The Polish Real Estate Guide 2024

The real state of real estate

Building a better working world

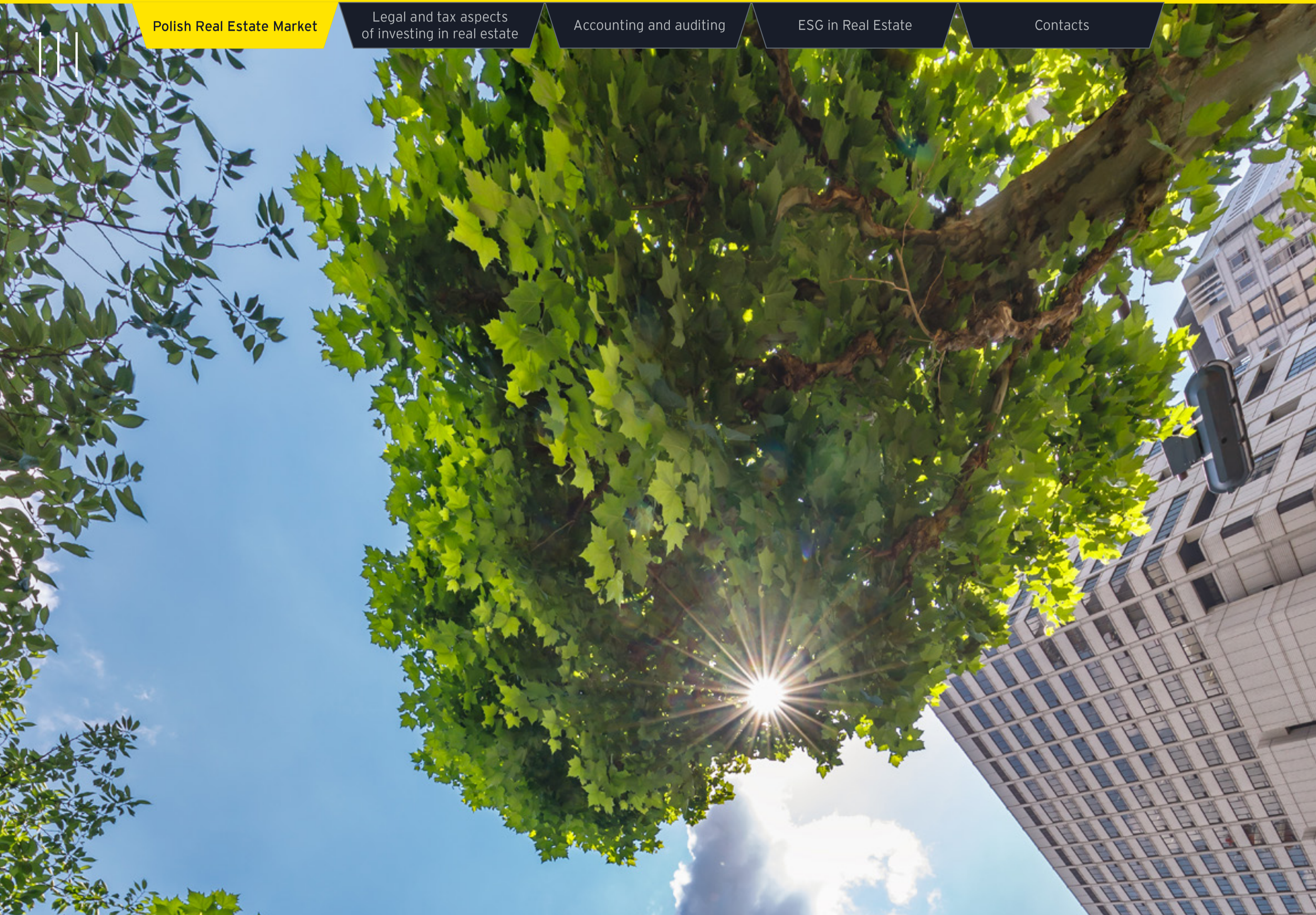
Preface

This guide to the Polish real estate market was prepared by EY, a global leader in assurance, tax, transaction, advisory and legal services. It aims to provide its readers with a broad view of the market and the current investment climate, as well as legal and tax information in a practical format to help you make informed investment decisions. Our combined expertise in this market has enabled us to produce what we hope will become an indispensable reference tool on the state of the Polish real estate market.

In conjunction with the views contained in this guide, it is recommended to seek up-to-date and detailed information on the commercial climate at the time of considering your investment, as this can change at any time. Unless stated otherwise, this guide reflects information valid as at January 2024.

Contents

1 Polish Real Estate Market



1.1

Poland in a nutshell

€706.5bn
GDP

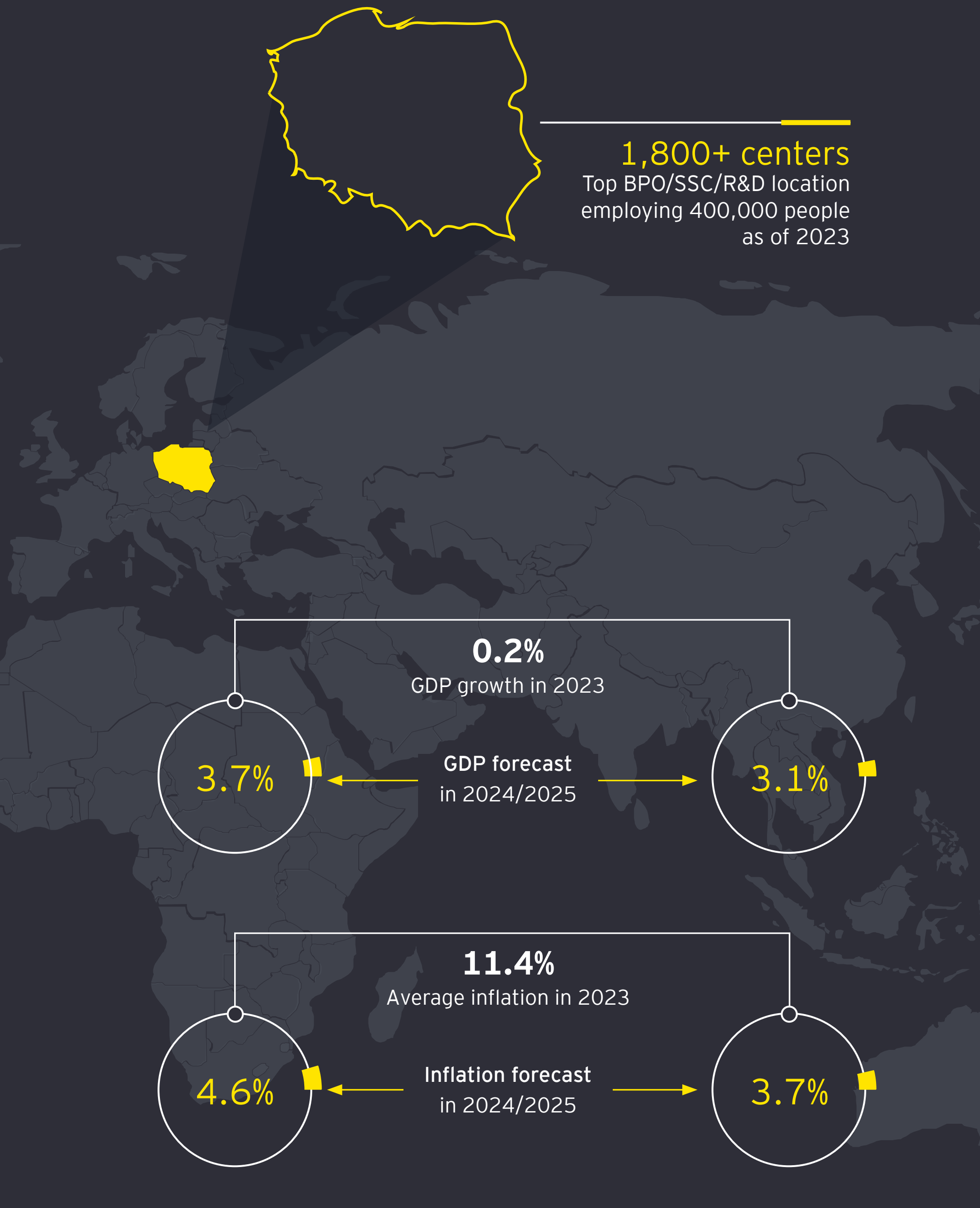
37.6m
The largest population across the CEE markets

€18,700
GDP per capita

€76.0bn
EU funds
The largest beneficiary of EU funding (2021-2027)

€1,711
Average salary in 2023

€25.9bn
Inflow of FDI
(first 10 months of 2023)
Poland belongs to the group of the top 20 FDI receivers in the world
8th position in EY's European Attractiveness Survey 2023



1,800+ centers

Top BPO/SSC/R&D location employing 400,000 people as of 2023

0.2%

GDP growth in 2023

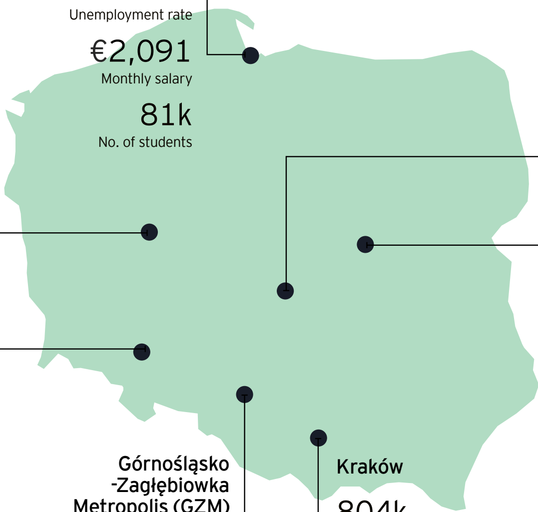
3.7% ← **GDP forecast** in 2024/2025 → 3.1%

11.4%

Average inflation in 2023

4.6% ← **Inflation forecast** in 2024/2025 → 3.7%

Key business centers



Poznań

540k
Population

1.1%
Unemployment rate

€1,954
Monthly salary

101k
No. of students

Tri-City

761k
Population

2.0%
Unemployment rate

€2,091
Monthly salary

81k
No. of students

Łódź

655k
Population

4.4%
Unemployment rate

€1,641
Monthly salary

64k
No. of students

Warsaw

1,862k
Population

1.4%
Unemployment rate

€2,082
Monthly salary

238k
No. of students

Wrocław

674k
Population

1.6%
Unemployment rate

€1,876
Monthly salary

105k
No. of students

Górnośląsko -Zagłębiowka Metropolis (GZM)

2,128k
Population

3.8%
Unemployment rate

€2,729
Monthly salary
(data for Katowice only)

92k
No. of students

Kraków

804k
Population

1.9%
Unemployment rate

€2,123
Monthly salary

129k
No. of students

(1) Population as of June 2023
(2) Unemployment rates and Monthly salaries as of November 2023
(3) No. of students as of 2022 for voivodship
(4) Górnośląsko-Zagłębiowska Metropolis consists of 41 communes, including 13 cities: Bytom, Chorzów, Dąbrowa Górnicza, Gliwice, Katowice, Mysłowice, Piekary Śląskie, Ruda Śląska, Siemianowice Śląskie, Sosnowiec, Tychy, Zabrze (as of January 1, 2023).

1.2 Sectors of real estate market

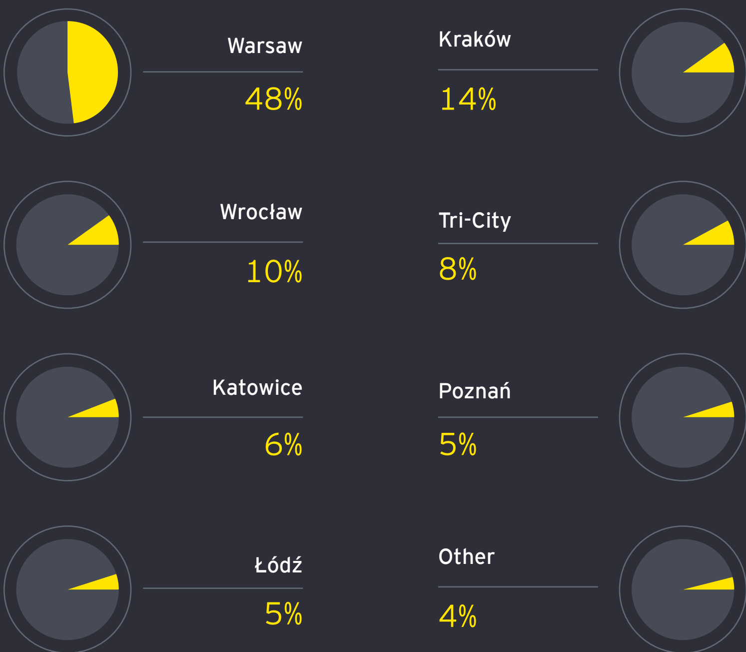
Office market

12.9m m²
Total supply of office space in Poland

6.2m m²
Total supply of office space in Warsaw

6.7m m²
Total supply of office space in 8 major regional markets

Office market segmentation



Office market data

	Stock (m²)	New supply (m²)	Pipeline supply (m²)	Vacancy rate	Prime rental range (€/m²/month)
Warsaw*	6,249k	61k	235k	10.5%	18-27
Kraków	1,807k	97k	45k	19.5%	15-17
Wrocław	1,354k	76k	148k	18.2%	14.5-16
Tri-City	1,050k	33k	65k	13.1%	14-16
Katowice	750k	27k	80k	21.5%	13-15.5
Poznań	670k	32k	72k	14.5%	14-17
Łódź	640k	2k	53k	20.5%	12-14.5

* Data for the City Centre: Stock (m²) - 2,812k, New supply (m²) - 0, Pipeline supply (m²) - 174k, Vacancy rate - 8.5%, Prime rental range (€/m²/month) - 18-27.
Data for the non-central regions: Stock (m²) - 3,437k, New supply (m²) - 2k, Pipeline supply (m²) - 61k, Vacancy rate - 11.8%, Prime rental range (€/m²/month) - 11-17.

** Data in the table may have been rounded.

*** Abbreviation "k" - thousands.

Retail market

16.3m m^2
Modern retail stock

447,000 m^2
New supply (mainly mixed-use projects)

370,000 m^2
Supply under construction (completion by 2024-2025)

3.3%
Average vacancy rate in 8 major cities

273 m^2
Average density per 1,000 inhabitants

€10,903
Average purchasing power per inhabitant per annum in Poland

€17,980
Average purchasing power per inhabitant per annum in Warsaw

€40-60 per m^2/month
Prime rents in major agglomerations

€100-130 per m^2/month
Prime rents in Warsaw

New brands in 2023
Lush, Woolworth, Zwieger, Actium, Solmar, JOTT, Lids, Popeyes, Hugo Boss, Helly Hansen, Master Burger

Shopping centers

58%

Retail parks

16%

Stand-alone retail buildings

16%

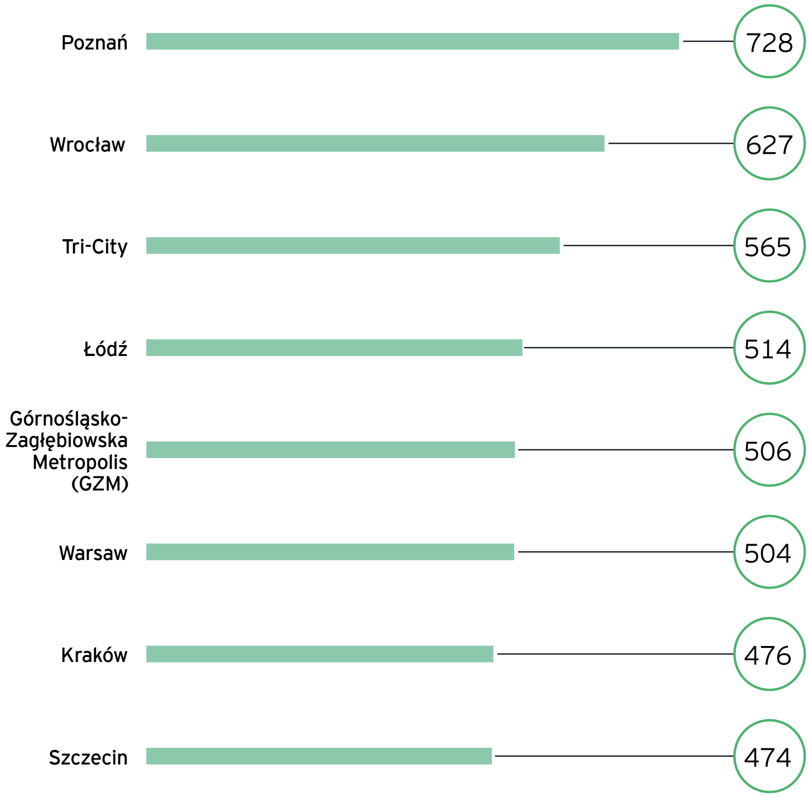
Convenience centers

9%

Outlets

1%

Retail density (m²/1,000 residents)



Warehouse market

31.5m m²
Total modern warehouse stock

3.7m m²
Pipeline supply

4.8m m²
Take-up

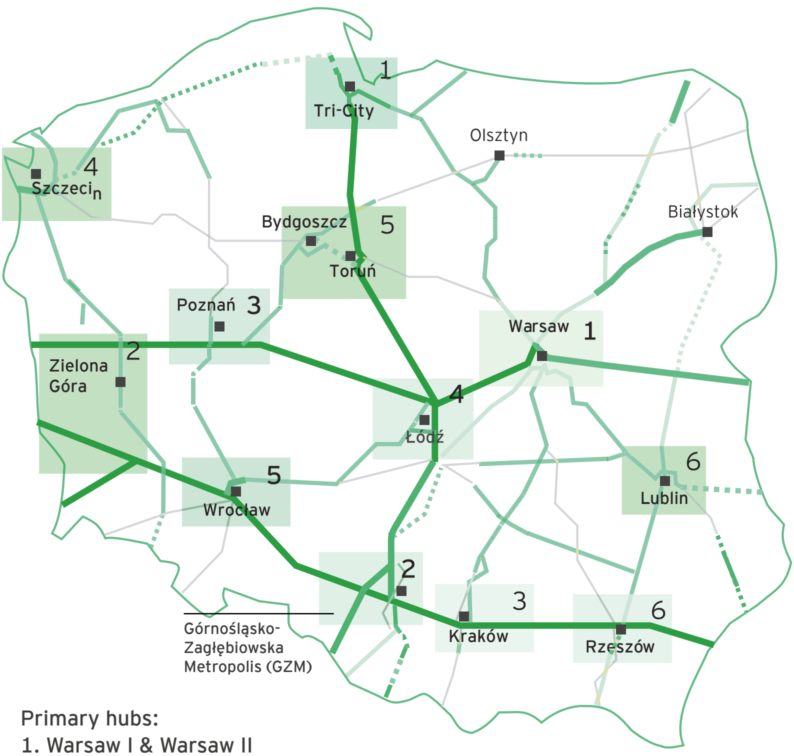
5.1%
Overall vacancy rate

€5.0-7.2 per m²/month
Prime warehouse rent in Warsaw

€4.0-5.5 per m²/month
Prime warehouse rent in Poland

€2.8-5.0 per m²/month
Average warehouse rent in Poland

Map of logistic hubs with road infrastructure



Primary hubs:
1. Warsaw I & Warsaw II
2. Upper Silesia
3. Poznań
4. Central Poland
5. Lower Silesia

Secondary hubs:
1. Tri-City
2. Western region
3. Kraków
4. Szczecin
5. Bydgoszcz/Toruń
6. Eastern region

Major national roads

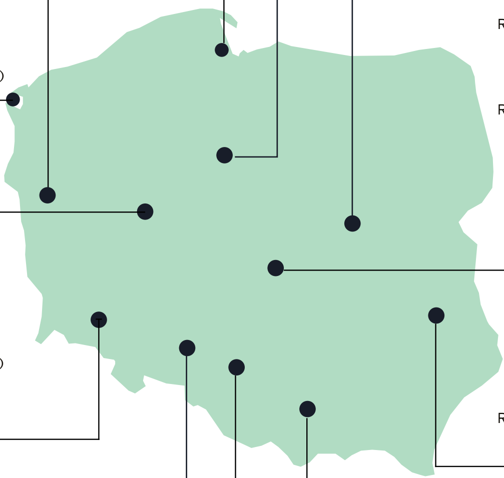
Highways

Existing
Under construction
Planned

Expressways

Existing
Under construction
Planned

Warehouse stock by region



Western Region

5%
Market share

€3.6-4.5
Rental rates (m²/month)

Tri-City Region

4%
Market share

€4.5-5.6
Rental rates (m²/month)

Toruń/Bydgoszcz

3%
Market share

€4.3-4.6
Rental rates (m²/month)

Szczecin

4%
Market share

€3.7-4.5
Rental rates (m²/month)

Warsaw

20%
Market share

€4.7-8.0
Rental rates (m²/month)
Warsaw I

€3.5-5.2
Rental rates (m²/month)
Warsaw II

Poznań Region

10%
Market share

€4.2-4.5
Rental rates (m²/month)

Central Poland

14%
Market share

€3.6-4.7
Rental rates (m²/month)

Lower Silesia

13%
Market share

€3.8-4.6
Rental rates (m²/month)

Easter Region

3%
Market share

€4.0-6.5
Rental rates (m²/month)

Opole

16%
Market share

€3.8-4.7
Rental rates (m²/month)

Górnośląsko-Zagłębiowska Metropolis (GZM)

16%
Market share

€3.7-6.0
Rental rates (m²/month)

Kraków Region

3%
Market share

€4.5-7.0
Rental rates (m²/month)

Hotel market

23.4m
of tourists

Almost 45.4m
nights spent

5.4m
foreign tourists in January-November 2023 period

19.2m
nights spent by foreign visitors

Over 2,580
Hotels

37
Hotels opened in 2023

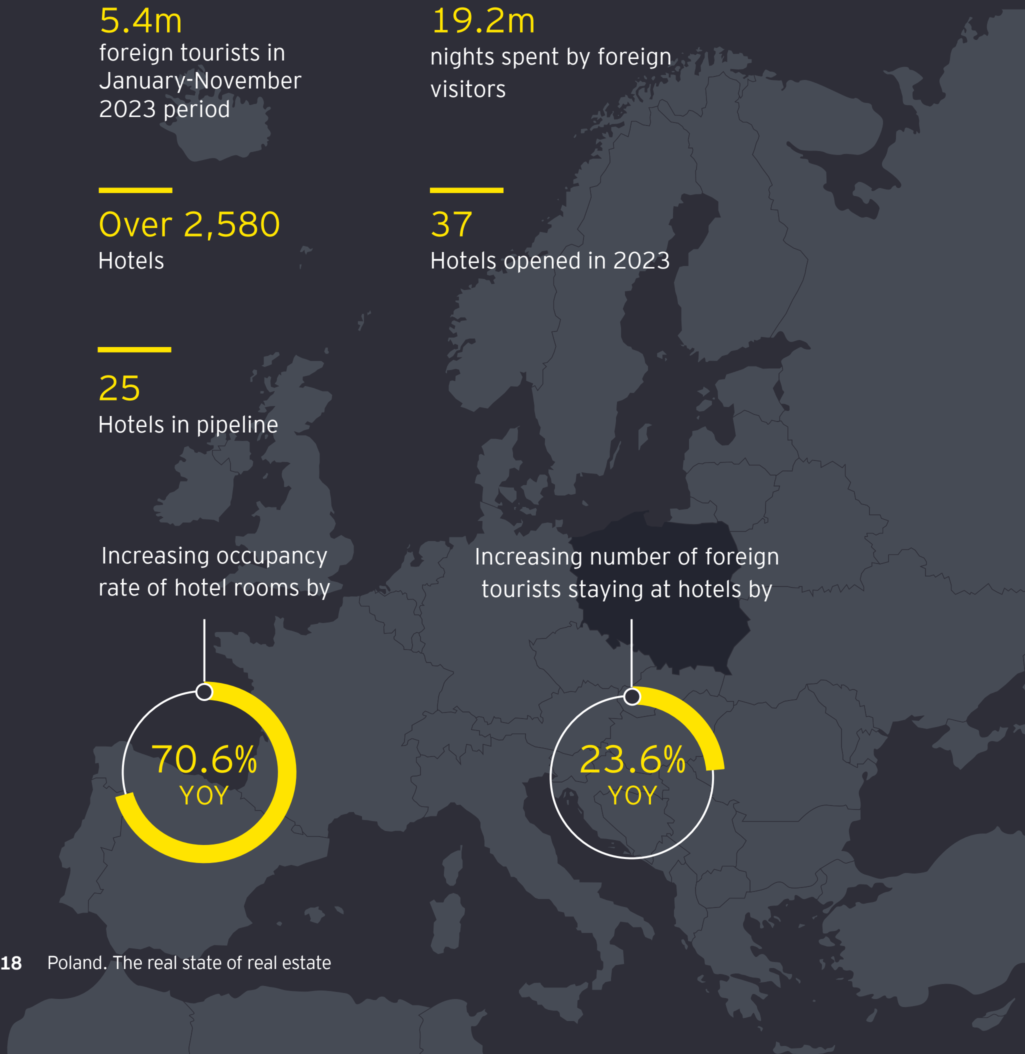
25
Hotels in pipeline

Increasing occupancy rate of hotel rooms by

70.6%
YOY

Increasing number of foreign tourists staying at hotels by

23.6%
YOY



€88
Average ADR
in 5 main cities

€60
Average RevPAR
in 5 main cities

68%
Average occupancy rate
in 5 main cities

Number of hotels and hotel rooms in the main cities

* Data as of July 2023 (no. of hotels and hotel rooms)

