

POLAND – A SUMMARY OF SELECTED INVESTMENT OPPORTUNITIES IN 2018

In 2018, Poland's GDP is set to grow by 4.3 per cent, unemployment to fall to 6.3 per cent and inflation to reach 2.2 per cent. Interest rates are likely to remain unchanged. According to most market analysts, 2018 is going to be another successful year of stable growth for the Polish economy, offering interesting investment opportunities for foreign investors in various sectors, including energy and infrastructure, real estate, as well as financial services and private equity.

The choice of Mateusz Morawiecki as prime minister (the minister of development and finance until December 2017 and former CEO of BZ WBK, a Polish subsidiary of Santander bank) is meant to be signal that the economy is crucial for the current government in Poland.

Key issues

- Building new infrastructure on a large scale
- Poland to become a single economic zone
- REITs
- Transactional opportunities in the banking and private equity sectors

BUILDING NEW INFRASTRUCTURE ON A LARGE SCALE

2018-2019 will be of key importance for Poland in the current EU perspective, since the multi-billion-zloty spending on railways and roads, co-financed from EU funds, will accumulate in this period. Efficient implementation of these projects is crucial, not only for investments to increase, but also for the condition of key industries vital to the Polish economy.

Poland is focusing on the development and building of new infrastructure on a large scale. At present, some key investment projects are planned, which are priority infrastructure projects for the Polish government within the next ten years.

Central Communications Port. In November 2017, the government adopted a plan and concept for the construction of the "Solidarność" Central Communications Port (the "CCP"). The ambition of the plan's authors is to create one of the largest, best-connected and most modern airports in the world. Under the plan, the CCP is to combine in a single location an intercontinental air hub and a railway hub constituting a transport centre within Poland, supported by a road and motorway network. According to the authors, the intention is for the CCP to take on the form of a city (Aeropolis), an industrial and commercial centre where, based on the CCP, many enterprises could develop. The CCP investment project verges on being one of the biggest infrastructure projects in Poland's history.

Central Logistics Hub. Poczta Polska (National Polish Postal Operator), whose popularity among courier services in Poland ranks just behind the three largest international corporations, is also planning to make investments in connection with the construction of the CCP. Poczta Polska is to invest in the parcel segment by building a Central Logistics Hub in Poland, which ultimately would serve domestic and international e-commerce and cooperate with the Central Communications Port.

Nuclear power plants. The Polish government is planning to build three nuclear power plant units at five-year intervals, with the first one to be in 2029, with costs predicted to reach nearly EUR 6 billion. Poland's Ministry of Energy has several financing options on the table for financing the country's nuclear power plant construction project. The first financing model involves the formation of a special purpose consortium of Polish financial institutions with guarantees from the State Treasury. The second involves the purchase of a smaller bank by a foreign industry investor or a foreign financial institution, which would provide a loan. Another scenario involves the issuance of secured sovereign debt to be purchased by investment funds or one or more foreign banks. In all the above concepts, the State Treasury would be the guarantor.

Vistula Spit. The digging of a canal through the Vistula Spit is another strategic project, which has been discussed for a number of years. The Vistula Spit is a 96 km long peninsular separating the Vistula Lagoon and the coastal ports and cities from access to the Baltic Sea. Thanks to the canal through the Vistula Spit, a new waterway open all year long, leading from the Bay of Gdańsk on the Baltic Sea to the Vistula Lagoon, would be created. This would, in consequence, shorten the sea route to the Baltic Sea from the ports of the Vistula Lagoon and make it easier to expand trade with the coastal cities of the Lagoon. Yachting tourism would also develop. The shipping channel through the Vistula Lagoon is to be approx. 1 km long, up to 80 m wide and have a depth of 5 metres. It is to enable vessels with a draught up to 4 m, length of 100 m and width of 20 m to enter the Lagoon. Along with the digging of the canal through the spit, new road and bridge infrastructure would be built. Among other things, two bascule bridges are to be built over the canal, which will ensure an undisturbed connection for vehicles between the two banks of the canal.

