noted that quarterly BoP data are prone to revision, meaning that they are frequently updated, while they have the advantage of keeping track of the FDI market almost on a daily basis.


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