Residential market

Largest
residential market
in Central
and Eastern Europe

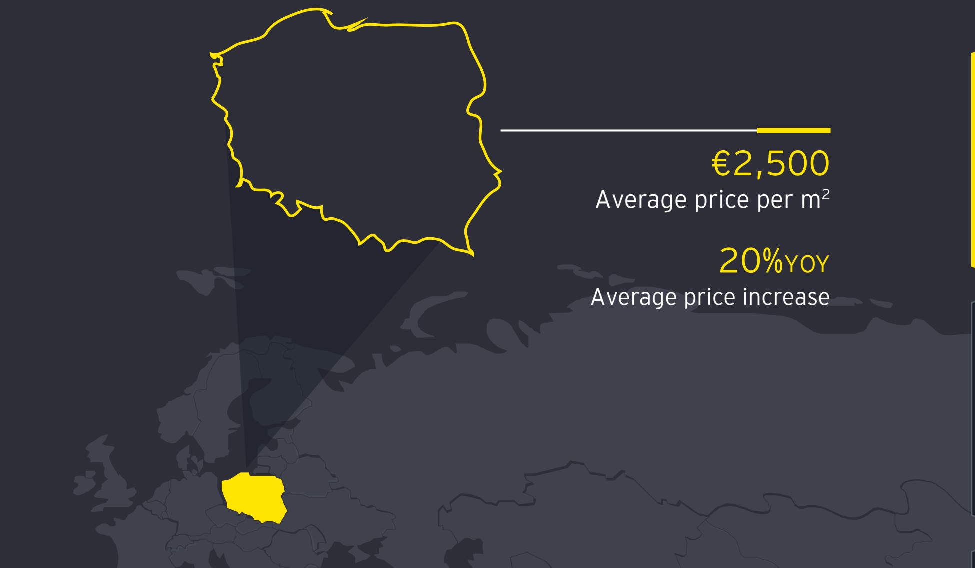
15.6m
of total stock

0.42
Flats per person

1.1
The average number of rooms per person (0.5 less than in the EU average)

Around
43k
apartments completed in 2023

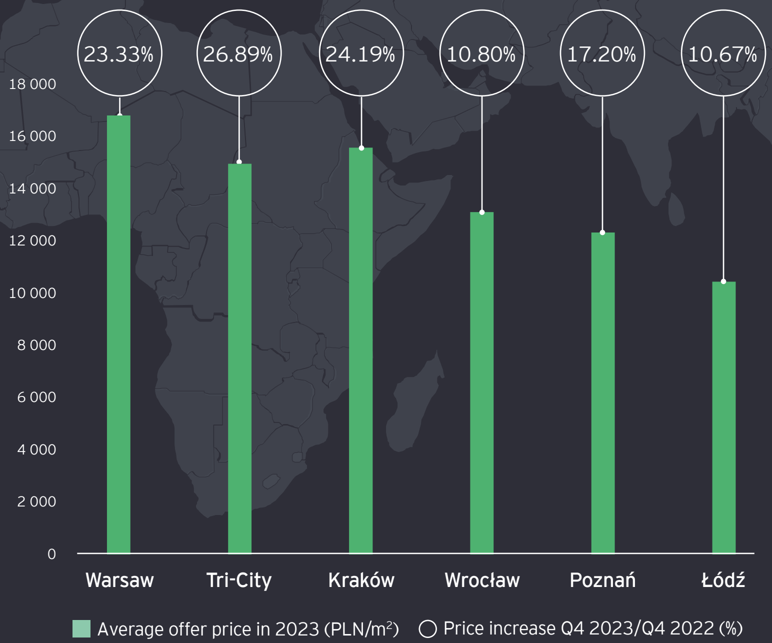
A significant increase in sales volume in top six primary markets
58k
units in 2023 compared to 40k units in 2022



€2,500
Average price per m²

20%YOY
Average price increase

Offer prices on six major primary markets



Private Rented Sector (PRS)

17.0k

of total stock in main 6 cities (Warsaw, Kraków, Tri-City, Wrocław, Poznań and Łódź) Still below 1% of all apartments available for rent in Poland.

83% YOY

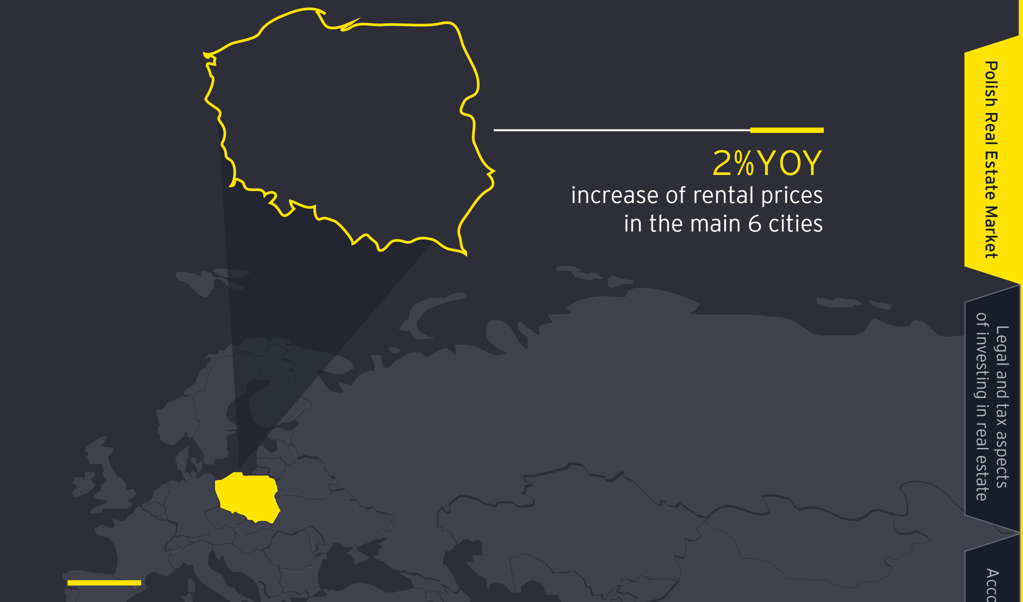
increase of supply in the main 6 cities

21k

of new supply in the next 4 years

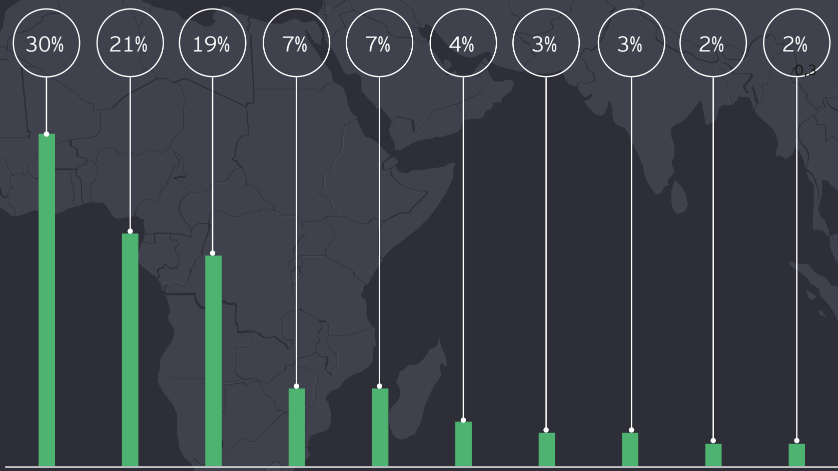
€698 per m^2/month

Average rental price in the main 6 cities



2%YOY
increase of rental prices in the main 6 cities

PRS Investors in Poland (by % of units)



Investment market

€2.1bn
Volume of investment transactions in 2023

65% YOY
decrease

82
Number of transactions

33% YOY
decrease

€200m
Volume of the largest transaction in 2023

Investors

13%
from USA

57%
from Europe

8%
Domestic capital

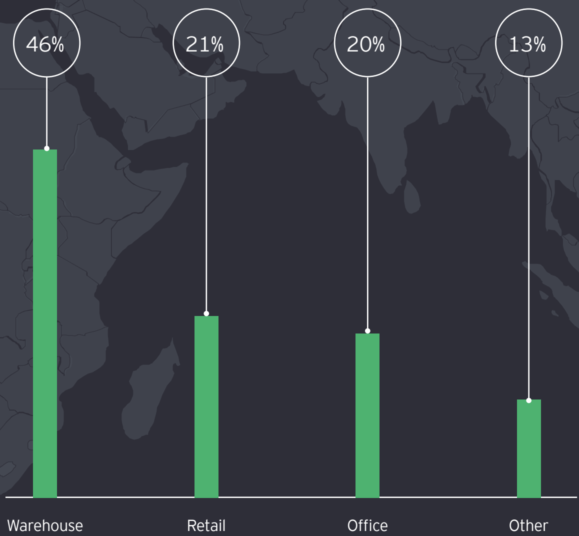
Prime yields

5.25%
offices

6.00%
retail

5.50%
warehouses

Annual investment volume by sector



1.3

Trends & forecasts

General trends

Growing importance of ESG

ESG (Environmental, Social and Governance) standards are increasingly pivotal for companies, undoubtedly influencing decision-making processes with an emphasis on achieving environmental gain alongside financial profitability. It is driven by constantly tightening regulations regarding ESG reporting, which are forcing both landlords as well as occupiers to comply with more stringent rules.

In addition to new developments, which must meet higher ESG standards, a significant surge has been observed in the refurbishment and redevelopment of existing buildings with the aim to meet green building standards. Certifications such as BREEAM, LEED, Smartwire, and Smartscore are becoming prominent indicators of sustainability in real estate.

High energy costs have been one of the most substantial challenges faced by the commercial real estate industry, prompting landlords to invest in enhancing energy efficiency in their buildings. This involves modern technologies and energy efficient equipment, expected to generate substantial cost savings.

The ESG trend is poised to shape the real estate sector in the years to come, impacting values and liquidity of assets. Therefore, the determination to meet both environmental and financial targets will be the engine propelling the direction of the real estate industry.

Chapter 4: ESG in Real Estate of this Report discusses these trends in detail.

Element of society

An important element of the development of enterprises and cities is ensuring the comfort of people staying in a given space. In the future, investors and developers will increasingly look to the opinions of the local community, which will lead to greater acceptance of new projects and better adaptation of new developments to the market.

Buildings of the future

New investments should match the standards which will be used in the future. In addition to the use of modern construction materials, buildings will benefit from intelligent management systems or artificial intelligence (AI).

Geopolitical situation

The war in Ukraine resulted in limitations in the supply of material and reduced availability of workers on construction sites, which deepened the existing challenges related to progressing inflation and growth of energy prices.

Also in the face of tensions between the United States and China, Poland may become a beneficiary. The potential tension between the world's two largest economies will encourage investors to look for alternative locations for their businesses, which becomes an opportunity for countries such as Poland (e.g. nearshoring).

Optimal real estate development

Property owners will increasingly face the dilemma of adapting their assets to the new reality or changing their function in order to be able to optimally use their real estate and ensure the best return on investment. As a result of the analyses of the optimal use of real estate, the number of planned mixed-use projects, last-mile logistics and residential investments replacing of older office and retail buildings may increase.

Mixed-use projects and function change

Both in Warsaw and on the regional markets, there is an increase in multifunctional projects aimed at diversifying functions, more consciously shaping the urban fabric, but also minimizing risks for investors.

Another form of diversifying of functions is to change the function of previously mainly office areas and supplement them with other functions, e.g. residential.

15-minute city

The 15-minute city concept, which offers all human needs - work, shopping, study and entertainment - in one neighborhood, is becoming more and more popular every year. Cities are increasingly willing to implement the concept in their development strategies.

Office

Development inactivity endures

Due to the high construction costs and limited availability of debt financing, development activity in the office market across Poland is forecasted to remain on a low level. This trend will be particularly visible in Warsaw, where new supply will reach only approx. 178,000 m^2 in 2024.

Yields stagnate, while base rents and vacancy rate change

In the following year, stabilization of yields is expected. After the growth in 2023, values are expected to plateau due to decreased development activity, availability of leasable space and adaptation of investors to new market conditions. At the same time, a further increase in base rents and a decrease in vacancy rate are likely to occur.

City center is a magnet for tenants

Tenants are more likely to be attracted to office spaces in central districts. B and C class projects located away from the city center are getting less and less popular, as hybrid work model persists and ESG promotes new spaces in the CBD. Tenants turn away from bigger spaces on the outskirts and move to smaller spaces in central areas, that stand out when it comes to quality and technologies used.

Absorption of the existing supply

Due to low development activity, we are likely to see a further decline in the vacancy rate in Warsaw and regional cities in the near future. Tenants will lease spaces that are available on the market, as the supply of new office space will remain limited. The existing buildings will become fully occupied and tenants will be looking forward to the commissioning of new projects.

Inflation remains the pivotal factor in negotiations

Inflation-indexed rents will probably be one of the main lease agreement negotiations drivers. Due to elevated inflation levels and expectations, headline rents are to increase significantly over time.

Growing share of renegotiations

We expect that in the nearest future there will be an increase in the share of renegotiations of concluded contracts. This will be primarily due to the supply gap, where tenants will have limited possibilities to move to a suitable space. Other factors that will have a significant impact on the increase in renegotiations are high fit-out costs and the mentioned rent indexation.

Smart technologies and AI transform office spaces

Implementation of smart technologies will further shape the office market. All new projects will use the technologies to attract possible tenants and older offices are likely to be renovated and changed by smart technologies in order to remain competitive. Artificial intelligence is one of the technological breakthroughs that is prone to have the biggest impact.

Hybrid work and space optimization

The hybrid work model has become a permanent feature of the office market. Employees demand the right to choose from where they work and are against commuting to the office every day. Flexibility has evolved into a must for job applicants, necessitating its incorporation into the heart of HR strategies. Because of that, optimization of office spaces as well as utilization of flexible spaces will be an important trend in the foreseeable future.

Popularity of coworking spaces grows

Due to the advancing hybrid work model and the expansion of the portfolio of professions performed entirely online, demand for coworking spaces with flexible lease terms is growing.

Adaptation of offices to new requirements

Many of the existing office spaces require adaptation to the new requirements of both employers and employees. After the pandemic, many companies remained in a hybrid model and employees need to be encouraged to come to the office. This can be achieved by e.g. rearranging the space, adding elements associated with home, introducing more wood and plants, etc. Moreover, spaces must be oriented towards the integration of employees within teams and give the opportunity to work together.

Retail

Discount shops and outlets are still becoming more popular

As a result of the significant price increases in 2022 and, to a lesser extent, 2023, consumers' attention has focused primarily on necessities, which has contributed to the increased popularity of discount and outlet shopping. However, it is worth noting that a weakening of consumption is being observed due to high inflation. Lower consumption is also a result of new trends promoting less consumerism and second-hand goods. The trends are expected to continue in the coming years.

People are used to e-commerce

In recent months, the share of online sales in retail sales has increased slightly - it equaled 11.7% in December 2023. It is expected that in the coming months the share of the e-commerce sector in retail sales will remain at a comparable or even higher level due to the the society's shift to online shopping during the pandemic and the shopping habits of the young people.

New e-commerce track

We also looked at changes in e-commerce. The dominance of artificial intelligence, the adaptation of experiences to the needs of consumers, the adaptation of e-shops to online shopping or the expansion abroad. These are a few trends that will dominate e-commerce in 2024.

New technologies in stationary shops

The introduction of new technologies such as augmented reality (AR), self-service checkouts, digital shopfronts and personalization through data are becoming increasingly prominent, such as the Żabka Nano. The innovations being introduced are aimed at both improving customer satisfaction and increasing operational efficiency.

New ideas

For some time now, newer and more automated ideas for running retail facilities have been visible on the market. Temporary shops (pop-up shops), smaller flagship shops, as well as more interactive and seasonally changing concepts are emerging.

Huge supply of retail parks among the newly delivered stock

Developers are continuing the trend of building retail space with more and more retail parks and convenience centers being delivered. Small retail formats are maintaining their momentum. Interest in the retail park and convenience center formats has not decreased in the past few years.

Retail parks in small towns

In 2023, the pandemic-induced changes in the retail and service industry have become entrenched. Consumers still expect convenience, i.e. quick and easy access to meet their immediate needs close to where they live. The answer to consumer demands is premises located in residential developments - both those for sale and in buildings intended for institutional rental.

New brands

Further openings of new retail concepts are expected in 2024. New brands will include those from the Baltic States as well as Ukraine.

Warehouse

Emerging locations became an alternative to mature hubs

Limited availability of labor force, low vacancy rates and rising costs in established warehouse hubs drive the growth of emerging markets. Tri-City, eastern Poland and Szczecin are booming while built-to-suit options in regions such as Bydgoszcz-Toruń, Lublin, Rzeszów, Zielona Góra are more cost-effective.

Development of the automotive sector in Poland

The development of the automotive sector in Poland is expected. The number of new investments already known indicates that electromobility will be one of the sectors driving the development of the industrial and warehouse space sector in the coming year.

Mitigation of the upward trend in vacancy rates

The upward trend in the vacancy rate continued throughout 2023. Today as much as two-thirds of vacant warehouse space is in facilities less than two years old, it can be expected that developers will limit the construction of new facilities in order to first focus on filling existing space with tenants.

Rental stabilization

In 2024, the relatively high availability of already existing industrial and warehouse space may put slight pressure on rental rates. We expect a smoothing of the upward trend and, in some cases, even a reduction in rental rates.

"Nearshoring" - closer to the sales market

In the near future, the stimulus driving the warehouse market will be moving production closer to the sales markets. Poland will become one of the main beneficiaries of this trend.

A higher technical standard

Due to the limited supply of land for warehouse investments, developers are increasingly deciding to build taller buildings with increased floor load capacity, which will rise the storage capacity of goods.


Warehouse management
Dashboard
Overview
Client order
Stockchecks
Replenishments
Machine State
32.04%
23
25%
67%
Fine

Hotels

A surge of new hotel openings continues

The year 2023 brought the opening of many hotels across the country. It will be no different in 2024, due to the fact that Poland is becoming increasingly popular among international brands. More than 25 new investments, by companies such as Accor, IHG, Hilton and Radisson, are planned to open in the near future.

Return to the pre-pandemic state

The hotel sector endured significant impact from the COVID-19 pandemic. However, with the upturn in domestic and foreign tourist influx, along with rising hotel occupancy, ADR and RevPAR rates, the industry appears to be rebounding to pre-pandemic levels, showcasing signs of continued growth.

The conference industry is still down

Although tourist traffic has largely returned to hotels, conferences and other corporate events are taking place less frequently than before the pandemic. Companies organize some events in a hybrid form and decide to send employees on business trips less frequently. The recovery of this industry will largely determine the situation of the hotel market.

High hotel maintenance costs

A sharp increase in energy prices and the costs of ongoing operation of hotels has a negative impact on the industry and significantly hinders its functioning. Along with high inflation, a strong wage pressure, which in the hotel industry is further exacerbated by the shortage of staff, which has not had time to recover from job cuts as a result of the pandemic and the Ukraine – Russia conflict.

Changing habits

Changes in guests' expectations and habits mean that mass tourism is being replaced by other forms of spending time focused more on contact with nature, slow-life, well-being, health care, as well as individualism and uniqueness of experience. For this reason, there is a noticeable growth in the alternative hospitality segments.

Vacations away from the city

People are increasingly escaping the hustle and bustle of the city and want to get away from the rush of everyday life. For this reason, popularity of trips to quiet places, away from urban centers, is increasing. Tourists are looking for new experiences and less obvious tourist destinations, which has already been noticed by companies operating in the industry.

Short-term rental apartments are conquering the market

Over the recent years, the hotel market's stock noticeably changed due to increasing share of short-term rental apartments offered by platforms such as Airbnb. As these assets guarantee higher rates of return, they are attractive for developers and investors who aim to maximize profits. Since short-term rental apartments seem to meet guests' expectations and may provide a safer endeavor for investors, it is probable that in the following years their share in supply will continue to grow.

Residential

Supply gap and increasing prices

Around 200,000 flats will be completed in 2024, the lowest number since 2018. Combined with the very strong demand recorded in 2023, there will be a supply gap in the following years. Due to the strong demand for residential property, further increases in housing prices are forecast.

New program

“Mieszkanie na Start” is a new housing program which will replace “Bezpieczny Kredyt 2%” in 2024. It is a new state program which will provide a subsidy for mortgages. Further increases in the housing market are expected due to the launch of the new program.

Cash remains dominant

Although most of the media attention in 2023 has been focused on mortgages, cash transactions still account for more than 50% of the housing market. Residential property is still an effective way to protect capital from inflationary depreciation and its popularity as an investment asset does not weaken, especially in the context of people with large savings.

Smart home

A trend that is set to intensify is the growing interest in smart home technology. Customers increasingly expect new homes to be equipped with solutions to remotely manage various aspects of home life, such as lighting, heating or security.

Smaller towns are a better option

The limited supply of flats in the main urban centers and the very high purchase or rental prices have led to an increased interest in smaller cities or the suburbs of conurbations as centers for living. The hybrid working model and the search for a better quality of life outside the congested city centers have also been an important impetus for the change in preferences.

Increased popularity of PRS housing

With the change in housing preferences of Generation Z, which prefers greater mobility compared to older generations, and with high purchase prices of apartments, the PRS market will enjoy increasing interest. PRS is an alternative for people with a limited budget or avoiding long-term commitments.

Conversion of commercial buildings into PRS and PBSA

Investors are increasingly interested in conversion of functions (office and retail buildings) into apartments for rent and dormitories. The trend could certainly deepen in the near future, especially in view of the dwindling supply of land in attractive locations.

Co-living as an emerging trend on major markets

Co-living is a new type of housing based on shared economy model. The intention of this concept is to provide its residents with convenient accommodation and simultaneously empower them to actively participate in life of the surrounding community. On western markets this trend has been known for decades, while in Poland the era of co-living is just beginning.

Investment

Industrial and PRS projects are still the most popular

In 2024, we do not expect a significant change in investor preferences. Warehouse projects, as well as PRS and student accomodation, will continue to attract the most investors.

In their search for opportunities, investors are eyeing up not only primary, but also secondary markets

In view of the insufficient supply of prime products in Warsaw, regional cities are much sought after by investors as a destination for capital allocation. Tier-2 and tier-3 cities have slightly higher risk profiles and a lower depth of the market, however yields are 2-3pp higher. This trend has already been observed on the industrial market.

Older projects may become a hotspot

It is likely that in the near future investors will more often consider acquisition of older projects built many years ago in order to renovate them and adapt them to current market conditions and requirements.

2

Legal and tax aspects of investing in real estate

This Chapter considers the most important legal and tax issues arising during each of the following five stages of a real estate investment:

- Financing
- Acquisition
- Development and construction
- Operation and exploitation
- Sale

The Chapter is arranged so that each of the above aspects is dealt with in a separate section (2.3.-2.8), considering legal implications first, followed by an assessment of related important tax consequences.