POLAND TO BECOME A SINGLE ECONOMIC ZONE

Special Economic Zones will close down in Poland in 2026. The Polish ministry of development has drafted a proposal setting out new ways of attracting and supporting investments. The details were presented by Mateusz Morawiecki at the Economic Forum in Krynica in September 2017. The ministry wants corporate and property tax exemptions to be available for companies investing throughout Poland, not just in the 14 Special Economic Zones (SEZs). A similar solution is in place in the Czech Republic. At the end of 2016, SEZs covered an area of 21,500 hectares with a limit of 25,000 hectares. Lifting this restriction will eliminate problems SEZs have in obtaining land, which currently constitute a barrier to attracting investors.

Under the new rules, companies will be eligible for tax benefits when investing across Poland, not only in special economic zones. Support will run for 10-15 years.

The legislation's goal is to increase Poland's attractiveness when compared to other Central European countries. Coordination of investment policy and strategy for responsible development is to be improved, and the policy is to be more flexible, offering companies more attractive support instruments.

Key provisions

Tax breaks across Poland. Awarding tax breaks to companies across entire Poland is the cornerstone of the legislation. Currently this is only possible in the special economic zones, which cover less than 1% of the country's territory.

New areas of support. The ministry of development is to divide Poland into zones (based on counties), with the existing institutions managing SEZs taking responsibility for the zones. An investment in a given region will be automatically assigned to a "supervisor" responsible for supporting the companies, offering real estate and help in relations with public administration.

More time to use benefits. The existing SEZs are to function until 2026. The new legislation introduces a decade-long support system, with companies investing in the current SEZs being eligible for support over the next 15 years.

New quality requirements. State support will be provided only for investments meeting quantitative (planned spending or the region's unemployment) as well as qualitative requirements. The regulation will also include types of activities not eligible for support.

Investment development plan. The supervising institution will have to prepare a development plan for each region. It will take into account the country's and the region's medium-term strategy. The plan will set goals for the regional manager and the services it provides.

Councils targeting business environment. The managing institution could form an economic zone development council. The panel will have up to 30 members, including representatives of local government. The council will advise and propose actions aimed at improving the business environment at the national or municipality level.

New corporate registry. The draft bill aims to create an investment support registry, a centralised electronic list of companies applying for and receiving support. The registry will include corporate data, information on business activity, the investment value and turnover.

REITS

The new Polish law prepared by the ministry of finance will include a new type of business entity, which is set to facilitate real estate investment – the real estate rental market company. It will play the same role as real estate investment trusts (REIT) in the English-speaking world.

Key provisions

REITs only for stock exchange investors. Real estate rental companies will take the form of joint-stock companies listed on the Warsaw Stock Exchange. Entities willing to set up a REIT will need to submit a prospectus to the Polish Financial Supervision Authority (KNF) and collect PLN 50 million in equity capital. KNF will then enter the REIT in an official register, which would enable the company to issue shares. A REIT management board should include at

least one property valuer, while its chief executive needs at least five years of experience in real estate management.

Permitted class of investment assets. There is a considerable change when compared to earlier versions of the proposed law: Initially, REITs would not be able to invest in residential apartments. According to the latest information, REITs will only be permitted to invest in residential apartments, and perhaps in student dormitories and retirement homes. At least 70 per cent of a REIT's assets should be kept in real estate, and 80 per cent of revenue should come from property rental or property sales.

Only secure real estate. REITs will only be able to invest in "real estate with a transparent legal status", and any liabilities involving plots of land or flats "should not result in a transfer of ownership rights".

Majority of profits for the investors. A REIT's shares will be offered to individual and institutional Polish and foreign entities. Real estate rental companies will pay out at least 90 per cent of their profits for the last fiscal year. The only exception concerns income from the sale of property, which – within two years from the transaction – might be used to acquire other properties or at least 95 per cent of shares of companies that invest in real estate, according to the conditions laid down in the REIT law. It is still not clear what categories of costs relating to the maintenance of the real estate and operation of a REIT will be taken into account when the above profit is calculated.