The section 2.1 on the legal background (below) will introduce the reader to certain concepts and terms that may not be commonplace in transactions elsewhere in Europe. This should be read as a general introduction to the legal environment in Poland. The chapter also contains section 2.2 on investment vehicles and structures presenting information on the most common structures used in real estate investments in Poland. Taken together, they form the basis for understanding the most relevant legal and tax implications of investing in real estate in Poland.

Legal, financial and tax due diligence are also fundamental to any investment cycle and given the importance of due diligence to any transaction, we discuss the relevant procedures and key considerations in detail in section 2.9.

The year 2023 has brought some important changes in the Polish legal system. Numerous amendments and legal changes were introduced including: spatial planning reform, possibility to acquire land held in perpetual usufruct by defined groups of perpetual usufructees, residential cooperatives, new provisions regulating acquisition of shares in companies having agricultural land as well as further digitization of administrative processes in the field of construction. Some are addressed directly to companies operating in the real estate market while many others may impact them indirectly.

Changes of the real estate law (adopted):

Law on Spatial Planning and Development

On September 23, 2023, the first part of so called "Spatial Reform" entered into force.

These recent amendments to the Law on Spatial Planning and Development and certain other laws primarily provide for the introduction of a new, mandatory planning instrument with a municipality-wide scope - the general plan. It is an act of local law and will replace the study of conditions and directions of spatial development of the municipality. The general plan is intended to be a spatial development scheme, guiding detailed design activities. Its provisions will be taken into account in the preparation of the local zoning plan and will form the legal basis for the zoning decisions.

Existing studies of conditions and directions of spatial development of municipalities remain valid until the date of entry into force of the general plan in a given municipality, no longer than until December 31, 2025. The entry into force of the general plan does not result in the loss of validity of local zoning plans.

Another new vehicle is an **Integrated Investment Plan ("IIP")** - a special form of local zoning plan, which may be adopted by municipality council as a result of an application submitted by an investor. It covers the area of the main investment and complementary investment. Complementary investment means, for example, investment in the construction of buildings for commercial or service activities - as long as it serves the main investment. The investor attaches project of IIP to the application for the adoption of such an IIP, which must meet the requirements for draft local zoning plans. IIP supplements, and from January 1, 2026, will replace the resolution on determining the location of a housing investment, adopted on the basis of the so-called **"special housing act"**.

Another novelty is an **urban planning agreement** – a contract, concluded in the form of a notarial deed, in which the investor can commit to the municipality to carry out a complementary investment. A draft of IIP is an attachment to the urban planning agreement. In such agreement, the investor may, in particular, undertake to transfer to the municipality real estate that is part of the subject of the main investment, to cover all or part of the costs of implementing the complementary investment, or to cover all or part of the costs incurred by the municipality for the enactment of the IIP. The municipality, on the other hand, may undertake, for example, to implement a complementary investment if it falls within the scope of the municipality's own tasks, or exempt the investor in whole or in part from the planning fee. If the investor is the owner or perpetual usufructee of the real estate on which the complementary development is to be carried out, in the urban planning agreement he undertakes to sell this real estate to the municipality.

The amendments also cover issues related to the issuance of zoning decisions. Currently, they are issued for an indefinite period. However, from January 1, 2026, zoning decisions will be issued for five years only.

In order to obtain a decision for an indefinite period of time, it is necessary to complete all formalities before the end of 2025.According to the law, such a decision should be issued within two months, but given that this involves the possibility of appeals and the need to supplement documents, a considerably longer waiting period for such a deed to become legally valid must be expected. Only obtaining a finality clause before January 1, 2026 will make such a decision "indefinite."

The Spatial Reform also introduces an **Urban Register**, kept in an electronic system, which is to be operational from January 1, 2026. The Urban Register will collect information on spatial development planning, including: from resolutions on the preparation of spatial planning acts and municipal revitalization programs or judgments of administrative courts regarding zoning decisions. The data in the Urban Register will be public (excluding personal data) and available free of charge.

Construction law

2023 brought a continuation of the amendments to the Construction Law introduced by the law passed on November 16, 2022 (the changes were implemented successively until the end of September 2023).

The implemented amendments include, among others, the enlargement of the catalog of construction objects and works exempt from the obligation to obtain a building permit decision and make a notification, the introduction of penalties for untimely issuance of a demolition permit decision, improvement the procedure for putting construction objects into use, and creating a Construction Project Database. The new legislation has introduced the Electronic Construction Log. It is expected to enable recording the progress of construction work and all accompanying activities with the execution of the work in an online form. A paper-based, traditional form of construction log keeping will be available to investors until January 1, 2030. After that time, there will be a transition to a purely electronic form.

According to the legislator, the amendments are expected to lead to the improvement and optimization of the investment and construction process.

Amendments to the Act on the Formation of the Agricultural System

On October 5, 2023, amendments to the Act on the Formation of the Agricultural System, containing restrictions on agricultural real estate, came into effect.

Following the amendments, the Act on the Formation of the Agricultural System does not apply to agricultural properties with less than 0.3 hectares of agricultural land. Until now, the Act did not apply to agricultural real estate with an area of less than 0.3 hectares, regardless of what part of it was agricultural land. Therefore, pursuant to amended provisions, if an agricultural property is, for example, 1.5 hectares in size, but the agricultural land is only 0.2 hectares, we do not apply the Act's restrictions to such property.

The new legislation regarding changes in the acquisition of agricultural real estate extends the right of the National Agricultural Support Center ("NASC") to preemptively purchase shares and stocks. Previously, this right applied to the sale of shares or stocks in a capital company that owns or is the perpetual usufructuary of an agricultural real estate with an area of at least 5 hectares, or several agricultural real estates with such a total area. Currently, the pre-emption right also applies to the sale of shares in a parent company that owns shares in a company that owns agricultural real estate or holds such real estate in perpetual usufruct.

In consequence, conducting such transaction requires conclusion of a conditional agreement, notification of the agreement to the NASC and the expiration of a two-month period for exercising the pre-emption right. The NASC's authority to review the books and documents of the company being sold now also applies to the parent company.

The pre-emption right from now on does not apply to the NASC when the disposal of shares is to take place for the purpose of redemption.

Abovementioned amendment to the Act on the Formation of the Agricultural System implemented also few detailed changes re. procedure of purchase of agricultural land.

Violation of the Act on Formation of the Agricultural System with regard to the powers of the NASC may result in the invalidity of the contract or the legal act in question. Therefore, it is important to very carefully examine the legal situation of the property and confirm what part of it constitutes agricultural land, correctly identify the entities involved in the transaction (e.g. whether the buyer is an individual farmer), the type of transaction to confirm whether the pre-emption right or buyout will apply, and other detailed statutory prerequisites.

Amendments to the Act on Real Estate Management

As of August 31, 2023, perpetual usufructees of certain developed properties are able to demand the sale of land held in perpetual usufruct for their benefit, based on new provisions of the Act on Real Estate Management.

Such a request can be made within 12 months from the date of entry into force of the amendment, i.e. until August 31, 2024. After this date, the land owner will be able to refuse to sell the property at his discretion.

The demand for sale is not eligible:

- If the property was given for perpetual usufruct after December 31, 1997
- If the perpetual usufructee has not fulfilled the obligation stipulated in the agreement (or decision) based on which was given the land for perpetual usufruct
- With respect to land located on the territory of seaports and harbors
- With respect to undeveloped land property

The buyout price of the land depends on the percentage of the annual fee for perpetual usufruct of the land, on whether the owner of the land is the State Treasury or local authority unit, as well as the price is paid as single payment or in installments.

In the case of sale of real estate owned by the State Treasury, natural persons meeting particular requirements may be granted a discount of 90% on the real estate price.

In the case of real estate owned by local government units, discounts may be granted on the terms specified in a resolution of the relevant council (commune/county) or the provincial assembly. Discounts are granted in accordance with the rules for granting state aid.

Development Act

As of July 16, 2023, amendments to the Development Act (i.e. the Act on Protecting the Purchaser of a Dwelling Unit or Single- Family House and on Developer's Guarantee Fund) began to apply to developers and other market-related entities, including banks.

The most significant amendments in the Development Act relate to the transfer of the agreements regulated by this Act.

Two major amendments have been implemented in September 2023, to the, so called, Development Act (i.e. the Act on Protecting the Purchaser of a Dwelling Unit or Single- Family House and on Developer's Guarantee Fund). Firstly, changes were implemented to the statutory template of information prospect, i.e. to the document which developers are obliged to hand to the acquirers of the real property. Secondly, provisions of the Development Act were changed in order to enable saving and credit unions (*spółdzielcze kasy oszczędnościowo-kredytowe*) to conduct residential escrow accounts securing payments of acquirers of real properties from developers.

Act on Energy Performance of Buildings

On April 28, 2023, an amendment to the Law on the Energy Performance of Buildings and the Construction Law came into force, introducing, among other things, an expansion of obligations to inspect heating systems and air conditioning systems, or changes to the energy certificates of buildings. According to the adopted regulations, the owner or manager of a building is to subject buildings during their use to periodic inspection of the heating system or air conditioning system, consisting of checking the technical condition of the heating system, taking into account the energy efficiency of heat sources and the adjustment of their power to the needs of use. In addition, owners or managers of buildings with a floor area of more than 500 m² where services are provided to the public, must now display a copy of the energy performance certificate in a prominent place. In addition, investors must attach the certificate to the notice of completion of construction or application for an occupancy permit. Building-specific energy information has to be included in advertisements or announcements for the sale or lease of buildings. The changes also cover notarial aspects - as an obligation has been imposed on notaries to note in the notarial deed the transfer of the energy performance certificate by the seller of the property to the buyer.

Potential changes of the real estate law in 2024:

Amendment of the Decree of the Minister of Development of September 11, 2020 on the detailed scope and form of the construction project

On April 1, 2024, an amendment to the Decree of the Minister of Development dated September 11, 2020 on the detailed scope and form of the construction project will come into force.

Amendments will include:

- Unification and clarification of the methods of determining the developed area of a building
- Introduction of a precise regulation for determining the developed area of the building (the area will be reduced by the area of terraces above ground and supported by columns, cornices, balconies and loggias)
- Changing the calculation of the total area of the building, which will be reduced by the area of terraces, balconies and loggias
- Imposing an obligation to include in the technical design an analysis in terms of technical and material solutions (covering issues such as acoustics)

Amendment to the Construction Law

The new version of the draft amendment to the Construction Law stipulates that construction projects, applications and notifications submitted in the course of the construction process will be allowed in paper form only until September 30, 2024. On October 1, 2024, the traditional form will disappear. All paperwork will only be admissible digitally. Electronic documents will have to be accompanied by a qualified electronic signature, a trusted signature or a personal signature. Applications will be submitted online.

Changes of tax law:

Taxpayers in Poland face significant changes in tax law introduced every year. The amendments continue to be in line with global and European trends aimed at introducing measures against tax evasion and tax avoidance, i.e. actions undertaken within the Base Erosion Profit Shifting (BEPS) initiative by OECD, Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI), as well as works within the European Union, which resulted in developing the Anti-Tax Avoidance Directive (ATAD).

There are also tax changes which originate from the local developments and in many cases they stretch even beyond measures recommended by international bodies.

We highlight below selected key changes which impact the real estate market in 2024.

Tax depreciation in real estate rich companies

From 1 January 2023 in the case of real estate rich companies tax depreciation of real estate cannot exceed the write-offs for accounting purposes. Therefore, as a rule, if a property for accounting purposes is classified as an investment not subject to accounting depreciation but revalued periodically (as opposed to fixed asset that is usually depreciated), this would effectively decrease the tax depreciation to nil.

Minimum tax (not related to BEPS Pillar II)

Minimum taxation which was suspended (immediately after enacting) by the end of 2023 has been in force as of the beginning of 2024, and the first payment will occur in 2025 (together with annual CIT payment – end of March 2025 for those with tax year matching the calendar year).

Tax will apply to taxpayers in a tax loss position or with a tax profitability ratio below 2%.

The new law sets out special rules for calculating losses/profitability for the purpose of the minimum tax along with a different method of determining the tax base compared with what the general rules require.

The minimum income tax rate is 10%.

The tax base is to be the sum of the following:

- 1.5% of operational revenues (other than from capital gains)
- A related parties debt financing cost exceeding 30% of tax EBITDA
- Costs of intangible services or royalties paid to related entities (or unrelated entities with management or headquarters in countries considered as tax havens) exceeding PLN 3 million plus 5% of the so-called 'tax EBITDA'.

It is possible to choose an alternative method of determining the tax base amounting to 3% of the value of revenues other than from capital gains in the tax year.

A list of reductions from the tax base is provided (including i.e. the value of expenses included in the tax year as deductible costs resulting from the acquisition, production, or improvement of fixed assets, including depreciation, year-to-year increase in costs of electric energy purchased for business purposes and 20% of certain employment costs).

The minimum CIT will not apply, among others, to:

I. entities from the financial sector,

II. companies with a simple ownership structure, in which partners are exclusively natural persons and where the CIT payer does not have shares in other entities,

III. start-up companies (the first 3 years of operation),

IV. entities experiencing a sudden drop in revenues of 30% or more.

It will be possible to deduct the amount of the minimum CIT paid for a given year from the CIT calculated based on general rules.

Holding regime

Starting from 1 January 2022 Poland introduced "holding regime" with preferential rules of taxation for dividend distributions as well as transfer of shares in subsidiaries to unrelated acquirers.

These rules have been modified since 1 January 2023 to provide:

- Full CIT exemption for profits from the transfer of shares in subsidiaries to unrelated entities (however, not applicable to disposal of shares in real estate rich entities), as well as
- Full exemption for dividends received from subsidiaries (including entities from outside of the European Union (EU)).

In order to benefit from holding regime, specifically the below conditions need to be met:

- Polish holding company shall operate in a legal form of limited liability company, simple stock company or joint-stock company
- Polish holding company shall not be a part of Polish tax capital group for CIT purposes, shall conduct genuine business activity and shall not be held by entity located in one of jurisdictions applying harmful tax competition/without double tax treaty or treaty on exchange of information with Poland
- Polish holding company shall hold 10% of shares in subsidiary for at least of 2 years.

2.1

Legal background

2.1.1. General remarks

In general, Polish real estate law provides quite clear and stable rules which allow potential investors to make well-founded decisions about entering into real estate transactions. Additionally, there are measures and institutions which enable investors to safely conclude transactions adapted to their needs and expectations.

Below we present key information on real estate law in Poland which constitute the base for other comments in this chapter.

2.1.2. Legal titles to real estate

The most common legal titles to real estate in Poland are the freehold rights, i.e. the ownership right and the perpetual usufruct right, obligation rights, such as lease, lease with the right to collect profits or leasing. Polish law also provides several limited property rights such as easements or usufruct.

Ownership right

Ownership (*prawo własności*) is the broadest right to real estate in Poland. As a rule, ownership comprises the right to possess and use real estate for an unlimited period of time and transfer or encumber the real estate. The ownership right may be limited by statutory law, principles of community life and the socioeconomic purpose of the right. The most common limitations result from construction law and local spatial development plans adopted by local authorities (municipalities).

Right of perpetual usufruct

Perpetual usufruct (*użytkowanie wieczyste*) is a right to use the real estate which may be granted by the State in relation to the land owned by the State or a local authority. In either case the respective entity (the State or the local authority) remains the owner of the land.

The perpetual usufruct right is similar to the ownership, however, there are several key differences:

- The perpetual usufruct right is created for a defined purpose (developing a project or conducting a specific activity) set out in the contract. If the perpetual usufructuary is in breach of these provisions, this may lead to an increase in the annual fees or even termination of the contract by the common court
- The perpetual usufruct right is created for a specific term, in principle for a period of 99 years (not less than 40 years).

The holder of the right may apply for extending the term of the perpetual usufruct for a further period of 40 to 99 years following the lapse of the initial period (to be refused only in case of important social interest).

- The perpetual usufructuary is obliged to pay to the owner a one-off initial fee which amounts from 15% to 25% of the total market value of the land and then an annual fee of up to 3% of the total market value of the land.

The rate of 3% is the basic rate provided by the law; however, there can be other rates (0.3%, 1%, 2%) applied to the real estate assigned for specific purposes, strictly listed in the legal provisions (e.g., 2% for tourists purpose).

Once created, the perpetual usufruct right can be inherited, transferred to third parties or encumbered (i.e. mortgage, easements). The holder of the perpetual usufruct right enjoys the right to use the real property and to draw benefits from it, e.g., rental income.

If the real estate transferred for perpetual usufruct is a piece of developed land, the buildings and other constructions erected thereon are sold to the perpetual usufructuary in addition to the establishment of the perpetual usufruct right. If the buildings are erected after the perpetual usufruct right is established, they also become the perpetual usufructuary's property. Separate ownership of the buildings due to the perpetual usufructuary is a right strictly connected with the right of perpetual usufruct and, in consequence, the buildings share the legal „lot" of the land. In particular, the ownership of buildings may be transferred only with the right of perpetual usufruct. Once the perpetual usufruct right expires, the holder of the right is entitled to a reimbursement corresponding to the current market value of the buildings and other improvements legally implemented on the land that is the subject of the perpetual usufruct right.

Conversion of the perpetual usufruct into ownership in general requires consent of an owner of a real estate (the State or a local authority) and is executed in a civil law sale agreement (buyout). Pursuant to provisions of law which entered into force as of August 31, 2023, such sale of real estate to a perpetual usufructee is not allowed before the expiration of 10 years from the date of the conclusion of the agreement on giving the real estate for perpetual usufruct.

The rules for allocating real estate for sale to its perpetual usufructees are set by the governor (*wojewoda*) (for land owned by the State Treasury) or the relevant council (*rada*) or assembly (*sejmik*) (for land owned by local government units). The authorities should be guided by, among other things, the needs of the local community, the public interest or spatial order. The provisions also regulate rules of buyout price calculation, which differ between the land used for business purposes and land used for other purposes.

However, selected perpetual usufructuaries (in particular natural persons), subject to certain conditions, may demand perpetual usufruct be converted into ownership in a simplified administrative procedure.

In addition to the procedures described above, as of August 31, 2023, perpetual usufructees of certain developed properties are able to demand the sale of land held in perpetual usufruct for their benefit, based on new provisions of the Act on Real Estate Management.

Such a request can be made within 12 months from the date of entry into force of the amendment, i.e. until August 31, 2024. After this date, the land owner will be able to refuse to sell the property at his discretion.

The demand for sale is not eligible:

- If the property was given for perpetual usufruct after December 31, 1997
- If the perpetual usufructee has not fulfilled the obligation stipulated in the agreement (or decision) based on which was given the land for perpetual usufruct
- With respect to land located on the territory of seaports and harbors
- With respect to undeveloped land property.

The buyout price of the land depends on the percentage of the annual fee for perpetual usufruct of the land, on whether the owner of the land is the State Treasury or local authority unit, as well as the price is paid as single payment or in installments.

In the case of sale of real estate owned by the State Treasury, natural persons meeting particular requirements may be granted a discount of 90% on the real estate price.

In the case of real estate owned by local government units, discounts may be granted on the terms specified in a resolution of the relevant council (commune/county) or the provincial assembly. Discounts are granted in accordance with the rules for granting state aid.

In the case of real estate owned by local government units, discounts may be granted on the terms specified in a resolution of the relevant council (commune/county) or the provincial assembly. Discounts are granted in accordance with the rules for granting state aid.

The usufructee's right to demand the sale of land held in perpetual usufruct for their benefit described above has been implemented in line with the general objective of future liquidation of perpetual usufruct right in Polish legal system. First step on the way to this goal was taken on 1 January 2019 when the perpetual usufruct of lands developed for residential purposes was converted into ownership right by virtue of law.

Leases

Polish law distinguishes between two types of leases: lease (*najem*) and lease with the right to collect profits (*dzierżawa*). Leases are used mainly for commercial and residential premises. Leases with the right to collect profits are used especially for industrial and agricultural property. Under a lease agreement, the lessor undertakes to hand over the real property for the lessee's use for a fixed or non-fixed term, and the lessee undertakes to pay the lessor an agreed rent. The contract for lease with the right to collect profits, however, provides for the lessee's additional right to collect profits from the real estate.

Currently, so-called green leases are rapidly gaining popularity in the Polish real estate market. These are a type of commercial space lease agreement combining the interests of the contracting parties in energy efficiency, water management and the use of environmentally friendly measures. In European Union member states, green lease regulations are part of a broader ESG strategy. The wider input on this topic is presented in the chapter "ESG in Real Estate".

Easements

Easements (*służebności*) over land are limited property rights which may be granted over a piece of real estate (encumbered property) for the benefit of another piece of real estate (master property). Depending on the content of an easement deed, the holder of the master property may be entitled to a limited use of the encumbered property (active easement), or the holder of the encumbered property may be restricted in the exercise of his own rights for the benefit of the master property (passive easement).

Polish law distinguishes between two types of easements:

- Ground easements, which are established for the benefit of the owner or perpetual usufructuary of the land and are transferred together with the property (whether that encumbered or the master property)
- Personal easements, which are established for the benefit of a natural person and are non- transferrable (nor can the right to exercise them be transferred).

The Civil Code also lists a separate category of easement, i.e. utility easement which may be established for the benefit of entrepreneurs being utility providers. A utility provider may ask the land owner to establish an easement over his land in order to install (and then operate and maintain) e.g. electricity cables, installations serving to supply and to channel liquids, gas, steam or other facilities. If the real estate owner refuses, the utility provider may demand that an easement be established in return for an appropriate remuneration.

It should be noted, however, that easements are not always disclosed in the land and mortgage register.

In consequence, the potential investor should verify whether such rights are not being executed by carrying out an on-site inspection, i.e. during a due diligence review.

Usufruct

Usufruct (*użytkowanie*) of real estate is a limited property right which allows its holder to use the real estate and collect benefits similar to those to which the ownership holder is entitled. The scope of the usufruct may be limited by specified profits being excluded, or to a designated part of the real estate. Usufruct is created by a contract. Usufruct is non-transferable, strictly connected with the usufructuary, so the right expires on the usufructuary's death (or liquidation, in the case of legal entities). Moreover, a usufruct expires if not exercised for ten years.

Usufruct is similar to lease with the right to collect profits, yet its legal nature is different. Usufruct, as a limited property right, is effective *erga omnes* (it is effective in respect of third parties) and lease with the right to collect profits is effective only between the parties to an agreement.

2.1.3. Real property registers

There are two types of land registers in Poland: the land and mortgage register (*księga wieczysta*), the main purpose of which is to register titles and encumbrances over real estate and the land and buildings register (*ewidencja gruntów i budynków*), the main purpose of which is to describe the physical features and the use of the land and buildings.

Land and Mortgage Register

Land and Mortgage Registers are kept by district courts and provide information on the legal status of real estate, e.g., the location of parcels of land, the ownership status of land, encumbrances on the land, mortgages.

Land and Mortgage Registers are publicly available for review by anybody (even those with no legal interest) and may be also reviewed on-line, *via* IT system.

Entry of a right in the land and mortgage register is presumed to reflect the actual legal status of the real estate. Should there be any inconsistency between the legal status of real estate, the content of the register prevails in favor of the person who acted in good faith (*rękojmia wiary publicznej ksiąg wieczystych*). In consequence, if a purchaser acquires a property in good faith from a non-owner registered as owner, the acquisition is valid, and the true owner cannot argue to the contrary. His only recourse is an indemnity claim against the vendor. In consequence, an excerpt from the land and mortgage register is the key document that should be obtained and analyzed before a decision to acquire real estate is made.

The public credibility warranty does not confer protection on gratuitous dispositions or those made in favor of the acquirer in bad faith. It is also excluded by a mention in the land and mortgage register concerning e.g., filled, yet unexamined application to the register.

Land and Buildings Register

The land and buildings register is kept by local authorities and is a uniform collection for the whole country of systematized, updated data on land, buildings and premises, their owners and other natural persons and entities holding the land, buildings and premises.

2.2 Investment vehicles and structures

2.2.1. General remarks

According to the Polish Commercial Companies Code of 15 September 2000 (hereinafter referred to as the Commercial Companies Code) the legal entities can be divided into two groups: partnerships and companies. There are two main differences between them: (i) generally, partners in a partnership take full responsibility for the partnership's liabilities (subsidiary responsibility) and (ii) partnerships are not legal persons, however, they may acquire rights and incur obligations.

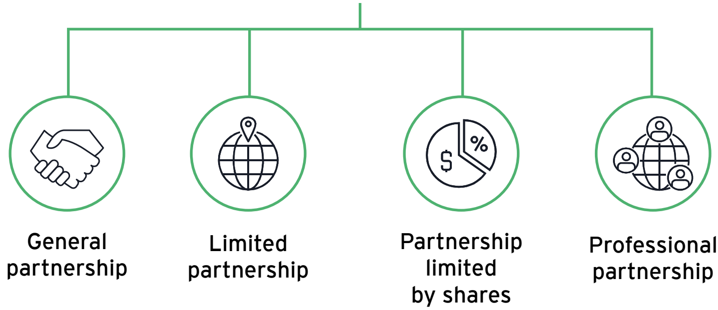
Investing in real property is generally carried through separate entities - so called special purpose vehicles (SPV). Polish legal regulations do not impose any specific legal form for such an entity. Consequently, an entity organized in any form legally accepted in Poland may serve as an SPV, however in practice these most frequently operate as limited liability companies and limited partnerships, which will be presented below as constituting legal forms most commonly used by the investors.

There are two ways for an investor to introduce the SPV into its capital structure: the SPV may be bought or established by the foreign investor. There are numerous service providers offering the sale of established companies or partnerships (so-called „shelf companies"), that can be used straight away. However, this is always more expensive than setting up a new entity.

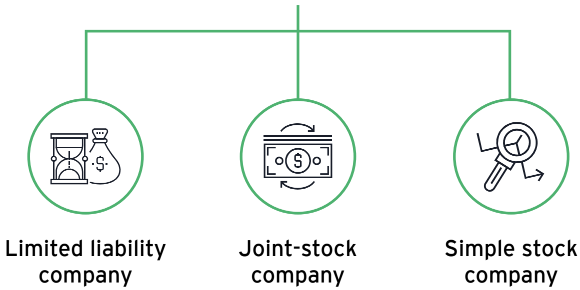
Apart from the legal forms mentioned above, a foreign investor may also operate in Poland and invest in real property:

- Directly through its branch.
- By entering into a joint-venture.

Partnerships



Companies



2.2.2. Limited liability company

A limited liability company (*spółka z ograniczoną odpowiedzialnością*) is commonly used as the SPV for real estate investments or development projects. The features of the limited liability company are set out in the Commercial Companies Code, the most important of them being:

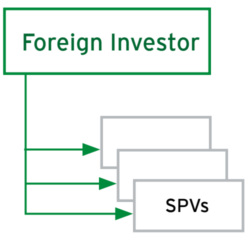
It may be created by one or more persons for any purpose allowed by law (it may not be formed solely by another single-shareholder limited liability company)
Liability of the shareholders is limited to their contribution to the share capital of the company
The share capital of the company shall amount to the minimum of PLN 5,000 (ca. €1,156) and is divided into shares of equal or non-equal nominal value
Limited liability company is a legal person and as such, it is a party to specific rights and obligations
It acts through its body, i.e. the management board; the members of the management board, in general, are not liable for the company's liabilities.

The Commercial Companies Code provides for an institution of a "company in organization". This means, that a limited liability company set up by signing the articles of association may acquire rights on its own behalf, including the right of ownership of real estate and other rights, incur obligations, sue and be sued even before its registration with the registry court (which takes approximately 4 weeks since application to relevant court was filed).

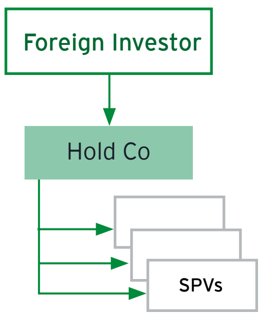
It is also possible to register a limited liability company with the registry court via the Internet, however this includes certain restrictions – limited possibility to form the contents of articles of association and exclusion of in-kind contribution.

The SPVs may be set up directly by the foreign investor, being the only shareholder. It is possible to establish several SPVs by the same shareholder in order to divide the investment risk between them. However, depending on the preferences of the investor and bearing in mind possible overall effectiveness, a simple one step structure may be enlarged and involve, for example, a holding company, abroad or in Poland, which manages the investment holds the shares of the SPVs.

One step structure with several SPVs, allowing diversification



A structure with a holding company, gathering several SPVs



2.2.3. Simple stock company

A simple stock company ("SSC") is easier to set up than a classic joint stock company, and it is also easier to exit from such form of investment. From the point of view of investors, the most important changes are:

- Low share capital required to establish the SSC - 1 PLN
- A flexible approach to SSC bodies, including the possibility of establishing a board of directors that combines the features of management and supervisory boards
- Simpler procedures and greater freedom to adopt SSC resolutions remotely by e-mail or instant messaging
- Possibility to establish the SSC via the Internet, in the governmental "S24: system
- SSC shareholder register in digital form, maintained by a notary public or brokerage firm
- Easier disposal of SSC's funds - no "frozen" share capital
- Simple rules for liquidating the company and shorter time required for liquidation.

A SSC can be set up by a sole person or by more than one person. It will not matter if any of the persons setting up the SSC are already entrepreneurs. A simple joint stock company will also be able to be formed by legal entities, such as other companies. The only restriction is that a SSC cannot be formed by a single-member limited liability company.

An important novelty is the possibility to liquidate a SSC by transferring all the assets of the company to one of its shareholders. Such a resolution must be adopted by the general meeting of shareholders by a 3/4 majority vote. The shareholder who takes over the company's assets is obliged to satisfy the claims of other shareholders and the company's creditors, if any. The final decision on the admissibility of such a takeover of the assets by one of the shareholders is made by the registry court.

2.2.4. Partnerships

The main features of partnerships are the following:

- Partners act in the name of the partnership
- Partners are responsible for the liabilities of the partnership
- The assets of the partnership include any property contributed to the partnership
- There are no minimum capital requirements (excluding the partnership limited by shares in case of which the minimum share capital amounts to PLN 50,000, i.e. ca. €11,558)
- Although it is not classified as a legal person, a partnership may acquire rights on its own behalf, including the right of ownership of real estate and other rights, incur obligations, sue and be sued
- In recent years the number of partnerships used for the purposes of investment structures significantly grew.

Limited partnership

A limited partnership (*spółka komandytowa*) is a partnership of which at least one partner is liable to the creditors for the obligations of the partnership without limitation (the general partner - *komplementariusz*) and the liability of at least one partner (the limited partner- *komandytariusz*) is limited to the value defined in the partnership agreement.

As a consequence, rights and obligations in the partnership should be split between two entities (limited partner and general partner). It is a common practice that the investor takes the role of the limited partner in order to avoid the full liability, whereas an additional limited liability company is established to serve as a general partner in the SPV. In case of limited partnerships also various structures may be involved, depending on the specific needs of the investor. Most commonly however, the limited liability company will possess a minority position in the SPV and will be a 100% subsidiary of the investor, nevertheless it may take specific functions in the SPV - e.g., management duties.

Partnership limited by shares

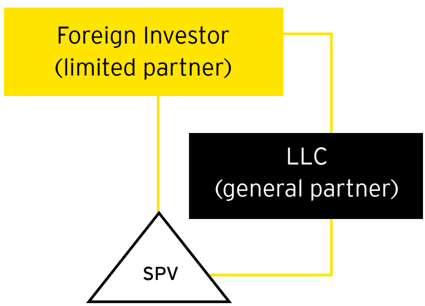
A partnership limited by shares (*spółka komandytowo-akcyjna*) conducts a business enterprise under its own business name, where at least one partner (general partner - *komplementariusz*) bears unlimited liability towards the creditors for obligations of the partnership and at least one partner is a shareholder (*akcjonariusz*).

Partnership limited by shares is the only partnership in case of which there are minimum share capital requirements, i.e. the share capital of at least PLN 50,000 (ca. €11,558).

The specific features of this entity results in two kinds of involvement in the partnership, the general partner represents the partnership and takes subsidiary responsibility for the partnership's obligations, while involvement of the shareholder is purely of a financial nature.

The partnership limited by shares is subject to some additional restrictions provided for by the Commercial Companies Code:

Structure with limited partnership



- In case of in-kind contributions the auditor's opinion is required
- Profit-sharing occurs in groups (separately shareholders and general partners).

	Limited liability company	Limited partnership
Legal personality	YES	NO
Can be established by a single shareholder/ partner	YES (NO if to be established by a LLC, which has only one shareholder itself)	NO
Can acquire real property	YES	YES
The shareholders/ partners are personally liable for the company's debt	NO	general partner - YES limited partner - NO
Minimal share capital	5.000 PLN (ca. €1,155)	NO
Management board	obligatory	NO
Supervisory board	voluntary*	NO
Taxation of income (from exploitation or sale of assets)	19%/9% at the company level	19%/9% at the partnership level
Taxation of the distribution of income to shareholders/ partners	19% under certain conditions there can be relief for shareholders who are legal persons (based in Poland or in the EU/ EEA). Reduced rates for foreign shareholders on the basis of double taxation treaties (depending on the treaty).	19% - expected that under certain conditions there can be relief for partners who are legal persons (based in Poland or in the EU/ EEA). Reduced rates for foreign partners on the basis of double taxation treaties (depending on the treaty). Practice to be observed.

	Limited liability company	Limited partnership
Civil law transaction tax on shareholder/ partner loans	NO	0.5% on the value of the loan payable by the partnership
Applicability of interest deduction limitation rules	YES	YES
Ability to offset profits and losses from various projects (carried out in separate companies/ partnerships)	NO only in the case of establishing a tax capital group	NO
Taxation in Poland of the sale of shares in the company/ partnership	19% possible relief for foreign shareholders on the basis of double taxation treaties (depending on the treaty), but rather rare for real estate rich companies under most of modern tax treaties	19% possible relief for foreign shareholders on the basis of double taxation treaties (depending on the treaty), but rather rare for real estate rich companies under most of modern tax treaties

Tax features

Limited partnerships and partnerships limited by shares are treated as CIT taxpayers in Poland. In a similar manner, general partnerships shall be subject to CIT in Poland where partners (who are not exclusively individuals) in such a partnership are not disclosed to the tax authorities.

Partnerships pay other taxes, such as VAT, real estate tax, and civil law transaction tax, and they may pay withholding taxes (e.g. withholding tax on interest and royalties as well as withholding tax on remuneration paid to individuals, as a tax remitter).

The table above compares the business and taxation aspects of the limited partnerships and limited liability companies:

Due to changes to regulations, tax attributes of limited liability company and limited partnership in an investment structure become similar with some minor differences such as:

- The general partner is entitled to reduce the amount of tax by an amount corresponding to the tax paid by the company attributable to his share in the company's profits
- Exemption of up to 50% of the limited partner's income from taxation but not more than 60k PLN.

Cross-border structure

Typically, foreign investments are structured in such a way that the overall level of taxation of the financing, exploitation, and potential capital gain is appropriately managed, seeking to avoid double taxation.

The tax treaties concluded by Poland should prevent double taxation. Investigating the tax treaties and the applicable rules in the different relevant jurisdictions will help to determine what structure, given the specific circumstances, should be arranged.

Additionally, bearing in mind the general anti avoidance regulation introduced to the Polish tax regulations and CFC („Controlled Foreign Company") rules, the cross border investments should be each time carefully examined and properly structured also from the business perspective to ensure their effectiveness from the tax point of view.

2.2.5. Joint venture

Polish legal regulations do not provide any definition of a joint venture, nevertheless, it is a useful solution to combine entrepreneurs' efforts in achieving the common goal.

The joint venture constitutes cooperation of two entities resulting in setting up a new company (the investment on such basis is carried through the given company, as described before) or it may be only a very close cooperation between the two entities, which allocate capital for activities implemented jointly by sharing costs and revenues under a joint venture contract, without creating a separate business entity.

The objectives for the creation of joint ventures are:

- Gaining access to new markets
- Synergies
- Risk diversification
- Achieving economies of scale
- Gaining access to cheaper sources of supply and cheaper financing
- Joint development and sharing of technology
- Overcoming barriers and administrative duties created by the country of one of the partners.

2.2.6. Investment Fund - closed-end fund

The sole object of the investment fund's activity is to invest the monies acquired from the participants in shares, securities, money market instruments and other property rights - including real property.

The Act of 27 May 2004 on the Investment Funds differentiates in general between Open-End Investment Fund and Closed-End Investment Fund (hereinafter referred to as FIZ).

FIZ is a legal person. The primary principle of the FIZ is the fixed number of participation titles (investment certificates) issued in exchange for contributions made by its participants (investment certificate-holder). FIZ does not issue participation titles on every demand of an investor as is the case with the open-end investment funds, but rather in discretionary periods of time. In order to subscribe for investment certificates, the participant has to make a contribution to the FIZ. Generally, the participants may contribute to the FIZ cash, shares or real estate.

The FIZ's bodies are the Management Company, the Board of Investors (controlling body) and General Investor's Meeting.

The Management Company (*Towarzystwo Funduszy Inwestycyjnych*) is a legal entity separate from the Investment Fund. According to the legal provisions only a joint-stock company with its registered office in Poland holding authorization to conduct the activities related to creating investment funds and managing them issued by the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*), may be an investment fund management company. This means that the Management Company carries out its activities on the basis of the permit issued by the Polish Financial Supervision Authority and under its supervision.

A Management Company may be formed by an investor, however, it is common practice that already existing Management Companies are engaged to take this role. In such a case an investor makes an agreement with a Management Company.

Consequently, the investor only holds investment certificates in the FIZ and through this structure invests in particular property.

The Management Company fulfils two primary functions: (i) at the beginning - it acts as a founder of the FIZ, (ii) when the FIZ is established and registered - it becomes its governing body (represents FIZ in transactions with third parties).

In accordance with the Act on Investment Funds, the Management Company shall be liable to the participants in the FIZ for all the damage caused by the failure to perform or improper performance of its duties as regards the management of the FIZ and its representation.

The above shows that the structure needed to implement FIZ is complex and requires:

a) engaging a Management Company,

b) establishing an FIZ,

c) establishing the operating companies, which may acquire the real property.

Establishing a FIZ structure has important advantages. First of all, it allows for additional financing for the investments to be raised by selling investment certificates. This may be very useful in entering in larger, long-term real property investments.

Similarly, a foreign investment fund established in the EU or EEA country could be used (the Polish CIT provides for such a possibility explicitly).

Income of FIZ or a foreign investment fund resulting from:

- A share in profit generated by tax transparent entities
- Interest on loans issued to tax transparent entities and interest on those entities' other liabilities towards the fund
- Interest on a share in tax transparent entities
- Donations/ gifts or other free or partially free benefits from tax transparent entities
- Interest (discount) on securities issued by tax transparent entities
- Transfer of securities issued by tax transparent entities or shares in such entities.

is not CIT exempt. Conversely, other income (not mentioned above) could benefit from the CIT exemption.

2.2.7. Real estate investment trusts

General remarks

Real estate investment trust (hereinafter referred to as REIT) is a fund investing in commercial real estate, guaranteeing a regular dividend for investors. According to the European Public Real Estate Association, the average dividend funds in Europe for the period 2010- 2015 amounted almost 5 percent. Worldwide, REITs offer investors many advantages: high liquidity and rate of return, exemption from corporate income tax and, finally, a regular dividend of up to 90-100 percent of profit.

However, despite the extensive legislative work carried out in the previous years, this form of investment has not yet been regulated by the Polish law.

2.2.8. Public-private partnership

General remarks

Public-private partnership (hereinafter referred to as PPP) is one of the rising forms of cooperation between public authorities and the private sector. It allows for an increase in the efficiency of public services through the use of private sector experience and for the sharing of risk between public and private entities.

PPP enables a mutual advantage for the public and private sector - for public entities it guarantees an additional source of capital and as a consequence provides the public sector - with funds to allocate for other purposes. On the other hand, the public sector may provide to private investors the long-term certainty of cash flows from public sources.

In Polish law the legal framework for PPP is established by two acts that regulate the cooperation between public entities and private partners:

- The Act of 19 December 2008 on Public-Private Partnership, hereinafter referred to as the Act on Public-Private Partnership
- The Act of 21 October 2016 on Concession for Works and Services, hereinafter referred to as the Act on Concessions, which has replaced the previous Act of 9 January 2009 on Concession for Works and Services.

The main similarities between the Act on Public-Private Partnership and the Act on Concessions are as follows:

- Cooperation between a public and private partner
- Private partners receive payments for the service rendered
- Constitute a special form of tender agreements.

A competent authority in the matter of public-private partnership to the extend regulated in the Act is the Minister competent for regional development. However, according to the recent amendments, issues related to the preparation or implementation of projects under public-private partnership may be entrusted to Polish Development Fund S.A.

Selection of the private partner

The Act on Public-Private Partnership basically distinguishes two ways of selecting the private partner. The ways of selection depend on the type of the private partner's remuneration and are as follows:

- If the remuneration of the private partner is represented by the right to exploit the work or services that are the subject of the contract or in that right together with payment selection of the private partner shall be done applying the Act on Concessions subject to provisions of the Act on Public-Private Partnership
- In other cases, the selection of the private partner shall be done applying the provisions of the Act of January 29, 2004 on Public Procurement Law (hereinafter referred to as Public Procurement Law) subject to provisions of the Act on Public-Private Partnership.

In cases where the Act on Concessions and Public Procurement Law do not apply, the selection of the private partner is made in a way that ensures the maintenance of fair and free competition, as well as the principles of equal treatment, transparency and proportionality. If the public partner brings in real estate as its own contribution, the provisions of the Act of August 21, 1997 on the Property Management (hereinafter referred to as the Act on Property Management) must be taken into account.

Implementation of PPP

Pursuant to the Act on Public-Private Partnership public and private entities conclude an agreement under which the private partner commits itself to implement the project at an agreed remuneration and to cover in whole or in part the expenditures for project implementation, or cover them through a third party, while the public entity commits itself to collaborate for the purpose of achievement of the project goal, in particular by making its own contribution. The PPP contract can also provide that for the purpose of its performance, the public entity and the private partner shall establish a company, or the private partner can join the company established by the public entity.

Financial restrictions

The total joint amount up to which bodies of government administration can contract financial liabilities on the basis of contracts of PPP in a given year is specified in the Budget Act.

However, as a rule, the financing of a project from the State budget to the amount exceeding PLN 500 million requires a consent issued by the minister responsible for public finance. When issuing the consent the minister responsible for public finance shall consider the influence of the planned budget expenditures on the safety of public finance.

The concession contract - legal basics

The Act on Concessions specifies the rules and procedures for contracting concessions for works or services and the legal protection measures.

The duration of a concession contract should take into account the recovery of the concessionaire's expenditure incurred with reference to the performance of the concession. A concession contract is concluded for a limited period.

The concessionaire under the concession signed with the concession-granting authority is obliged to perform the subject of concession for remuneration, which constitutes in case of:

- The concession for works - exclusively the right to exploit the works that are the subject of the contract or in that right together with payment by concession-granting authority
- The concession for services - exclusively the right to exploit the services that are the subject of the contract or in that right together with payment by concession-granting authority.

2.3

Real estate financing

2.3.1. Modes of financing the SPVs/investments

The most important thing in starting investments, is to provide financing for the SPVs, so they can operate and develop real property.

There are several methods of financing the company, some funds can be received from outside, but some may come from the capital group - e.g. from the parent company. In many cases both solutions are possible.

Loan and credit agreement

By loan agreement a lender undertakes to transfer the ownership of a certain amount of money to a borrower, while a borrower undertakes to return the same amount of money. Loans can be granted by any entity/person and may be relatively freely regulated by the parties.

A credit agreement is a specific kind of external financing, which is regulated by the Banking Law of 29 August 1997 and can be granted only by banks. By a credit agreement a bank agrees to provide a specific amount of money for a specific purpose and time, and the borrower agrees to use the credit for its intended purpose, and pay back the amount of credit along with due reward in the form of bank interest.

On the financial market there is a wide choice of bank credits and their price depends on various factors as: duration, available collaterals, financial condition of the borrower. Additionally, banks may charge the borrower with a different fees such as, for instance, a preparation (origination) fee for all work connected with the preparation of the credit, or a commitment fee for and undrawn portion of the credit. Banks also generally require certain collaterals for the credits. Among others, the most popular are:

- Mortgages
- Share pledges
- Asset and bank account pledges
- Powers of attorney to bank accounts
- Security assignments of receivables of the borrower
- Notarial submissions to execution
- Subordination agreements.

A mortgage is the common form of security required by Polish banks - especially required in real estate financing transactions.

Mortgage shall be defined as a right, under which the lender (creditor) may satisfy his claims from the property, regardless who is the current owner of the property, and with priority over other personal creditors of the borrower, whose credits are not secured with mortgage.

A mortgage becomes effective after entering in the Land and Mortgage Register. The entry takes effect at the date of filing, so even though the registration may take several months, market practice is such that banks pay out the amount of the credit before the entry takes effect but upon receipt of confirmation of filing of the application for registration of a mortgage in the Land and Mortgage Register.

A mortgage is a very secure solution for the bank, as in the case of the debtor not being able to pay off his debt, the real property may be sold in a public auction and thus, the bank may retrieve the whole amount of debt.

Shareholder's loan

A loan from shareholders has two important advantages over the bank loan. First, it is in general a cheaper solution and what is more, it does not bare the risk of enforcement in case of difficult financial situation of the borrower.

Bonds

Bonds can be issued by a legal entities, including legal entities from outside the territory of Poland if they conduct business activity or has been established in order to issue bonds, a partnership limited by shares, credit unions, local government units and financial institutions. Bonds can be defined as securities that are issued in series and certifies that the issuer is a debtor of the bondholder and assumes an obligation towards the bondholder to provide specified benefits. Bonds may be either registered or bearer bonds.

The advantage of this form of financing is the ability to fairly freely determine the benefits that are associated with bonds.

The construction of the bonds does not have to be limited to a simple financial benefit in the form of repayment of the bonds plus interest representing an income of the bondholder. While issuing bonds, the company is free to formulate the gratification to be provided to bondholders, such as the possibility of participating in profits of the company, or the conversion of bonds into shares.

The bonds may be distributed on an open market (by way of a public offering), in search for an outside financing, or serve as a mode to transfer funds from another related company. It should be noted that there are several companies in the real estate sector listed on the Polish bonds' open market.

In the case of SPVs which aim to obtain financing from the shareholders, the gratification (a mutual benefit) to the parent company as a bondholder will be of secondary importance. A practical solution is that if the SPV generate future earnings from real property, bonds could entitle bondholders to participate in the profit.

Due to the high degree of freedom in the framework of this instrument, it is very recommended as an optimal way to bring the funds downwards.

We would like to note, however, that the issuing of bonds creates additional obligations for the bond issuer, related to providing data to assess the financial condition of that entity. Additionally, if the issuer operates for more than a year, it is required to provide financial statements prepared as at the balance sheet date, no earlier than 15 months before the date of the publication of the terms of issuing the bonds, along with the auditor's opinion.

Promissory notes

In order to obtain financing SPVs may issue promissory notes.

A promissory note may include a deferred payment date. It should have a clearly defined due date, in the form of a calendar date. There are exemptions from this rule - e.g. an 'a vista' promissory note - which provides that the payment is made on demand from the payee or within a certain period after the demand. Additionally, an 'in blanco' promissory note allows a payee to fill in (at its own discretion) - the conditions of such promissory note (e.g. date of payment) within the scope foreseen by a mutual agreement.

The obligation from the promissory note does not have to be accompanied by any other legal relationship that it secures. It means that the holder has an unquestionable claim from promissory note, even if, for example, promissory note liability was not based on any other particular obligations - such as loans.

Similarly as in the case of the loan agreement, the issuer of a promissory note becomes a debtor. With the use of a promissory note, SPVs can easily obtain funds from the parent company in a less formal, quicker way and easily settle the debt in any suitable timeframes.

Increase of share capital

Raising capital is a common way of financing companies. It can be carried by increasing the nominal value of the shares existing or creating new ones; both ways lead to an increase of the share capital.

This process is associated with either changes in articles of association (a formal mode that requires filing the changes in the articles of association with the National Court Register) or an increase based on the current provisions of the articles of association (informal mode). The aim is to change the capital structure of the company by defining the share capital at a higher than current level. To cover the increase of the share capital, the funds may be paid in cash or in-kind contributions can be made.

The capital increase is a more formal process in comparison to the additional contributions (referred to below) and loans, but the advantage of this form of financing is the ability to contribute in various forms, such as cash or in-kind.

A significant drawback of this method of financing SPVs is relatively difficult process of withdrawing the invested capital.