Tax preferences. REITs will pay 8.5 per cent CIT on all income earmarked for dividend payment, which corresponds to the amount of PIT paid on income generated by real estate rental by natural persons that are not involved in business activity. The majority of companies pay 19 per cent CIT. REIT shareholders will be exempt from income tax (PIT and CIT) on the dividend paid.

TRANSACTIONAL OPPORTUNITIES IN THE BANKING AND PRIVATE EQUITY SECTORS

The banking sector

2018 may bring another wave of mergers and acquisitions of banks in Poland owing to a desire to grow in scale and the strategic decisions of their owners.

The first wave resulted in significant transactions. The largest was last year's takeover of one-third of the shares in Pekao by PZU and the Polish Development Fund from Italy's UniCredit. Another significant takeover related to Banco Santander's and its Polish subsidiary Bank Zachodni WBK's acquiring the retail and private banking business from Deutsche Bank Polska (acquisition to become effective by the end of 2018).

Consolidation on the banking market in Poland will continue. There are banks which have already gone through mergers and acquisitions, operate on a large scale, are in a better financial position and achieve good performance and profitability indicators. This is visible to the smaller players who, wishing to improve their performance, must increase their scale of operations, and mergers and acquisitions may be seen as the optimal way of doing so.

Deloitte's experts point out that they are expecting a second wave of consolidations, starting from 2018, but which this time will be linked with strategic decisions to exit the Polish market (GE, which had already decided

earlier to dispose of its financial arm – in Poland this was BPH, the core part of which was purchased by Alior – is an example).

Several smaller banks in Poland, including, among others, Raiffeisen Polbank, Citi Handlowy, Credit Agricole, BOŚ, Bank Pocztowy and Eurobank, may be potential targets.

Austria's RBI has decided to sell its Polish bank, but has been unable to find a buyer for it to date and might – pursuant to the requirement of the Polish Financial Supervision Authority – be listed on the Polish stock exchange in May.

Opinions were also expressed that Leszek Czarnecki, one of Poland's wealthiest investors, might sell at least part of his shares in Idea Bank, which focuses its offering on small and medium enterprises.

The private equity sector

More than 200 M&A transactions were completed in 2017 in Poland. Private equity funds are becoming more and more active. They still have more than twelve billion PLN to spend in Poland and the CEE region.

Transactions in 2017 were driven by the high dynamics of growth of the GDP. The number of takeovers was approx. 10 per cent higher than in 2016.

Several sustained trends can be distinguished in the private equity sector in Poland and in the CEE region: unchanging interest in Poland of large and small private equity funds, interest on the part of so-called infrastructure funds and tender offers concerning public companies. Since the beginning of 2017, around 20 companies have been delisted from the Warsaw Stock Exchange, and nearly 40 tender offers were announced. The surviving parties are not only sector investors and funds, but more and more frequently the majority shareholders, who have decided to acquire shares and to delist the company. In 2017, private equity funds made over 30 acquisitions and more than 20 exits from investments.

The driving factor behind the acquisition activity of private equity funds in subsequent quarters may be, as in previous years, generation changes in businesses. Family businesses will constitute a significant group of the acquisition targets of private equity funds.

We hope you have found this briefing interesting and useful. We believe that the strategic infrastructure projects planned in Poland, the new system to attract investment in dedicated economic zones, introduction of REIT-like solutions, as well as transactional opportunities in the banking and private equity sectors, create interesting opportunities also for foreign companies such as construction and engineering enterprises, infrastructure operators, financial institutions, as well as real estate, private equity and infrastructure funds.

CONTACTS

Daniel Kopania
Partner

T +48 22 627 11 77
E daniel.kopania
@cliffordchance.com

Wojciech Polz
Partner

T +48 22 627 11 77
E wojciech.polz
@cliffordchance.com

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www.cliffordchance.com

Norway House, ul. Lwowska 19, 00-660
Warsaw, Poland

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