This is carried through the reduction of share capital (Articles 263-265 of the Commercial Companies Code), which involves again additional costs (notification, registration) and is time-consuming (e.g. includes three months for objection to the reduction that can be brought by creditors).

Additional contributions

This method of financing is provided by the Commercial Companies Code, but it is applicable only to the limited liability company. According to the provisions, the articles of association of the company may require the payments (additional contributions) from the shareholders in a specific amount paid by the shareholders in proportion to their shares. In fact, it is worth noting that partnership agreements can also oblige the partners to additional payments - such a solution is possible based on the freedom of contract principle.

Payments of additional contributions in a limited liability company do not affect the value of shares in the share capital of the company, and therefore the share capital of the company remains unchanged after the additional contributions. The payments increase the company's own funds, which are thus quite freely allocated for the specific need, and this is certainly beneficial for the SPV.

2.3.2. Tax implications

Equity financing versus debt financing

Below we present the main differentiating factors when considering the two form of financing the investments.

	Equity financing	Debt financing
Forms of financing	Capital injection In-kind contribution Additional payments to share capital	Shareholder loans Bonds Other debt instruments
Receipt and repayment subject to income taxation?	NO Equity financing is generally subject to a 0.5% civil law transaction tax on share capital increase. Contributions to a reserve capital (share premium) should not be subject to civil law transaction tax. The tax must be paid within 14 days of the date of the agreement. The tax liability rests with the company.	NO Loans are generally subject to civil law transaction tax at the level of 0.5% of the loan principal. The tax must be paid within 14 days of the date of the loan agreement, and the tax liability rests with the borrower; several exemptions apply: ▸ Loans granted by shareholders to a limited liability company or joint stock company ▸ Loans granted by foreign entities which are engaged in credit and financing activities (such as group treasury companies) ▸ Loans recognized as an activity subject to Polish or foreign VAT (e.g. bank loans) ▸ Bonds issuance is generally not subject to civil law transaction tax.

	Equity financing	Debt financing
Rights	Shares in the company give shareholders the right to control the company and the right to financial benefits from the company.	Creditors have the right to interest, as a rule no control nor participation in profits.
Forms of repatriation of funds	Dividend Redemption of shares Liquidation proceeds	Interest
Deductibility of payments for tax purposes?	Generally NO Exception: there is a possibility to deduct from the taxable base of the hypothetical costs of obtaining external funds in case the company receives funding in the form of additional payments to equity or retained profits are used. Capital financing costs cannot exceed PLN 250k in the tax year.	YES Subject to interest limitation rules (see below)
Withholding tax (see also additional remarks below)	19% This rate may be reduced or eliminated based on relevant tax treaty concluded by Poland.	20% This rate may be reduced or eliminated based on relevant tax treaty concluded by Poland.

	Equity financing	Debt financing
Applicability of exemptions under EU directives? (see also additional remarks below)	YES EU Parent-Subsidiary Directive (EU PSD), subject to conditions: ‣ The entity receiving the dividend is taxed in another EU/EEA country (or in Switzerland) on its worldwide income (and is not subject to tax exemption on its total income) and ‣ Has held or will hold at least 10% (in the case of a company resident for tax purposes in Switzerland, at least 25%) of the shares in the Polish company paying the dividend for at least two years; this condition can be met prospectively. If the condition to hold the amount of shares for an uninterrupted period of two years is not satisfied, withholding tax (as a rule at 19%) together with the penalty interest for late payment will be due ‣ The legal title for the holding must be ownership rather than any other legal title	YES EU Interest Royalties Directive (EU IRD), subject to conditions ‣ Interest is paid to a related EU/EEA company which holds directly at least 25% of shares of the paying company for an uninterrupted period of 2 years (or the lender and the borrower have a common parent company which directly holds 25% of shares in each of them). The preferential rate should be also applicable in the case where the period of two years of continuous holding of shares lapses after the day of interest payment ‣ Interest recipient is not subject to income tax exemption, applicable to all revenues regardless of the place where they were acquired ‣ The relevant DTT or another international agreement (concluded between countries of the payer and the recipient tax residency) stipulates rights on Poland to demand tax information from the tax authorities of the country of residence of the interest recipient

	Equity financing	Debt financing
Applicability of exemptions under EU directives? (see also additional remarks below)	▸ The double tax treaty or another international agreement vests rights on Poland to demand tax information from the tax authorities of the country of residence of the dividends' owner or the country in which the dividend income is received ▸ The recipient is a beneficial owner of the payment. Irrespective of the EU PSD "pay-and-refund" mechanism is applicable to dividend payments subject to WHT in Poland (unless additional measures are taken).	▸ The recipient is a beneficial owner of the payment. The EU Interest-Royalty Directive rules only applies as long as the interest is set at a market level. Consequently, any off-market portion of interest can be subject to withholding tax at the standard 20% rate (instead of the treaty-reduced rate/WHT exemption) in Poland. Irrespective of the EU IRD "pay-and- refund" mechanism is applicable to certain – including interest and royalties – payments subject to WHT in Poland (unless additional measures are taken).

Additional remarks

WHT pay and refund mechanism

Dividend, interest and royalty payments made to foreign related parties are subject to a “pay and refund” regime instead of a relief at source, meaning that a Polish entity remitting a dividend, interest or royalty payment to a related party is obliged to withhold tax at a standard rate (19% on dividends, 20% on other payments), and the recipient may apply for WHT refund.

WHT exemption or application of a lower WHT rate will be possible in a limited number of cases where a Polish remitter will submit to the tax authorities statement confirming that all conditions for the relief are met (such statement may, however, trigger personal criminal penalties and additional tax liability) or tax authorities will issue a clearing in a form of a special tax opinion. The pay and refund system is triggered when the total amount of qualified payments made to a foreign taxpayer exceeds PLN 2m (ca. EUR 464k) annually.

The relief at source regime should be still available for qualified payments below this threshold and i.a. for payments made to third parties.

The Polish company distributing the dividend or paying out interest to non-residents can be held liable for mistakes, e.g. if it applies an incorrect tax rate.

A certificate issued by a foreign local tax office confirming the tax residence of the foreign dividend/interest beneficiary must be obtained by the Polish company in order to allow application of the lower withholding tax rate or exemption. An additional requirement is that the Polish entity paying dividends/interest should also hold a written confirmation from the recipient that the latter does not benefit from tax exemption on its worldwide income, if the exemption is to apply.

In addition, Polish tax remitter is obliged to assure due diligence when making payments subject to WHT and must follow definition of a beneficial owner (which entails, among others, that a recipient carries out genuine business activity).

Dividends, interest and royalties would not benefit from the EU Parent-Subsidiary Directive or the EU Interest-Royalties Directive based tax exemption if such payments are connected with an agreement, a transaction, or a legal action or a series of related legal actions, where the main or one of the main purposes was benefiting from these tax exemptions and such transactions or legal actions do not reflect the economic reality. For the purpose of the above rule, it is considered that a transaction or a legal action does not reflect the economic reality if it is not performed for justified economic reasons, but results, in particular, in transferring the ownership of shares of a dividend paying entity or in earning revenue by that entity which is then paid as a dividend. As there is no well-grounded practice regarding actual application of similar provisions, details of each structure should be analyzed carefully to determine and address potential issues with taxation of dividends.

Dividends paid between companies which are resident in Poland for tax purposes may be exempt from withholding tax provided that the dividend recipient has held or will hold (on or after the day when the dividend is received) at least 10% of shares in the dividend paying company for at least two years.

If the conditions for exemption are not met, non-creditable withholding tax is levied on dividends at the rate of 19%.

Tax on shifted profits (SPT)

Tax on shifted profits (SPT) is levied on Polish entities; SPT amounts to 19% of costs incurred, with respect to (direct or indirect) payments to a related entity if the following conditions are jointly fulfilled:

- The effective CIT paid by this related entity in the country of its tax residence is lower by at least 25% than the hypothetical CIT that would be due on such payments at the standard Polish rate of 19% (i.e. 14.25% CIT or lower); condition regarding a low effective tax rate (lower than 14.25% or exemption from taxation) should be verified with respect to income earned from the qualified categories of costs and not with respect to the entire income of the foreign recipient

- 50% of revenues earned by the receiving entity are comprised of all qualified payments made by related Polish entities
- Costs forming a tax base for the purpose of the tax on shifted profits would include certain types of payments, among others: payments for advisory services, marketing, market research, control and management, guarantees, financing costs (including interest, commissions), royalties, licenses, payments for the transfer of functions, assets, risks and only if the sum of these costs incurred in a tax year by a Polish CIT payer for the benefit of all recipients amounts to at least 3% or more of all tax costs only to transactions with related parties.

The SPT shall not be levied on costs connected with payments to a related entity tax resident in a European Union country if this entity undertakes a significant, real economic activity in this country.

Redemption of shares and liquidation distributions

The redemption of shares and the return of equity to shareholders are permitted under Polish law. The formal procedure is time-consuming and usually takes several months.

Standard, voluntary redemption of shares is subject to the same tax treatment as disposal of shares. It means that as a rule such redemption will be subject to tax in Poland, unless relevant double tax treaty provides for tax exemption.

Other than voluntary redemption of shares (compulsory redemption of shares) is taxed in the same way as dividends and is subject to the applicable withholding tax (taking into consideration the appropriate tax treaty).

Liquidation proceeds are subject to the same tax treatment as dividend, but any withholding tax relief can only be sought under a relevant tax treaty.

The Polish CIT provisions explicitly state that in case of in kind remuneration for settling the liability (e.g. upon shares redemption or in kind dividend payment) the value of liability settled in such a way constitutes a taxable revenue of the paying entity. This applies respectively also to look through entities.

The distribution in-kind of liquidation proceeds would be also seen as a taxable event in Poland for the entity that is liquidated (deemed sale of distributed assets).

Tax deductibility of interest paid on loans

Generally, interest on loans is deductible for tax purposes when actually paid or compounded (added to the principal so that it constitutes a basis for new interest calculation), i.e. accrued interest may not be treated as a tax deductible cost until it is actually paid or compounded.

Interest on loans drawn from a related lender to acquire shares (and several other capital transactions) in a Polish company should be treated as tax non-deductible. Please note that interest deductible against operating profit of an acquired entity (as a result of any „debt push down" strategies) is not deductible.

It is important to note that interest accrued during the development of real estate on the part of the loan used to finance that development is not directly deductible.

The cost of such interest should be added to the initial value of the newly developed real estate (i.e. the new building) in order to increase the basis of its future depreciation for tax purposes (to the extent such depreciation write offs are deductible in light of new limitations discussed above). However, this rule applies only to real estate which is the company's own fixed asset. It does not apply to projects constructed for resale (e.g. residential projects). In such cases, based on the practice of the Polish tax authorities interest may not be capitalized but be treated as tax deductible under the general rules and limitations (although the practice was changing in this respect over the years).

Level of interest

The Polish tax authorities are usually interested in the conditions of loan agreements concluded between related parties. These conditions should be the same as, or comparable to, the sort of financing conditions which non-related parties would agree upon, in accordance with „the arm's length principle". Too high an interest rate could lead to an adjustment of the Polish borrower's taxable income.

In addition, other conditions in the loan agreement which are unjustifiable or unfavorable to the borrower could result in further tax adjustments. According to regulations governing the documentation of transactions between related parties, taxpayers are required to prepare specific transfer pricing documentation.

Additionally, any interest on debt which exceeds maximum amount of a taxpayer's credit capacity acceptable by a third party creditor is disallowed (so called "arm's length credit capacity").

Restrictions on the tax deductibility of interest paid on loans

Net financing costs (i.e. financing costs offset with interest revenue) are limited to 30% of tax adjusted EBITDA.

The limitation covers all financing (including historic debts that used to benefit from earlier thin capitalization regimes). The limitation also applies to third-party (e.g. bank) financing. Limitations apply if the net financing costs exceed PLN 3m (ca. €695k) annually. Non-deductible costs can be carried forward for 5 years.

Foreign currency financing

As the foreign currency liabilities are reported for accounting purposes in PLN, foreign exchange differences (gains or losses) accrue in the accounting books of the Polish company. Foreign exchange differences accrue also on loan liabilities in PLN denominated in foreign currencies. These gains or losses are recognized for tax purposes only when realized, i.e. when the related liability is paid or set off (or when the due interest is compounded) and should be allocated to appropriate revenue basket. However, audited companies can report foreign exchange gains or losses in accordance with accounting standards upon notifying the tax authorities, provided that such reporting in accordance with accounting standards will continue for a period of at least three tax years.

2.4

Acquisition of real estate - asset deal and share deal

2.4.1. General remarks

As many other jurisdictions, Polish law provides different methods of acquiring real estate by an investor, among which an asset deal and a share deal are the two most commonly used

Both methods bear various legal and tax consequences which have to be considered in any given case and therefore there is no generally accepted rule when a share deal or an asset deal shall be applicable. The interests of the seller and the buyer, the particulars of the case and the power of each party to negotiate have to be considered while choosing one of these two forms.

In practice, if a share transaction is properly structured, this can be the most tax efficient disposal method to use. In some corporate structures, taxes on capital gains may not apply or in some cases may be deferred.

From the buyer's perspective, it is usually more tax efficient to buy the property directly than to buy shares in a company holding the property. The buyer can then depreciate as much as the real market value of the building for tax purposes (subject to general limitations regarding tax depreciation). On the other hand, if the shares are bought at a higher price than the book value of the company's assets, goodwill paid in return for the shares can be recognized for accounting purposes. Unfortunately, such goodwill cannot be amortized for tax purposes. Furthermore, a company owning real estate with a low book value has a deferred tax exposure with respect to any future capital gains made on the disposal of that real estate. Thus, the buyer of shares will most likely try to negotiate a discount on the transaction price to eliminate this negative tax aspect.

The purpose of this chapter is to outline the main features of these two types of real estate transaction from both the legal and tax perspectives, and to examine the consequences of each structure.

2.4.2. Legal aspects

Methods of acquiring real estate by an investor

Asset deal

Purchaser acquires all or some of the assets of the company. It is possible to divide out certain elements, such as real estate and acquire only those parts.

Share deal

Transaction involving acquisition of shares in a company as a result of which the buyer purchases the whole or a part of the shares in the share capital of the company (i.e. the target company)

Definition of a share deal and asset deal

Despite the fact that the share deal and asset deal are equally popular, their object and manner of conducting are different.

The key differences between these two methods of acquisition concern the extension and nature of purchased items and are presented below.

- A share deal is defined as a transaction involving acquisition of shares in a company as a result of which the buyer purchases the whole or a part of the shares in the share capital of the company (i.e. the target company)

- An asset deal is where the purchaser acquires all or some of the assets of the company. Unlike a share deal, in an asset deal it is possible to divide out certain elements, such as real estate and acquire only those parts.

Representations and warranties

In order to secure the purchaser's interest extensive representations, warranties and related indemnities should be included in the share purchase agreement. The scope of warranties and representations as well as detailed legal consequences of their breach have to be regulated in the sale agreement in details as Polish law does not provide for a specific legal regulation of this issue.

- In an asset deal, the seller's representations and warranties concern, in particular, the validity of the seller's title to the real estate, the information regarding encumbrances (if any), the statement confirming that the development has been carried out in accordance with the binding provisions of law and technical plans and that relevant permits are valid
- The seller's representations and warranties in a share deal usually include the representations and warranties typical for an asset deal regarding real estate, but also extensive representations and warranties relating to all aspects of the company's activity: in particular tax, employment, accounting, corporate and contractual matters.

It is recommended that the sale agreement provides for specific instruments supporting the enforceability of the indemnities securing the representations and warranties. In market practice, part of the purchase price is retained in an escrow account or a bank guarantee is obtained from the seller.

Types of agreements

There is a number of documents related to both transactions. Usually, in order to clearly state the intentions, goals to achieve during negotiations and the key principles of the transaction, the parties sign a letter of intent prior to signing the real estate purchase agreement.

Transfer of the property-related rights

In many transactions, it is necessary to obtain various types of consents or permits regarding the transfer of the rights related to the property, the lack of which may affect the legal effect of the entire transaction.

In the share deal the purchaser does not obtain any direct rights to the assets as these remain the property of the target company. Consequently, the property- related rights and obligations (such as leases, property management agreements, warranty claims under construction contracts and contracts of insurance, permits) remain with the corporate entity holding the real estate and no formal assignment is required.

In the asset deal, except for the lease agreements, the property-related rights and obligations are not automatically transferred as a result of the sale agreement. The lease agreements are transferred automatically with the acquired asset. As regards the remaining agreements, as for the formal assignment, it is, in general, necessary to obtain the consent of the other party of each contract. In case of licenses, decisions etc. it should be analyzed case by case what actions have to be undertaken in order to transfer them to the purchaser. This means that the ability to assign the property-related rights or assuming the obligations is examined individually, in light of specific regulations or contractual provisions, which may prevent or restrict transferability.

Therefore, a share deal is a type of transaction usually considered by investors when the target company conducts regulated activity as all permits required for its operation stay in the company.

Potential restrictions related to the sale of a property

In case of transactions involving real estate, several restrictions resulting from applicable legislation may apply. As a general rule, transactions structured as assets deals are more likely to be subject to a greater number of such restrictions. These include as follows below.

A. Merger clearance

Due diligence review preceding any asset or share deal should answer the question whether the legislation governing merger control will be applicable, in particular, whether a notification of the transaction to the Office of Competition and Consumer Protection is required. Should such notification be required, the closing of the transaction must be suspended until the clearance of the President of the Office of Competition and Consumer Protection is granted.

A notification on the planned transaction to the Office of Competition and Consumer Protection is required if any of the following conditions is met:

- The combined worldwide turnover of undertakings participating in the concentration in the financial year preceding the year of the notification exceeds the equivalent of €1 billion or
- The combined turnover of undertakings participating in the concentration in the territory of Poland in the financial year preceding the year of the notification exceeds the equivalent of €50 million.

However, the Polish antitrust law provides for certain exceptions from the obligation of notification even if the above conditions are met, in particular, when the turnover of the undertaking over which the control is to be taken did not exceed in the territory of Poland in any of the two financial years preceding the notification, the equivalent of €10 million; the concentration arises as an effect of insolvency proceedings, excluding the cases where the control is to be taken over by a competitor or a participant of the capital group to which the competitors of the to-be-taken undertaking belong; the concentration applies to undertakings participating in the same capital group.

B. The pre-emption rights

It may happen that the public authorities have a statutory preemptive right to real estate which is about to be sold. The right of pre-emption is a right to acquire the property before it can be purchased by any other person or entity. Where the real estate is subject to a right of pre-emption held by State Treasury or local authority, it may only be sold to a third party under the condition that the beneficiary of that right does not exercise it. If such a property is sold without observing this right, the sale is considered to be null and void.

The notary executing the conditional agreement will send a copy of it to the State Treasury or local authority, which may then exercise its preemptive right within one month of receiving the conditional agreement. If the public authority does not exercise its preemptive right within that period, the parties can conclude the final agreement, which effects the unconditional transfer of the title to the real estate.

C. Restrictions for foreigners

As regards foreigners residing or having their registered seat within the territory of the European Union or European Economic Area, no special restrictions regarding acquisition of real estate by foreigners apply. The conditions differ with respect to the investors from remaining countries to which the following restrictions apply, As a general rule, such foreigners (or Polish entities controlled by such foreigner) are required to obtain a special permit of the Minister of Internal Affairs to acquire a real estate in Poland. The permit is necessary when acquiring ownership of real estate or perpetual usufruct on the basis of any legal event (e.g. purchase, in-kind contribution, merger with a Polish entity, taking up shares in Polish entities).

The permit is issued upon a written request of a foreigner, provided that:

- A foreigner's acquisition of real estate does not pose a threat to the State's defense, national security, public order and is not contrary to the social policy and public health considerations

- The foreigner proves that there are circumstances confirming his bonds with Poland (i.e. for example the buyer has Polish origins or is conducting business or agricultural activities in the territory of Poland under the Polish law).

The Minister's decision concerning real estate acquisition should be issued within one month (two months in particularly difficult cases). The permit is valid for two years from the day of issuance.

The acquisition of real estate without a permit is invalid. A foreigner intending to acquire real estate in Poland may apply for a promise of the permit. The promise of the permit is valid for one year. During this period a permit cannot be refused unless the actual circumstances pertinent to the decision have changed.

D. Restriction in acquiring agricultural land

New legislation restricting trade of agricultural land was passed and came into force as of 30 April 2016. The regulation restricted trade of agricultural land for both Polish and foreign (EU and non-EU) entities.

Under the new law on shaping the agricultural system, agricultural land is the land used for agricultural purposes or land that may be used for such purposes, excluding land intended for other purposes in applicable local spatial development plans.

On the basis of the amendment to the Act (which came into force in June 2019) some restrictions have been limited to allow broader trade of agricultural land.

In consequence, in case of the sale of agricultural land, in particular the following restriction will apply:

- Agricultural land may be acquired only by individual farmers having agricultural education and residing in the same municipality where the land is located for at least 5 years. The above will not be applicable to the transfer of agricultural land of an area smaller than 1 ha

- An obligation to obtain a permit (in a form of an administrative decision) of the General Director of the National Agricultural Support Center for sale/acquisition of an agricultural land to/by persons other than individual farmers, including companies, under pain of invalidity. The above will not be applicable to the transfer of agricultural lands of an area smaller than 1 ha
- General prohibition on sale or transferring possession (e.g. under lease agreement) of an agricultural land within 5 years from its purchase
- National Agricultural Support Center possess a pre-emption right to agricultural land regardless of the area unless acquired under the permit of the Chairman of the Agricultural Property Agency
- National Agricultural Support Center is also authorized to exercise its buyout right in case other acquisitions that acquisitions under sale agreement e.g. merger, division or transformation of a current owner (perpetual usufructuary) of the land
- National Agricultural Support Center is entitled to buy of an agricultural land in case of partners change in partnerships
- National Agricultural Support Center has been also equipped with a pre-emption and buyout right to purchase shares in companies owning an agricultural land, e.g. in case of share purchase agreements or share swap (excluding shares in public listed companies).

The above corporate rights attributed to the National Agricultural Support Center may be exercised only if the total area of agricultural land owned by the company constitute at least 5 ha. As a result of amendments to the Act on the Formation of the Agricultural System that entered into force on October 5, 2023, NASC's pre-emption right also applies to the sale of shares in a parent company that owns shares in a company that owns agricultural real estate or holds such real estate in perpetual usufruct.

According to the above-mentioned amendments, the Act does not apply to agricultural properties with less than 0.3 hectares.

E. Acquisition of real estate from public entities

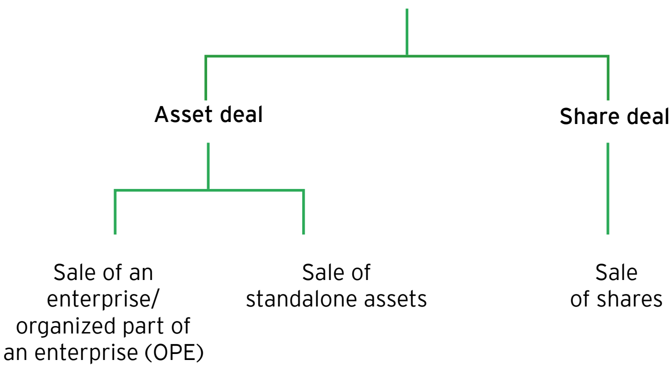
In Poland, real estate is often acquired from the State or local authorities. Such type of acquisition is considered to be safe and an attractive alternative to acquisition of real estate from private owners. Nevertheless, in practice, acquisition of real estate from public entities is subject to additional specific requirements such as an obligation to dispose the land via public tenders.

An investor interested in acquiring real estate from the State or local authorities should ask the authorities for information on the contemplated property to be acquired. Unfortunately, it is not possible to purchase such real estate on the spot, as there is a special procedure of selling real estate held in public entities' possession. With only a few exceptions provided by law (e.g. real estate being sold to its perpetual usufructuary), real estate held by the State or local authorities may be disposed by way of public tender, after a lengthy procedure is completed.

2.4.3. Tax implications

As mentioned above, real estate can be sold either through a direct sale of the property (an asset deal) or indirectly through a sale of the shares in the company owning the property (a share deal). These two types of transactions are afforded different treatment by the Polish tax regulations.

Key scenarios



	Asset deal		Share deal
	Enterprise/OPE	Standalone asset	
Corporate income tax	Step-up allowed Goodwill may arise for tax purposes	Step-up allowed	No step-up allowed No goodwill for tax purposes
Transaction taxes	Out of scope of VAT 1%/2% civil law activities tax ("CLAT") (pol. PCC) on gross value of enterprise/ OPE payable by the buyer (non-recoverable)	23% VAT (for commercial property), subject to VAT recovery under general rules VAT exemption may apply (exemption may be either obligatory or optional) If VAT exempt - 2% CLAT (Polish PCC) on the FMV of asset payable by the buyer (non-recoverable) For further comments on VAT see next pages	Out of scope of VAT 1% CLAT (Polish PCC) on the FMV of shares payable by the buyer (non-recoverable)
Contingent tax liability	In general joint and several tax liability (up to the value of the purchased enterprise/ OPE's assets) Possibility to limit the contingent tax liability via pre-transaction tax clearance certificates	No contingent tax liability for the events occurring prior to the transaction	Unlimited tax liability (up to the value of the investment)

	Asset deal		Share deal
	Enterprise/OPE	Standalone asset	
Reclassification risk	Reclassification into a transfer of standalone assets may trigger VAT liability arrears for the seller (additional penalties may apply) and CLAT overpayment for the buyer	Reclassification into a transfer of an enterprise/OPE may lead to challenging the buyer's right to recover input VAT charged by the seller and may result in CLAT arrears (additional penalties may apply) For further comments on the risk see next pages	
Other advantages	Tax assets of the seller (e.g. tax losses) remain with the seller and can be used to offset sale proceeds	Tax assets of the seller (e.g. tax losses) remain with the seller and can be used to offset sale proceeds	Less time-consuming and more straightforward legal wise Possibility to deduct historical tax losses of the acquired company (no forfeiture rules)
Other disadvantages	Timing and legal complexity Buyer cannot use historical tax losses of the seller Interest on any acquisition debt should generally be tax deductible and offset against revenue from general business activities	Timing and legal complexity (less complex than enterprise/OPE, but more than the share deal) Buyer cannot use historical tax losses of the seller Interest on any acquisition debt should generally be tax deductible and offset against revenue from general business activities	Interest on any acquisition debt may not be tax effective (no debt push down possible)

Asset deal

The revenues generated on the sale of real estate are subject to the standard taxation rules of Polish corporate income tax. Taxable revenues are reduced by the net book value of the property. Effectively, only the gain is taxed at the rate of 19% (possibly 9% if the yearly revenue of the company does not exceed €2m). The revenue from the sale of real estate must be valued at the price set in the sale contract. However, if the price differs substantially and without a justified reason from the market value of the real estate, the revenue may be assessed by the tax authorities according to the market value. This transaction price adjustment may be applied to transactions between related and unrelated entities. Adjustments trigger not only a higher tax burden but also penalty interest.

Costs incurred by the buyer for the acquisition of real estate: purchase price, transaction costs including advisory, civil law transaction tax - if applicable, financial costs accrued till the purchase, etc., form the initial value of the real estate and are recognized as tax deductible costs through depreciation write-offs (unless the asset is not depreciated for tax purposes due to limitations described above) or upon sale. As the value of the land is not subject to depreciation, it is then important to determine the value of the land and the value of any buildings or structure separately.

VAT on the acquisition of real estate

The supply of buildings, infrastructure, or parts of buildings or infrastructure is generally VAT exempt, except for:

- The supply of a building, infrastructure or part of a building or infrastructure in the course of its first occupation or prior to it and
- The supply of a building, infrastructure or part of a building or infrastructure made within two years of the first occupation

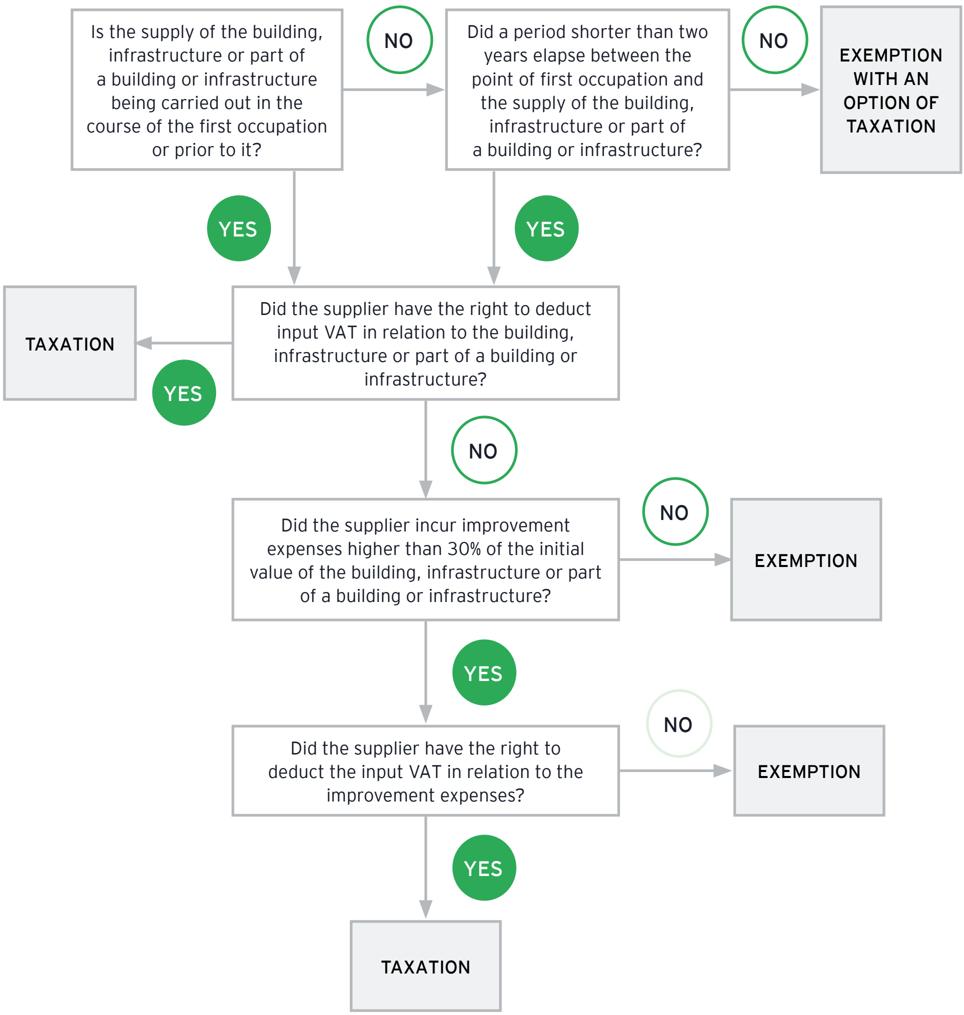
In which cases the supply of buildings, infrastructure or parts of buildings or infrastructure are generally subject to VAT (at prescribed tax rates).

Based on the VAT regulations, "the first occupation" means release for use to the first acquirer or first user or commencing use for the own purposes of buildings, infrastructure or their parts, after their:

- Initial completion

or

- Improvement (if the expenses incurred for the improvement constituted at least 30% of the initial value) of that building, infrastructure or part of a building or infrastructure.


Is the supply of the building, infrastructure or part of a building or infrastructure being carried out in the course of the first occupation or prior to it?
NO
Did a period shorter than two years elapse between the point of first occupation and the supply of the building, infrastructure or part of a building or infrastructure?
NO
EXEMPTION WITH AN OPTION OF TAXATION
YES
YES
TAXATION
YES
Did the supplier have the right to deduct input VAT in relation to the building, infrastructure or part of a building or infrastructure?
NO
Did the supplier incur improvement expenses higher than 30% of the initial value of the building, infrastructure or part of a building or infrastructure?
NO
EXEMPTION
YES
NO
Did the supplier have the right to deduct the input VAT in relation to the improvement expenses?
EXEMPTION
YES
TAXATION

According to the adopted definition, use of a building, infrastructure or part of a building or infrastructure for the own business purpose of the owner should be considered as first occupation (provided that the owner performed VAT-able activities).

Taxpayers may choose not to apply the exemption and charge VAT if:

- Both buyer and seller are VAT registered and
- Before the day of supply they submit the appropriate joint statement to the tax office of the purchaser or include such statement in the notarial act covering this supply.

The supply of buildings, infrastructure or parts of buildings or infrastructure which could not be subject to the above exemption (i.e. supply in the course of first occupation or within two years of the first occupation) must be VAT exempt (no option to tax allowed) if:

- The seller was not entitled to deduct input VAT and
- The seller did not incur improvement expenses on which he had right to deduct VAT, or such expenses did not exceed 30% of the initial value of the building, infrastructure or part of a building or infrastructure.

The diagram outlines VAT rules on the taxation of the supply of buildings, infrastructure or parts of buildings or infrastructure.

Generally, the VAT treatment of ownership title to land or a perpetual usufruct (RPU) over land follows the VAT treatment of the buildings and infrastructure developed on the land.

The supply of ownership title/RPU to undeveloped land qualified as land for development purposes under a local spatial development plan or in a zoning decision is subject to 23% VAT (supply of other types of undeveloped land is as a rule exempt from VAT).

If subject to VAT, the supply of real estate is mostly taxed with 23% VAT. However, the supply of residential buildings and separate apartments is subject to a reduced 8% VAT, except for part of residential buildings whose usable floor space exceeds 300 m^2 and apartments whose usable floor space exceeds 150 m^2. In such a case only the part of residential building and/ or apartment which fits within the above limits benefits from the 8% VAT rate, whereas the part exceeding the thresholds is subject to a standard 23% VAT rate. Depending on the legal case underlying the transaction, sale of a parking space sold jointly with the apartment but constituting a separate legal property, can be subject to a standard 23% VAT.

As a rule, VAT tax point arises at the moment of delivery of goods, usually on the day of signing of the sale agreement. The invoice should be issued by the seller no later than until the 15th day of the month following the month in which the VAT point arose.

If the supply of real estate is VAT exempt, it is subject to civil law transaction tax payable by the buyer. The applicable rate is 2% of the market value of the real estate.

If the business of the Polish company or part of its business is sold as a going concern, the transaction falls outside the scope of VAT. The assets of the business or part thereof will be subject to civil law transaction tax payable by the buyer at the rate appropriate for a particular item (2% for land, buildings and other tangible property, 1% for intangibles, potentially including also any goodwill that would crystallize on such a transfer). Civil law transaction tax constitutes an additional cost of the transaction and is non-recoverable.

Although the Polish Ministry of Finance has issued a set of guidelines with respect to VAT/CLAT treatment of real estate asset deal transactions, a detailed analysis of each particular transaction is still recommended with this respect, as the guidelines are of rather general nature. Application for a tax ruling is still advisable.

Recoverability of input VAT

Input VAT is recoverable if the company uses or intends to use the purchased real estate for the purpose of activities which are subject to VAT and do not benefit from VAT exemption (e.g. lease of the commercial real estate). Otherwise, the input VAT will increase the initial tax basis of the real estate.

If the buyer uses the real estate partly for the purpose of exempt activities, the recovery of any input VAT should be effected in line with the proportion of the net value of the taxed supplies to the total value of all supplies (a so called *pro rata* recovery). During a calendar year, the proportion is calculated based on the volume of supplies made in the previous year. At the year end, the amount of deductions is adjusted to the actual percentage calculated for the whole year. In the case of tangible or intangible assets subject to depreciation for tax calculation purposes, the percentage of input VAT which may be deducted is subject to adjustments over the period of 5 or even 10 years (in the case of real estate).

Calculation of the percentage of input VAT to be deducted is necessary only if it is not possible to match input VAT with taxed activities or exempt activities directly.

Taxpayers also need to take into account so called preliminary pro-rata that limits input VAT recovery on purchases, if linked both with the economic activity of the taxpayer and other activities not related with business operations.

The recovered input VAT also has to be adjusted if the liability resulting from the invoice documenting the expense incurred is not settled within the specified deadlines (at this time 90 days counting from the payment due date). Additional sanctions may apply if no adjustment is made (i.e. additional tax liability up to 30% of tax resulting from the not settled invoices, which has not been accordingly adjusted).

Date of input VAT recovery

The right to recover input VAT arises in the period when - with respect to the acquired goods or services - the tax point arose (i.e. in the period in which the services were rendered to, or the goods were acquired by the purchaser). It cannot be, however, recovered earlier than in the period in which the taxpayer receives the respective invoice. In case of prepayment invoices, they must be paid in order for input VAT to be reclaimable.

Direct refund of input VAT

A direct refund of any surplus input VAT should be made within 60 days of the submission of the application for the refund (the VAT return) on condition that the taxpayer performed VAT-able supply in the period for which the refund is claimed.

It is possible to get a refund of input VAT even if VAT-able supplies are not made in the period for which the refund is claimed. However, in such a case the period for the refund is extended to 180 days, unless a form of security, e.g. a bank guarantee is provided (in which case the refund should be made within 60 days).

An accelerated (40- or 25-day) VAT refund is also available under certain conditions.

Mandatory split payment

Mandatory split payment mechanism is applicable to B2B transactions. Buyers are obliged to pay the VAT amount into a dedicated bank account.

It is mandatory for certain goods and services (150 groups of goods and services classified according to the Polish Classification on Goods and Services (PKWiU) codes listed in the appendix 15 to the Polish VAT Act), among others, payment for broadly understood construction services – regardless of the supplier's status e.g. construction work on residential buildings (works on the construction of new buildings, reconstruction or renovation of existing buildings).

Mandatory split payment applies to invoices, documenting selected transactions, which gross value exceeds the equivalent of PLN 15,000. Referring to other transactions split payment still can be applied on a voluntary basis.

The invoices documenting transactions subjected to mandatory split payment should include the annotation "*mechanizm podzielonej płatności*" (i.e. split payment mechanism) and the seller and purchaser need to hold bank account with a Polish bank.

From the 1st of 2020 additional sanctions for not being compliant with the split payment provisions for seller and purchaser has been introduced e.g. penalty equal to 30% of the VAT resulting from the invoice, no right to treat the expense as tax deductible cost for CIT and PIT purposes, penal fiscal sanctions.

The white list of taxpayers

The white list of VAT taxpayers is a record of entities for VAT purposes that is held by the head of the National Revenue Administration and includes information on entities:

- Registered as VAT payers
- That have been refused VAT registration or were deregistered by the tax authorities and
- Whose VAT registration has been restored.

The white list is available online free of charge and is meant to allow taxable persons to verify data related to VAT registration of other taxable persons (up to 5 years back).

The register discloses (Polish) bank accounts reported by the taxpayers.

Generally all payments regarding transactions above PLN 15,000 should be made only to the taxpayer's bank account indicated in the white list. Otherwise, the taxpayer:

- Will not be entitled to include the expenses incurred as tax deductible costs
- Will be jointly and severally liable for the supplier's tax arrears - in the part of VAT attributable to a given transaction.

In such a case sanctions could be avoided only by:

- Sending notification to the head of the tax office about transfer to the off-list bank account within 7 days of the transfer being made
- Making payment using the split payment mechanism (but then only VAT sanction will be avoided).

In practice white list of taxpayers may consequently oblige taxpayers to verify each time whether a bank account provided by a contractor for the purpose of making a payment appears on the white list.

The SAF-T

The SAF-T is an electronic document containing the VAT register (information on purchases and supplies) and the VAT declaration for a given period. In this format it is obligatory for entrepreneurs as of October 2020 VAT settlements.

Moreover, some additional information needs to be included in SAF-T (i.a. a code system of goods and service groups, indication of selected sales and purchase documents).

The new law provides also for new penalties for errors in SAF-T (a fine of PLN 500 for each error which makes electronic cross-check more difficult or impossible for tax office).

Share deal

A capital gain on the sale of shares is subject to Polish corporate income tax at the standard rate of 19%. Any capital gain from the sale of shares should be allocated to the capital gain basket and hence could not be offset against costs allocated to revenue from general business activities basket (see diagram listing the items allocated to capital gains).

Income from capital gains shall include, among others:

- Income from sharing in profits of legal persons or other companies, including e.g. dividends, income from investment funds, income from redemption of shares, payments received as a result of a merger or demerger, interest on participation loans, etc.
- Income arising from in-kind contributions
- Other income from participation in legal persons or other companies, including income from the sale of shares, redemption or gains from a share-for-share exchange
- Income from the sale of certain receivables
- Income earned from property rights (e.g. royalties, know- how, copyrights), securities and financial derivative instruments, etc.

Requirement to keep accounting records specifying revenues and costs for tax purposes, broken down by two types of sources (capital gains and other sources).

If the selling party is a foreign shareholder, the applicable tax treaty influences the tax implications of such a transaction. Significant part of Polish tax treaties (e.g. with Spain, France, Denmark, Sweden, Germany, Luxembourg etc. provide that a sale of shares in a company holding mainly real estate assets should be regarded as a sale of real estate. Consequently, income earned on the sale of shares in the Polish company will be taxed in Poland (the so called Real Estate Clause).

Poland has implemented Multilateral Instrument Convention (MLI) on the basis of which most of tax treaties concluded by Poland may be equipped with Real Estate Clause and Principal Purpose Test. Verification of the current status of implementation of each such amendment under MLI is highly recommended.

The status of implementation of MLI may be monitored using OECD tool (currently beta version) on OECD website (link: https://www.oecd.org/tax/treaties/mli-matching-database.htm).

The sale of shares in the Polish company is subject to a 1% civil law transaction tax (on the fair market value of shares) payable by the buyer. This is irrespective of where the transaction takes place or where the parties to the transaction are resident for tax purposes. A share transaction is generally not subject to Polish VAT.

Costs which must be incurred in order to acquire shares (e.g. purchase price and notary public fees) may be recognized as tax deductible costs upon the sale of shares.

So far, other costs indirectly connected with acquisition of shares such as financing costs were in practice recognized as tax deductible costs when incurred. Due to the introduction of income baskets, the financing costs related to the acquisition of shares should in principle be allocated to capital gain basket (unless the acquisitions of shares has been, partially, carried out in order to generate revenue from sources other than capital gains) and as a result, would not provide a tax shield against the taxation of operating profits.

CFC Rules

CFC is defined as:

1. A foreign entity (including i.a. company, partnership, tax capital group, trust, foundation, branch) seated in a tax heaven (as officially blacklisted by the Polish Ministry of Finance) or
2. A foreign company (including i.a. company, partnership, tax capital group, trust, foundation, branch) having its seat or place of management in the country other than mentioned in point 1), with which:
   a) Poland has not concluded and ratified an international agreement, in particular double tax treaty, or
   b) EU has not concluded and ratified an international agreement being a basis for requesting tax information from tax authorities of that country, or
3. A foreign company which jointly fulfills the following conditions:
   a) the Polish taxpayer has on its own or together with other related entities or other Polish entities directly or indirectly over 50% of shareholding or over 50% of votes in managerial, governing or supervising bodies of the CFC or over 50% stake in profits of CFC.
   b) at least 33% of annual revenues of the CFC consist of the following income:
      - Dividends and other income from sharing profits of legal persons
      - Disposal of shares, receivables
      - Providing the following services: advisory, accounting, market research, legal, marketing, management, control, data processing, personnel recruitment and other services of a similar nature to any of these
      - Lease, sub-lease and other contracts of a similar nature

- Interest or benefits from all types of loans, securities or guarantees
- Interest part of leasing rates
- Copyrights or intellectual property rights - including disposal of such rights
- Disposal or exercise of rights from derivatives
- Transactions with related parties if the company does not create value added in economic terms or such value is marginal

c) tax actually paid by the CFC is lower by at least 25% of the tax that would be due if the company was a Polish resident and the tax actually paid by the company in its country of residence; whereas tax actually paid means tax that should not be refunded or credited in any way, or

4. Foreign company which jointly fulfills the following conditions:

a) the Polish taxpayer has on its own or together with other related entities or other Polish entities directly or indirectly over 50% of shareholding or over 50% of votes in managerial, governing or supervising bodies of the CFC or over 50% stake in profits of CFC,

b) tax actually paid by the CFC is lower by at least 25% of the tax that would be due if the company was a Polish resident and the tax actually paid by the company in its country of residence; whereas tax actually paid means tax that should not be refunded or credited in any way,

c) revenues of the CFC enlisted in point 3 letter b) above are lower than 30% of the sum of the following assets:

- Shares and other rights in profits of legal persons
- Real estate or movable property owned or jointly owned by the taxpayer or used by him under a leasing contract

- Intangible assets
- Receivables from the titles referred to in point 3 (a). b, to related entities

d) the above assets constitute at least 50% of the assets of the CFC (excluding shares in other companies with no seat or management in Poland which do not own, directly or indirectly, shares in a company with its sear or management in Poland), or

5. A foreign company which jointly fulfills the following conditions:

a) the Polish taxpayer has on its own or together with other related entities or other Polish entities directly or indirectly over 50% of shareholding or over 50% of votes in managerial, governing or supervising bodies of the CFC or over 50% stake in profits of CFC,

b) the income of the CFC exceeds the income calculated according to the formula: (b + c + d) × 20% where letters stand for:

b - the book value of assets,

c - annual employment costs of the CFC,

d - accumulated (summed up) current value of depreciation within the meaning of the accounting regulations,

c) less than 75% of the revenue of the CFC comes from transactions with unrelated entities having their place of residence, seat, management, registration or location in the same country as this CFC,

d) tax actually paid by the CFC is lower by at least 25% of the tax that would be due if the company was a Polish resident and the tax actually paid by the company in its country of residence; whereas tax actually paid means tax that should not be refunded or credited in any way.

CFC provisions should not apply in the case where the CFC, which is subject to taxation on its total income in one of the EU/EEA Member States, carries out actual significant business operations in this state. The Polish companies are obliged to hold registers of the CFC companies.

MDR (DAC-6)

Tax arrangements are reportable within 30 days (in some cases 5 days) after the day when the scheme is: (i) available for the client, (ii) ready for implementation, or (iii) started, whichever is sooner. Based on the clarifications passed by the Polish Ministry of Finance, as transactions subject to reporting obligation would be counted especially transactions related to transfer of enterprise or share deals in case the taxpayers exceeds certain thresholds.

The Polish legislation extends the scope of the reporting required under the Directive to include:

- An extended definition of reportable tax arrangements to comprise not only cross-border but also domestic tax arrangements. The Polish regulations also contain an extended catalogue of hallmarks in comparison to required by the Directive
- A wider definition of covered taxes including VAT (with respect to the domestic tax arrangements).

Additionally, each individual/company/entity implementing/using reportable tax arrangement or obtaining a tax benefit resulting from this arrangement might be potentially required to report this fact to the tax authorities.

MDR-3 reporting

Taxpayers who during the tax period (in case of VAT it will usually be a month) performed any action, being a part of a tax arrangement, or obtained a tax benefit as a result of such tax arrangement, must fulfil the reporting obligation by providing information on the utilization of a tax arrangements – MDR-3 form – to the tax authorities. MDR information regarding implemented/used reportable tax arrangement or obtained tax benefit resulting from this arrangement must be signed by each member of the Management Board of the reporting entity.

MDR penalties

Intermediary entities or those employing intermediaries or actually paying them remuneration, whose revenues or costs exceeded in the year preceding the financial year the equivalent of PLN 8m (approx. €1.85m) are obliged to introduce and use an "internal procedure" for MDR. In the event of failure to meet the above obligation, the tax authorities may impose a financial penalty in the amount not exceeding PLN 2m (approx. €464k).

Monetary penalties in specific situations (for not complying with MDR obligations) can amount up to approx. PLN 41m (approx. €9.5m), based on the Polish Fiscal Code.

In the case of conviction of fiscal offenses related to not complying with the reporting obligations, the court may additionally prohibit the conducting of specific business.

2.5

Development and construction

2.5.1 Legal aspects

Land development issues

Land development issues are important for real estate investors, as they determine the possible method of investing in a given area. Regulations on land development may influence the shape of the planned building, but sometimes they also prevent the investor from the investment.

Legal background

Currently only a part of the territory of Poland is covered with local spatial development plans, mostly within the boundaries of bigger cities.

The two main spatial planning and development acts determining land development within a given municipality (commune) are the spatial development conditions and directions study and the local spatial development plan. However, from investors' perspective, the local spatial development plan is of higher importance, as it determines their rights and obligations, while the spatial development conditions and directions study binds the local authorities only. In the case where no local spatial development plan has been adopted for a given area, the investor may apply for a decision on land development and management conditions (hereinafter referred to as the zoning decision). Where a building permit is required for an investment, either a local spatial development plan or a zoning decision are required to start the development of the real property, since, as a rule, no building permit may be issued without them.

The procedure for adopting a local spatial development plan is rather complex and time consuming as the draft local spatial development plan is subject to „public consultation" with the parties concerned, as well as opinions issued by the relevant administrative bodies.

The provisions of the local spatial development plan are crucial for investors, as the planned development of the plots covered by such a plan must comply with its provisions, in particular, regarding the distance of a building from the plot's border or the height of a building. Sometimes the provisions of a local spatial development plan may render the development of the given plot impossible. Moreover, in certain cases the legal provisions provide that selected investments are implemented solely based on local spatial development plans. This relates to i.a. retail units or windfarms. It is currently planned by the government to extend the catalogue by introducing all investments substantially affecting the environment as requiring local spatial development plan in order to be proceeded with.

Therefore, to be able to implement their investment plans, sometimes investors start a procedure of amending the local spatial development plan, which may prove to be rather time consuming.

As a result of so called Spatial Reform, described in details in Section about recent changes to Law on Spatial Planning and Development above, new spatial planning tools such as general plans, Integrated Investment Plans or urban planning agreements, will be applied.

Zoning decision

In the case where no local spatial development plan has been adopted for the given area, an investor may apply for a zoning decision, which sets out all the required conditions for the development of that area. Before the building process is started on the given plot under a building permit, the plot must be covered either by a local spatial development plan or by a zoning decision (therefore, it can be said that a zoning decision substitutes a local spatial development plan for an investor).

A zoning decision is issued by the governing authority of the commune. The procedure for issuing zoning decisions includes performance of a zoning analysis by the local authority's architecture department and it may, therefore, take even up to several months.

If a local spatial development plan is being adopted for a real property, zoning decisions related to this area expire if the provisions of the local spatial development plan differ from those of the zoning decision. However, this shall not happen if a final building permit has already been issued for the real property in question. Therefore, in the case where there is no local spatial development plan for a given real property, prior to investment planning the investor should monitor the stage of works related to the local spatial development plan and should learn if it is possible to acquire a final building permit before the local spatial development plan is adopted.

An application for a zoning decision may be filed with the relevant authority even when the applicant does not hold any title to the land in question. A zoning decision may be transferred to third parties.

This means that investors may use a decision issued for the seller of a real property, as they do not have to apply for the decision once again after acquiring the real property (the investor only applies for the transfer of such a decision to himself). Investors may also apply themselves for such a decision before deciding on the investment.

As a result of so called Spatial Reform, described in details in Section about recent changes to Law on Spatial Planning and Development above, currently issued for an indefinite period, zoning decisions will be issued for five years only starting from 1 January, 2025.

Building permit

A building permit is an administrative decision issued by a local authority (starosta or mayor in bigger cities) which allows an investor to start the development process on the site.

The documents attached by the investor to the application for a building permit should include, in particular, a declaration of having legal title to use the real property for construction purposes. Moreover, the application must also enclose approvals of the local authorities responsible for local infrastructure, in particular utilities, roads, environmental protection and sewage treatment. The building permit will only be granted if the construction design is consistent with the assumptions of the local spatial development plan or zoning decision as well as with the regulations governing technical conditions for the development.

As a general rule, a building permit expires either if construction works have not been started within three years of the date on which the permit became final or if construction works have been discontinued for more than three years.

Not all construction works require a building permit. Construction of certain structures which are listed in the Building Law of 7 July 1994 (hereinafter referred to as the Building Law) may be commenced upon a notification sent to the relevant authorities if no objections have been raised by them within 21 days of the notification date.

The notification procedure pertains however generally to minor construction works or developing some of residential (single family) buildings.

Usage of the building

Depending on the individual case, the use of a building or structure after its completion requires either notifying the construction supervisory authorities that construction works have been completed or acquiring a permit for use.

In the case where only a notification is required, under the general rule the investor may occupy and use the building or structure if no objection has been raised by the authorities within 14 days of the date of notification.

In cases where a permit for use is required, the building may be occupied only after the decision granting the permit for use is granted. The granting of a permit for use is preceded by a technical inspection of the building or structure to confirm that all construction works have been performed in compliance with the terms and conditions of the building permit as well as technical requirements.

Occupying a building in breach of the above mentioned regulations may result in a fine.

Environmental issues

The building process has many environmental aspects that must be taken into account. The Polish law provides that an environmental decision must be obtained prior to obtaining a zoning decision and a building permit for the given project. Pursuant to the Polish law, from the environmental law point of view, the investments are divided into two groups:

- Projects that always have significant impact on the environment
- Projects that may have significant impact on the environment.

Environmental decision must be preceded by the environmental impact assessment proceeding (which includes preparation of environmental impact assessment report) in case of projects that always have significant impact on the environment (i.a. parking lots, buildings of a particular size etc.). However, the environmental impact assessment proceeding may be also ordered by the authority issuing the environmental decision in relation to projects that may have significant impact on the environment.

Despite of the fact that environmental impact assessment is carried out at the stage of issuing the environmental decision, it may also be repeated (in certain circumstances) at the stage of issuing a building permit.

Environmental impact assessment is a legal instrument that allows to determine the effect of the planned investment on the environment (i.e. water, land and air quality as well as impact on flora and fauna). Environmental impact assessment proceeding, beyond the identification of specific impacts that the proposed project may have on the environment, concentrates on the ways to prevent and minimize the effects of the planned project.

Pursuant to the Polish law, authorities must inform the general public about the environmental impact assessment proceeding and allow the general public to submit comments and recommendations to the proceeding.

Moreover, Polish law in certain circumstances allows a broad access to the environmental impact assessment proceeding to non-governmental environmental protection organizations.

Environmental decision may be transferred (as well as the building permit issued on the basis of a zoning decision).

Energy efficiency

The EU regulations within energy efficiency of buildings, are ambitious, so is the polish legislation keeping up with the newest directions.

Starting January 2017, the real estate market is challenged with a new values of EP energy ratio for newly built buildings and some of the coefficient U factors for thermal transmittance of external walls of buildings. The new law, incorporated back in 2014 is entering into force gradually in order to make polish legal system compliant with the European Directive on the energy performance of buildings, according to which, until 31 December 2020 each and every newly built building shall be nearly zero-energy. Starting from 1 January 2019, nearly zero-energy performance requirement applies to all buildings owned or occupied by the public authorities.

2.5.2. Construction issues

Legal framework for construction works contracts

The Civil Code includes provisions which establish the legal framework for construction works contracts. Most of those provisions are general in nature and enable contracting parties to structure the construction works contracts in a way that addresses their particular business needs. Such a flexible legal framework allows the parties very often to use international standards for construction works contracts, including the popular FIDIC forms. However, not all the provisions of international standards for construction works contracts comply with the requirements of the Civil Code and the Building Law.

In particular, a more detailed analysis should be performed with respect to contractual clauses regarding statutory warranty periods, contracts with and liability towards subcontractors as well as contractor’s payment guarantees. Below we present the key legal regulations in these areas.

Statutory warranty periods

Under the Polish law, the statutory warranty period for acquired real estates, including buildings is five years from the property's hand-over date. The above mentioned statutory warranty period of five years applies also in the construction works contracts.

Liability towards subcontractors

Based on Civil Code provisions, the investor is severally liable with the general contractor for the payment of remuneration due to the subcontractor for the construction works performed by the latter, the detailed description of which was notified to the investor prior to the commencement of such works. The liability of the investor does not occur if, within 30 days from the date of such notification, the investor objects to such works.

Such notification will not be required in case the investor and the contractor determine the scope of works to be performed by the designated subcontractor in the written agreement.

Thus, the investor is liable for payment for only such works, which were duly notified to him prior to their commencement.

Additional security for the investor constitutes the fact that the said notification must be made in writing (accordingly, such form is also required for the investor's objection).

Moreover, the said liability of the investor towards the subcontractor will be limited to the amount due to the subcontractor under his agreement with the general contractor, unless such amount exceeds the remuneration due to the general contractor for the works included in the notification.

Contractor’s payment guarantee

One of the inconveniences for investors signing construction works contracts is the obligation to grant a payment guarantee to the general contractor.

Under this obligation a general contractor is entitled to a statutory claim against the investor for a payment guarantee up to the maximum amount of the contract value, and the obligation to provide guarantee will not be fulfilled even if the guarantee is admittedly established, but is not issued to the contractor, or is admittedly issued, but its content does not comply with the claim, i.e., for example, it limits the contractor’s claim in some way. The investor may satisfy the general contractor’s claim by issuing a payment guarantee in the form of a bank guarantee, an insurance guarantee, a letter of credit or a bank’s suretyship. The statutory claim for a payment guarantee may be raised at any time and can be extended to include the value of any additional works agreed in writing during the term of the construction works contract.

Construction design contracts

One of the key elements of the building process is drawing up a construction design. A construction design is a formal requirement for obtaining a building permit for most of building investments. Under the Polish law a construction design must be drawn up and signed by a certified architect, who takes responsibility for the technical aspects of the construction. The architect should prepare a design under a contract for architectural services which, depending on its scope, may either transfer the copyright to the construction design to the investor or provide the investor with the right to use the construction design for the purposes of the relevant investment.

It is worth mentioning that a contract for architectural services may include various restrictions with regard to the copyright or the use of the design. Such restrictions may be crucial for the investment development process, in particular when they regard the possibility of entering modifications to the construction design or transferring the copyright to other entities.

Public procurement contracts

General overview

Thanks to several EU funding programs every year Polish authorities have billions of euros at their disposal to be spent on development. A considerable part of this funding will be designated for infrastructural projects, in particular road and railway infrastructure. For this reason, many of the infrastructural investments developed on the Polish market will be carried out under public contracts.

Poland, as one of the EU Member States, was obliged to implement regulations governing public procurement proceedings. The provisions of EU directives on public procurement were implemented to the Public Procurement Law, which constitutes the legal framework for this matter in Poland. The Public Procurement Law is supplemented by additional legal acts which relate in particular to public-private partnership and licenses for construction works and services.

The main goal of public procurement regulations is to establish clear and competitive rules and procedures for awarding public contracts to the suppliers of works and services as well as to provide measures for supervision over the public authorities awarding public contracts. The key objective of the Public Procurement Act is to ensure that public contracts are awarded while applying equal treatment to all entities taking part in tender proceedings as well as to ensure impartiality and objectivity of the final decision.

Procedure

Under the Polish public procurement regulations there are numerous different procedures for awarding public contracts. The ones that are most commonly applied are open tendering and limited tendering. Both procedures must be followed by a public notice. Notice on contract performs the aim of providing proper implementation of the rule of equal treatment in the very beginning of the procedure. The obligation of publishing a notice also provides non-confidentiality and transparency of the applied public contract systems.

In general, open tendering is a simple procedure, meaning that entities familiarize themselves with the information in the notice and in the terms and conditions of the contract and, if they are interested in submitting tenders in such procedure, they submit a tender which shall then be evaluated by ranking.

Under limited tendering procedure, entities interested in being awarded a public contract submit requests for participating in the tender and the awarding party decides which bidders may submit their proposals. Other public procurement procedures such as competitive dialogue, negotiated procedure with publication, negotiated procedure without publication, single source procurement, request for quotations, innovative partnership or electronic auction can only be applied under specific circumstances stipulated in the binding law.

A similar course of action should be applied to the above main types of the public procurement procedure. Each of them is comprised of pre-qualification, submission of proposals and selection of the winning tenderer phases. In the pre-qualification phase the awarding party sets out the requirements/criteria to be met by the tenderers. Based on the specific requirements/criteria, tenderers draft their proposals and submit them to the awarding party. In the proposal each tenderer demonstrates its compliance with tender requirements by referring to its competencies, such as experience, knowledge and financial capacity to perform the contracted work. After reviewing all submitted proposals the awarding party selects the best tenderer with whom the public contract is to be signed.

However, this is not necessarily the end of the public procurement process as there is a possibility of appealing against the decision of the awarding party. In practice, the appeal procedure is quite commonly used by the tenderers who lost a public contract, which often results in delays in the completion of the investment project concerned.

2.5.3. Tax implications

Tax treatment of the construction costs

Costs related to construction process and accrued prior to putting the assets into use form the initial value of the real estate and are recognized as tax deductible cost through depreciation write-offs or upon sale.

Costs related to future operation/exploitation of the assets should be recognized for tax purposes based on general rules.

VAT and the construction process

During the construction process, the most important tax to be considered is VAT. The standard rate of VAT in Poland is 23%. A reduced VAT rate of 8% applies to the construction of residential houses/ apartments except for part of residential buildings where the usable floor space exceeds 300 m^2 and apartments where the usable floor space exceeds 150 m^2. In such cases only construction of the part of the residential building and/or apartment, which falls within the above limits, benefits from 8% VAT rate, whereas construction of the part exceeding the thresholds is subject to standard 23% VAT rate.

Purchases the investor needs to make during construction will typically include Polish VAT. This input VAT could be deducted from the output VAT that the investor has to pay to the tax authorities as a result of his business activities. As the construction process usually takes a considerable period of time and requires the availability of substantial financial resources, it is essential that the input VAT paid is recovered during this process. Rules of VAT recovery and refunds are presented in section 2.4.3. However, during the construction process the typical situation is that the company has to cover high input VAT (resulting from purchase invoices), but no output VAT is recorded. Therefore, specific rules need to be observed to ensure the recoverability of input VAT paid during the construction process.

As a rule certain construction services (listed in the Appendix 15 to the VAT Act) are now subject to mandatory split payment mechanism (see the part "Mandatory split payment").

Services of foreign contractors

The place of the supply of services (i.e. the place in which services are deemed to be rendered and should be taxed accordingly) depends on the nature of a particular service. Under the general rule, services rendered to a VAT taxpayer (or a legal person not being a VAT taxpayer) occur where the service recipient is located. However, services connected with real estate are generally taxed where the real estate is located, i.e. in Poland. Services connected with real estate include construction works, services of architects and firms providing on-site supervision and the services of real estate agents and property appraisers.

If the place of supply of a particular service is Poland, it is possible (or in some cases even mandatory) for a foreign construction company to register in Poland as a VAT-payer. This implies that the foreign company generally will itself be liable for Polish VAT. The recipient of the services can recover the VAT paid to the service provider as input VAT under the general rules.

If services are deemed to be rendered in Poland and the foreign service supplier does not register and account for Polish VAT on his invoice, the Polish based recipient (in this case the real estate company having its registered address of fixed establishment in Poland) must self-assess the VAT due under the reverse charge mechanism. This VAT can then be declared by the recipient as input VAT (general input VAT deduction rules apply) and be - as a rule - deducted from the output VAT. Such a deduction may be made in the same period in which the output VAT on importation of services was recognized provided that the acquirer includes the amount of output VAT in a VAT return, in which he is obliged to settle the tax (which means that the company should as a rule not suffer adverse cash flow effect).

Taxes due on imported goods

Imported goods are always subject to import VAT when they cross the EU border (or in the EU destination country when the goods are transported under a special customs procedure). This VAT is calculated based on the customs value of the goods increased by the custom duties. It is possible to offset this input VAT against output VAT in accordance with the general VAT rules. Typically, the VAT rate is 23%.

Import VAT can be settled without the need for an upfront cash payment (i.e. through the VAT return rather than being paid directly to the customs office) and thereafter reclaimed - this mechanism is sometimes referred to as „postponed accounting for VAT".

The regulations concerning imports do not apply if goods are transported from another EU Member State. Such a transaction is as a rule classified as an intra-Community acquisition and is subject to VAT accordingly. In such case the company is obliged to self-assess VAT on the acquired goods at the rate appropriate for them (usually 23%). At the same time self- assessed tax is treated as input VAT and deducted (under general input VAT deduction rules) from output VAT in the same month in which it has been incurred, provided that the acquirer is in possession of a purchase invoice and includes the amount of output VAT in a VAT return, in which he is obliged to settle the tax, within the specified deadline.

No excise tax is due on typical construction equipment and materials.

Taxation of a foreign construction company

In some cases it is not necessary for a foreign construction company to do business through a Polish company. The construction work can be performed in Poland directly by the foreign entity. In this case the question arises as to whether the foreign company is subject to Polish income tax on the revenues generated from the construction work. Poland is indeed allowed to tax this income at a rate of 19% (or 9% if the company's yearly income is less than €2m) if the activities of the foreign company constitute a permanent establishment in Poland.

Whether or not the given foreign construction company has a permanent establishment is determined by the relevant tax treaty which Poland has concluded with the country in which the foreign company is based. In general, a construction site becomes a permanent establishment once the duration of the construction works exceeds a certain period of time. Usually this period is 12 months (unless provided otherwise under a relevant tax treaty). If the work is finished within 12 months, then no permanent establishment has been created. If the construction period takes longer, then a permanent establishment is recognized and the income derived from the work is subject to Polish income tax. It should be remembered that in such cases the permanent establishment is deemed to exist from the start of the construction activities in Poland. Standard rates and tax rules are applicable to determine the tax due.

If the activities of a foreign company in Poland extend significantly beyond a single contract, the company may be required to set up a branch. Setting up a branch will most likely lead to the creation of a permanent establishment in Poland.

Under the Multilateral Instrument Convention (MLI) which was signed by Poland, Poland excluded the changes to the articles related to permanent establishment though, including e.g. provisions directly addressing cases where the construction works are artificially split into various stages to avoid permanent establishment status. Further developments in this respect should be closely monitored.

The status of implementation of MLI may be monitored using OECD tool (currently beta version) on OECD website (link: https://www.oecd.org/tax/treaties/mli-matching-database.htm).

2.6

Operation and exploitation

2.6.1. Legal aspects

2.6.1.1. Introduction

According to the Civil Code, parties of the contract may benefit from the principle of freedom of contracts, which gives them an opportunity to modify the statutory types and provisions of the civil contract. However, there are some mandatory provisions and limitations, which have to be considered by the parties. Among all types of property exploitation agreements, the below are the most common for the Polish real estate sector.

2.6.1.2. Lease agreement (najem)

Under the lease agreement the lessor grants to the lessee the right to occupy premises (office, residential etc.) in exchange for the payment of rent. In general, everything that can be subject to the ownership right, may be also subject to this agreement, nevertheless in case of real estate, the more strict provisions may apply.

Duration

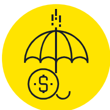
The duration of a lease agreement may be definite or indefinite. As a general rule, commercial agreements are concluded for definite terms of 5 to 10 years, with the prolongation option.

The duration of a lease agreement may be freely fixed by the parties, however, there are certain restrictions. The lease agreement concluded for a period longer than ten years, is, after this period, deemed to have been concluded for an indefinite period of time. The rule above is different for the lease agreements concluded between entrepreneurs. In this case the lease agreement concluded for a period longer than thirty years is deemed to have been concluded for an indefinite period of time after the 30 years' period has passed.

Rent

Paying rent is the principal obligation of the lessee. The lessee is obliged to pay rent within the agreed time.

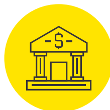
Special clauses in the lease agreements:



Security

Money deposit

Promissory note



Bank guarantee

Maintenance and expenditures settlement

The lessor should hand over the property to the lessee in a condition fit for the agreed use. It should be maintained by the lessor in this condition throughout the lease term. Minor repairs connected with the normal use of the property should be fixed by the lessee, unless the lease agreement provides for otherwise. If the subject of lease is destroyed due to circumstances for which the lessor is not responsible, he is not obliged to restore it. If, during the lease period, the property requires repairs which encumber the lessor, the lessee may set the lessor an appropriate time for repair.

Subletting and disposal of the leased property

The general rule is that the lessee may hand over the property or part of it to a third party for free of charge use or sublet it, if the lease agreement does not forbid it. However, when the subject of lease constitutes premises or retail areas, hand over the property or part of it to a third party for free of charge use or sublet it requires the lessor's consent.

The leased property can be disposed of during the lease period. In this case the acquirer becomes a party to the lease agreement as a lessor in place of the seller. The approval of the lessee is not required. The new owner may terminate the lease agreement retaining statutory notice periods. However, the new owner does not have a right to terminate the lease agreement if it is concluded for a definite period, in written form with an authenticated date (Polish: *data pewna*) and the subject of lease has been delivered to the lessee. If, because of the lease agreement being terminated by the acquirer of the leased property, the lessee is forced to return the leased property earlier than he would have been obliged to under the lease agreement, he may demand compensation from the seller.

Security

Lessors often use the special clauses in the lease agreements to secure their potential claims to lessees such as money deposit, promissory note, surety and bank guarantee.

- Money deposit - it is a sum of money submitted by the lessee in order to secure the lessor's potential claims in case of non-fulfillment of the lease agreement or damages caused by the lessee
- Promissory note - promissory note issued by the lessee is an effective way to protect the lessor's potential claims

- Surety - in the contract of surety, the guarantor undertakes to perform certain obligation of the lessee towards the lessor if the lessee does not perform them, mostly this refers to the payment of due amounts. The liability of the guarantor is equivalent, not subsidiary.

  This means that the lessor may request a payment from both the lessee and the guarantor.

- Bank guarantee - it is a unilateral obligation of the guarantor's bank, according to which the bank will provide funds to the beneficiary of the guarantee - the lessor, if the lessee does not fulfill its obligation. The parties of the lease agreement typically determine a period that has to elapse from the payment due date and after which the lessor has the right to execute a bank guarantee.

Termination

A lease agreement concluded for an indefinite period of time may be terminated by any party with a prior notice of termination (its length is in practice defined in the lease agreement). The statutory period of notice of termination for the lease agreement concluded for an indefinite period of time is as follows:

- If the rent is due for a period longer than a month - three-month notice applies
- If the rent is due every month - one- month notice applies
- If the rent is due for a period shorter than a month - three-day notice is sufficient
- If the rent is due for one day - the contract can be terminated one day in advance.

The lease agreement concluded for a definite period of time may be terminated only in cases specified in the contract.

However, the Civil Code stipulates that the parties can terminate the lease agreement immediately if certain conditions defined by the above mentioned Code occur. This applies to contracts concluded for both definite and indefinite period of time:

- If the subject of lease has defects that make it impossible to use it in the way defined in the lease agreement at the time of handover of premises, or if the defects occur later and the lessor does not, despite receiving a notice, remove them in an appropriate time, or if the defects cannot be removed. In such case the lessee may terminate the lease agreement without notice
- If the lessee does not pay rent for longer than two full payment periods. In such case the lessor may terminate the lease agreement without notice (in case of lease of premises or retail areas, before termination, the lessor is obliged to warn the lessee in writing by giving him an additional one-month period to pay the overdue rent)
- If the lessee uses the leased premises contrary to the terms of the agreement or their purpose and, despite a warning, does not cease to do so, or if a lessee neglects it to such an extent that the leased premises are likely to be damaged - the lessor may terminate the lease contract without notice.

Agreement for the lease with the right to collect profits (dzierżawa)

By a lease agreement with the right to collect profits, the lessor commits to hand over a subject of lease to the lessee's use and collection of profits for a fixed or a non-fixed term. In exchange, the lessee commits to pay the agreed rent. Such agreement gives not only the right to use the property but also to collect benefits from it, which is why the lease with the right to collect profits agreement usually concerns land.

The duration of an agreement may be definite or indefinite. However, the agreement for a period longer than one year should be concluded in writing, otherwise it is considered to be concluded for an indefinite term. Agreement executed for a longer period than thirty years is deemed to be concluded for a non-fixed term, after this period passes.

Under the Civil Code, if the rent payment period is not specified in the contract, rent is payable in arrears on the date customarily accepted, and in the absence of such custom, semiannually in arrears. If the lessee defaults in payment of rent for at least two full payment periods and, in the case of rent paid annually, he defaults in payment for over three months, the lessor may terminate the lease with the right to collect profits without notice. However, the lessor should warn the lessee by giving the lessee an additional three- month period to pay the overdue rent.

The lessee is responsible for the costs of all repairs to the extent necessary to keep the subject of lease with the right to collect profits in the same condition. However, the parties are able to modify this rule in the lease with the right to collect profits agreement. There are also some differences between a lease agreement and a lease with the right to collect profits agreement in the field of subletting a property. The lessee cannot sublet the property without the lessor's consent. If the above obligation is violated, the lessor may terminate the lease with the right to collect profits agreement without notice.

2.6.2. Tax implications

Income subject to tax

Taxable income comprises the entire income generated from business activities (trade or services). Taxable income is calculated on the basis of accounting records prepared in accordance with Polish accounting standards after significant adjustments relating to the tax base. Taxable income is as a rule recognized for tax purposes on an accrual basis. The applicable tax rate is 19% (or 9% for "small taxpayers" whose annual revenue does not exceed €2m).

Calculation of taxable income

Taxable revenues minus tax deductible costs constitute the tax assessment base. Polish tax law provides for separate income basket for capital gains and disallowing the offsetting of capital gains or losses against other sources of income. This mean that any qualifying capital gain could be offset only against costs allocated to capital gain basket. It will be required to keep accounting records specifying revenues and costs for tax purposes, broken down by two types of sources (capital gains and other sources). If it is not possible to assign expenses to a particular source of income, expenses are divided proportionately.

The costs are deductible if they were incurred for the purpose of revenue earning or maintaining/securing the source of revenue. For the exploitation of real estate, the most important costs, such as interest payments, the costs of exploitation and maintenance and depreciation write-offs are considered tax deductible. Polish tax rules specifically exclude certain expenses from tax deductible costs. For example, doubtful receivables can only be deducted under very strict conditions. Also business entertainment expenses (e.g. the costs of representation) are non- deductible.

Minimum income tax

If the taxpayer rents a building (part of a building) a minimum levy may apply which is calculated based on the initial value of all rented real properties (including residential properties) reduced by the tax allowance of PLN 10m per taxpayer. The tax rate amounts to 0.035% per month (approx. 0.42% annually). In a situation, where only part of a building is rented, the minimum levy will be calculated with respect to the rented part proportionally. The tax is creditable against CIT. The taxpayers may apply for a refund of the excess of minimum levy over CIT after a year end. Before the refund is granted, the tax authorities could start tax inspection. The tax authorities may question solutions used by the taxpayer aimed at avoiding payment of the tax and applied without a legitimate economic reason based on specific anti-avoidance rule.

Loss carry forward rules

Polish legislation provides for carrying forward tax losses over five consecutive tax years following the year when the loss was incurred.

Taxpayers are allowed to utilize up to PLN 5m of a tax loss incurred in a given tax year based on a one-off basis (in the five year period).

Excess amount over PLN 5m can be utilized in any of these five years, however it cannot exceed 50% of the total loss.

Tax losses cannot be carried forward following certain legal transactions involving the company (e.g. mergers where the losses pertain to entities which no longer exist after the merger). There is no tax loss carry back.

Additionally, there is a limitation in utilization of tax losses in cases where the taxpayer has taken over another entity or acquired an enterprise or an organized part of an enterprise or has received a cash contribution for which it acquired an enterprise or an organized part of an enterprise. In abovementioned cases, utilization of tax losses by the taxpayer should be prohibited if:

- The subject of the primary business activity carried out by the taxpayer after the takeover or acquisition will be wholly or partially different from the subject of its primary business activity actually carried out before the takeover or acquisition, or
- At least 25% of shares or similar rights in the taxpayer are held by an entity or entities which did not own such rights as at the last day of the tax year in which the taxpayer incurred the loss. In practice, such regulations may prohibit the utilization of the past

tax losses in case of mergers, demergers, carve-outs and other restructuring activities.

Depreciation rules for real estate

(i) Limitation of depreciation write-offs of buildings for tax purposes

Real estate companies (within the meaning of Polish CIT regulations) are obliged to make depreciation write-offs from real estate in the amount not higher than the amount made in accordance with the accounting regulations.

In practice, entities relying on the fair value model for the purpose of their investment properties may not be any longer in a position to recognize depreciation write offs for tax purposes.

In this respect, if a given entity does not depreciate the building for accounting purposes (but rather revaluates this property to its fair market value) tax depreciation of such a building may not be recognized for income tax. However, the case law regarding these regulations indicate that in certain cases depreciation could be allowed. Development of the tax authorities' and the courts' practice in this area should be monitored.

(ii) Depreciation rate for real estate

The standard depreciation rate for most new buildings for tax purposes is 2.5% per year. Hence, the costs of real estate investment are generally deducted over a period of 40 years. Newly acquired buildings, used previously by a former owner, can be depreciated for tax purposes during the period equal to the difference between 40 years and the number of years that have passed since the building was put into use for the first time (that period cannot be shorter than 10 years). Land is not subject to tax depreciation.

Residential real estates should not be subject to tax depreciation. The taxpayer is entitled to recognize costs incurred for acquisition of such real estate upon disposal.

Under certain circumstances it may be worth carrying out a cost split analysis of investment expenditures prior to putting a building into use. This is because some machinery may - under specific regulations - be excluded from the value of the building and be treated as separate fixed assets depreciated at higher rates (4.5% - 20% per year). This could lead to significant tax savings as the costs incurred could be deducted over a shorter period of time. A cost split analysis should be also possible in case of the purchase of an already developed building.

(iii) Calculation of the depreciation base

The depreciation base consists of all costs incurred in making the investment: construction costs, building materials, designs, interest and foreign exchange differences accrued during the construction period, commission and potentially non-recoverable input VAT related to the building incurred before it was put into use. As the value of the land is not subject to depreciation, it is then important to determine the value of the land and the value of the building separately.

VAT implications of renting out real estate

Rental income is generally subject to 23% VAT. This VAT is added to the net rent due and is payable by the lessee to the lessor. If the lessee is a regular VAT payer and is using the rented property to perform taxable activities he should be able to recover that input VAT paid on the rent.

If the lessee performs VAT exempt business activities only, the input VAT on the rent becomes irrecoverable. It may be a typical case for banks, financial institutions and insurance companies, most of which activities are - as a rule - exempt from VAT.

However, if the lessee performs VAT exempt activities, as well as taxable activities, then the input VAT on the rent (if such lease serves both types of activities) can be deducted proportionately on the pro rata basis.

Preliminary pro rata must also be taken into account, which might result in limited recovery of input VAT related both to economic activity and non-business activities.

Rental of residential units for housing (but not the rental of residential units for the purposes other than housing) is generally VAT exempt.

A reduced 9% CIT rate may apply on the condition that an entity is a small taxpayer (its revenues in a proceeding year do not exceed the equivalent of €2m and current tax).

The reduced rate is not available for entities created as a result of restructuring.

Notional interest deduction

Taxpayers are allowed to deduct deemed interest on certain parts of equity, amounting to the reference interest rate of the Polish National Bank as of the last banking day of the preceding tax year, increased by 1 basis points; however, no more than PLN 250k of interest (€58k) in a tax year.

Real estate tax

Real estate tax is charged to the owner (or in some cases the holder) of the land or buildings and infrastructure which are used for business activities. The local authorities set the real estate tax rates and collect the taxes. However, in 2023 local authorities are bound by the following maximum PLN annual tax rates:

- For land, PLN 1.34 per m^2 of land
- For buildings, PLN 33.10, per m^2 of the usable surface of a building
- For infrastructure (e.g. roads, pipelines), 2% of the value of the infrastructure calculated according to specific regulations (initial value determined for the purposes of tax depreciation).

Local authorities may differentiate between tax rates for different types of activities or locations and grant exemptions for certain types of real estate.

Tax penalties

Another change is introduction of sanctions in the form of an additional liability of 10%-30% of the tax liability assessed by the tax authorities based on the General Anti Avoidance Regulations (GAAR) or other anti-abuse clauses, transfer pricing settlements and withholding tax cases.

Reporting obligations of entities owning Polish real estate rich entities

Real estate rich companies and taxpayers holding directly or indirectly shares or similar rights giving at least 5% of voting rights/rights to participate in the company's profit or similar rights in real estate rich company should be required to provide tax authorities with the information on:

- The entities holding directly or indirectly shares or similar rights in the real estate rich company – in the case of information provided by real estate rich companies
- The number of shares or similar rights, held directly or indirectly in the real estate rich company – in the case of information provided by taxpayers owning Polish real estate rich companies.

The information should be provided by the end of the third month after the tax/financial year end of the real estate rich entity. The information should be provided electronically and should be valid as at the last day of the tax/financial year of the real estate rich company.

Publication of tax policies

Entities that generate revenue in excess of €50m during the tax year or tax capital groups (tax consolidation regime in Poland) are required to publish annual information on the execution of their tax policy.

The information needs to be published on their website by the end of the 12th month following the end of the tax year.

The scope of the information to be published is broad and may concern business sensitive areas.

Tax rulings

Under the regulations it is forbidden to apply for tax rulings regarding any provisions related to tax avoidance matters (i.e. both General Anti Avoidance Regulations (GAAR) as well as other existing abuse clauses). Any tax rulings regarding these areas obtained by the taxpayers in the past expired on 1 January 2019.

Binding rate information (BRI)

BRI is a document allowing to confirm the VAT rate for goods or services subject of the proper application to the Polish tax authorities.

The BRI grants taxpayers tax and penal-fiscal protection in the event of challenging the correctness of the applied VAT rate.

E-invoicing (structured electronic invoices)

As of 2022, the new system of structured invoices has been introduced and the National System of e-Invoices (KSeF) has been set up. KSeF enables the issuing and sharing of structured invoices (in xml format, compliant with the logical structure published).

In the initial period, including half of 2024, the structured invoices function in business transactions as one of the accepted forms of documenting sales, in addition to paper invoices and electronic invoices currently used. The issuing of structure invoice in that period requires a consent of the invoice recipient.

The structured invoicing is said to become obligatory as of 1 July 2024. Non-complying with that system should come with significant penalties (including the sanction in the amount of total VAT due from the transaction).

2.7

Exiting the investment

The investor's choice of exit strategy will be predominantly tax driven, and it is important at The outset of the investment process to have a clear idea of the possible exit mechanics.

The due diligence findings made during the acquisition phase are likely to bear relevance to the question of which exit strategy to choose, and should be given proper consideration, so that the investor's position on exit will be as strong as possible.

Generally, the exit may be structured as an asset or share deal. The legal and tax consequences of both are presented in section 2.4.

Exit tax

Provisions regarding exit tax constitute implementation of the EU Anti-Tax Avoidance Directive (ATAD) in Poland.

The so-called **tax on unrealized profits (hidden reserves)** is levied on profits that are embedded in a taxpayer's property and that are potentially transferred together with such property outside of Poland within transfers of the property within the same taxpayer (e.g. transfer by a Polish resident to its permanent establishment located abroad or transfer by a nonresident operating via Polish permanent establishment to its home country or to another country in which it operates) or upon change of the taxpayer's residence.

Exit tax on unrealized profits is calculated as the difference between the fair market value (FMV) of the property transferred (established based on separate rules) and its tax book value (that would have applied had the given property been disposed of) as of the date of the transfer.

Upon transfers into Poland, taxpayers may be allowed to credit the foreign equivalent tax (i.e., the tax due in a foreign country and which is equivalent to the tax on unrealized profits) up to certain limits.

2.8

Sale and lease back

Legal aspects

A sale and lease back transaction consists of two stages. The first stage assumes selling the target real property by the seller to the purchaser. In the next stage the seller concludes the agreement on the lease of the real property from the purchaser. As a result of the sale, the owner (or perpetual usufructuary) of the real estate changes. However, due to leasing the real property back, the real estate remains under the operational control of the original party (the seller).

From the legal perspective it is important to secure the sellers' interest already in the first stage of the transaction, i.e. to establish the obligation of the purchaser to lease the real property back in the agreement on the sale of the real property.

It is also important for both parties to agree details of the lease (duration, price, etc.) as soon as possible, especially if the seller and the purchaser do not belong to the same capital group.

The main advantage of such a sale and lease back operation is the release of the seller's capital as a consequence of the sale of the real property. This capital may be thereafter used e.g. for investment purposes. However, the decision on choosing such a solution shall be made on detailed calculation of all the costs related, including the lease costs.

Tax implications

If a sale and lease-back transaction is structured as an operational lease, the buyer/lessor is in most cases the owner, and should generally (subject to general rules) be able to depreciate the value of the investment at the standard depreciation rate of 2.5%. Accelerated depreciation for used buildings can be considered in some cases. Other costs related to the maintenance and exploitation of the building are tax- deductible for the lessor.

If, under a sale and lease-back contract, the real estate asset which is the subject of the contract is sold at a higher price than its net book value, a taxable gain will occur. Under Polish legislation, it is not possible to defer the taxation of such a gain in order to use it for reinvestment (unless the taxpayer benefit from the "Estonian CIT" regime).

A sale and lease-back arrangement structured as an operational lease has an advantage for the seller/lessee that the lease payments are fully tax deductible as costs incurred for the purpose of earning revenue. By contrast, for the borrower party to a normal direct financing arrangement, only the interest payments made on the loan are tax-deductible.

The repayment of capital is not a tax- triggering event. Under a direct financing arrangement secured by a mortgage, the debtor would still be the owner of the real estate. As such, the debtor would be unable to depreciate the value of the land. Under a lease contract, the lease payments are partly a compensation for the use of the land. Therefore, payments for the use of the land are tax-deductible for the benefit of the lessee.

2.9

Due diligence as part of the acquisition process

2.9.1. Legal due diligence

The due diligence process is all about mitigating investment risks. In practice, the legal due diligence review consists in gathering information and should provide the potential investor with a comprehensive view of the legal issues regarding the real property he considers acquiring.

The main purpose of the due diligence process is to provide investors with a complex overview of the situation of the real estate being the subject of the acquisition from the legal, financial and tax perspective. Taking into account the specific status and features of a given real estate, a broader due diligence review, conducted by technical and environmental experts, may be recommended.

By the end of the due diligence process, the investor should have a fair idea of whether the real estate is worth investing time and money. In this regard, a due diligence should be as comprehensive as possible.

The scope of the legal due diligence will depend on the structure of the deal. In a share deal, the scope of the due diligence will generally be wider than that required for an asset deal, as it needs to cover all the aspects related to the activity of the company. In case of an asset deal mostly the legal status of the real estate should be taken into consideration and examined carefully.

Within the legal due diligence, the review bases mainly on data and information provided by the seller and on inquiries and discussions with the seller and/or the management of the target. Additionally, publicly available sources (such as data in court registers) are explored.

In practice, within the due diligence regarding the real estate the investor should:

Verify basic information on the real estate (location, area, construction, legal title etc.).
Examine compliance with laws and effectiveness of acquiring a legal title to the real estate.
Examine restrictions with the disposal of real estate.
Examine the necessity of acquiring third parties'/administrative bodies' corporate approvals for acquiring a real estate.
Examine the collaterals established on the real estate.
Examine the third-party rights to the real estate.
Verify the permissible use of the real estate.
Verify the construction of the real estate in order to obtain required permits and approvals.
Verify the access of the real estate to the public road.
Analyze the responsibility of the buyer for the pollution of the real state.
Verify the amount of public burdens related to the real estate and lack of arrears with this regards.
Examine the potential claims to the real estate.

Review of other aspects is usually agreed with the seller and strictly depends on the type of transaction (share or asset deal).

The aim of the legal due diligence review of the real estate is to identify areas of investment risks but also other specific legal aspects regarding performing of business activity on the real estate and its sale. Below we present certain issues that need to be analyzed during the due diligence process and which may influence the structure of the transaction, or even a decision on entering into the transaction.

Local Spatial Development Plan and other regulations regarding spatial planning

Development of an investment on the real estate is possible provided that buildings, plants and other industrial facilities comply with the relevant local spatial development plan for a given area. Therefore, it is essential to establish during the due diligence process whether there is a local spatial development plan covering the area where the targeted real estate is located and if so, what are the conditions of this local spatial development plan in order to confirm whether it will be possible to perform the planned investment. Please refer to the section 2.5.1. for more detailed information regarding the local spatial development plan.

Taking into account recent Spatial Planning Reform (described in details in Section about recent changes to Law on Spatial Planning and Development above) analysis of spatial conditions should include also verification of the general plan. In addition, it should be established whether integrated investment plan, a new kind of local spatial development plan has been adopted for given real estate.

Within the review of the local spatial development plan and other regulations regarding spatial planning, in particular, the issues of the conservation and historic preservation zones and agricultural land should be verified.

Conservations and historic preservation zone

The local spatial development plan may provide that the area where the real estate subject to the potential investor's interest is located falls within a conservation and historic preservation zone where some specific rules apply in order to protect the historical monuments located in the zone. Depending on the type of the real estate and its historical status there may be additional requirements and limitations established by the provisions of law.

Revitalization

The Revitalization Act entered into force at the end of 2015.
Under the act, revitalization is the comprehensive process of rescuing degraded areas from crisis through integrated actions for the benefit of the local community, space and economy. A degraded area is a terrain in which there is a concentration of negative social phenomena as well as, for example, degradation of the technical condition of buildings, a low level of transit service, and poorly adapted urban planning solutions.

Under the Act, it is necessary for the commune authorities to pass local government law in the form of a resolution in establishing a revitalization zone or a special revitalization zone.

It should be noted that the Revitalization Act provides for cases, when a commune may exercise the right to pre-emption of real estate, i.e. in case of transactions the subject of which is a real estate located within a revitalization area or special revitalization zone. In case of considered acquisition of real estate located in one of those plans, an investor should bear in mind the pre-emption right of a commune.

Agricultural land

The local spatial development plan may provide that the real estate is assigned for agricultural activity. As a rule, the development of real estate designated for agricultural use requires a special procedure involving the modification of the local spatial development plan. Such a procedure may be time-consuming and is connected with the risk of third parties challenging the proposed changes to the plan. Additionally, real estate classified as agricultural land in the Land and Building Register, but not covered by the master plan, should be also excluded from agricultural production by obtaining an administrative decision from the relevant authority.

It should be noted that after exclusion of the area from agricultural activity an annual fee has to be paid for ten years (see comments below).

An investor considering acquisition of agricultural real estate should also bear in mind existing restrictions relating to purchase of an agricultural land. Regulations in force provide for many specific legal restrictions and limitations and recent legislation restrains entities other than individual farmers from purchasing an agricultural real estate (please see comments in section 2.4.2).

Due to 2023 Amendments to the Act on the Formation of the Agricultural System (please refer to Section about Amendments to the Act on the Formation of the Agricultural System above for details), during due diligence process it is also crucial to verify whether daughter companies of a target company have agricultural real estates of at least 5ha or several agricultural real estates with such a total area. If such situation exists under the planned transaction, the shares may be subject to pre-emption right vested in National Agricultural Support Center.

Restitutions claims

Under the nationalization laws passed in Poland after the Second World War, many real properties and functioning enterprises (including their real estate assets) were "nationalized" (or "communalized"). However, currently, there are no specific reprivatization laws in force in Poland to deal with the restitution matters and claims. As a result, the legal status of nationalized properties is quite often subject to uncertainty.

Under specific conditions, former owners or their successors may apply to civil courts and initiate proceedings aimed at the restitution of such real estate. As the current owner benefits from the land and mortgage register's public credibility warranty, the outcome of such claim will primarily depend on the apparent good faith of the current and previous owner at the time they acquired the property. Nevertheless, this issue needs to be subject to analysis during the due diligence.

In Warsaw, based on the special "Warsaw decree" on land ownership of 1945, the City of Warsaw gained ownership rights to the major part of real estate in the city. However, subject to specific conditions, former owners of the real estate were granted the right to apply for obtaining usufruct rights to real estate or compensation. Currently, such applications which were not resolved or were resolved in contravention of the law may be the base for successful claims for reestablishing the rights of the previous owners or their successors. Nevertheless, provisions of law provide also for certain limitations of restitution of ownership of real estate nationalized under the Warsaw decree or transferring claims for reestablishing the rights for such.

Moreover, the Treasury and the Capital City of Warsaw have been equipped with a right of pre-emption in the event of the sale of rights and claims arising from the Warsaw decree and claims for the establishment of perpetual usufruct to the previous owner of real estate located in Warsaw. The pre-emption right also applies in case of sale of perpetual usufruct right established by satisfying rights and claims arising from the Warsaw decree.

In consequence, it is essential during the due diligence to investigate carefully and thoroughly the restitution claims issue to avoid any title or investment risk upon completion of the acquisition of the real estate.

Fees - holding the real estate

Betterment levy

Betterment levy ("*Opłata Adiacencka*") is a charge which may occur with regard to the increase of the value of the real property resulting from:

- Projects
- Division of the property
- The construction of infrastructure with the use of public funds (placing water pipes, sewage pipes, heating systems, electricity gas and telecommunications facilities).

The amount of the fee depends on the amount of the increase in the property's value and is usually established based on an opinion of an independent expert determining how much the value of property has increased by.

The amount of fee shall not be higher than 50% (with respect to the division following a merger and the construction of infrastructure with the use of public funds) and not higher than 30% (with respect to a division) of the increase in value of the property.

Zoning fee

Additionally, adoption of the local spatial development plan may also lead to an increase in real estate market value, e.g. when a forestry land or an agricultural land is reclassified in the local spatial development plan into residential or commercial land, its value increases.
In such cases the zoning fee ("*Renta Planistyczna*") may be established as a percentage (not higher than 30%) of the increase in value of the land calculated as at the date of the transfer of the given real estate.

The percentage for calculation of the zoning fee should be provided for in the local spatial development plan, otherwise the fee will not be due. The zoning fee is payable by the vendor in the case of a transfer of the property within 5 years from the day when the local spatial development plan came into force.

Exclusion from agricultural production fee

Entrepreneurs are often interested in changing the purpose of use of the agricultural and forest land in order to develop the land and realize an investment. Exclusion from agricultural production is subject to an initial fee and subsequent annual payments. The value of such payments depends on the:

- Area of the land subject to exclusion
- Quality of the land (class of soil)
- Market value of the land subject to exclusion.

It should be noted that if the land excluded from agricultural production is sold, the obligation to pay the annual fees passes to the purchaser.

Environmental issues

Introduction

Polish environmental law affects the conduct of economic activity for most business entities. One of the most important requirements imposed by the environmental law is the requirement to obtain permits related to the rules of having an impact upon the environment. It is usually examined during the due diligence whether the seller (or the target company) fulfills the environmental law requirements.

Permit requirements

Environmental permits can be basically divided into two groups. The first one includes permission obtained in the course of the investment process and the second group includes permission related to the use of the property.

In certain circumstances Polish environmental law imposes an obligation to obtain an integrated permit, which includes a number of permits governing the use of the environment. The obligation to obtain integrated permit relates to, *inter alia*, the following branches of industry: metallurgy and steel industry, the mineral industry and the chemical industry.

Besides, it is important to take into account the permissible level of noise. Permission is required only if the noise level exceeds the noise limits, which should be evaluated taking into account the provisions of the local plan.

Liability for contaminated land

Under the Polish law there are two regimes of liability for land (soil) contamination, depending on the period from which the contamination originates (with the border line being 30 April 2007). A current holder (in particular owner or perpetual usufructuary), revealed in the Land Register, is liable for soil contamination which occurred prior to 30 April 2007 or may be attributed to activity completed prior to that date, even if such holder did not actually cause the contamination.

Parties to the sale agreement cannot contractually exclude the above mentioned administrative liability of the purchaser for clean-up of contaminated land so when a potential investor intends to buy a property (especially one that was used for industrial purposes) a detailed study on pollution of the land is required.

To secure purchaser's interest, the seller of contaminated land may agree to reimburse the purchaser with expenditures born for the clean-up.

The situation is different for "new" land contamination, i.e. any soil damage, which occurred after 30 April 2007 or could be attributed to an activity completed after that date. An entity using the environment (i.e. an entity who has relevant permits to operate and use the environment) is liable for any such damage.

Environmental impact assessment

According to the section 2.5.1 where the environmental decision and environmental impact assessment where described, in some cases - especially for large investments an environmental impact assessment proceeding may be required.

2.9.2. Financial due diligence

Not many investors perform due diligence when completing a real estate transaction. Often the investor's own internal procedures require due diligence to determine whether or not the transaction is in the best interest of the investor.

Although for transactions of a smaller scale this may not be a good way to evaluate a deal, most investors understand the value of expert outsourced financial due diligence services. This rings especially true when taking into account larger time¬sensitive transactions (auction processes for example).

Although some investors choose to forego due diligence when acquiring new assets, they should understand that financial due diligence can indicate how the acquired assets will affect metrics such as revenue and net operating income. In addition, due diligence is able to discover unforeseen problems such as discrepancies between the amount paid for rent as described in lease agreements vs. the actual amount being paid per the accounting books.

A buyer usually makes use of financial due diligence to assist in identifying major issues concerning a transaction:

- The value of the property's NOI taking into account the existing lease portfolio
- Any provisions in the lease that affect the NOI adversely (for example, discounts on rent for any given period of time or for improvements made by lessee)?
- Bookkeeping in use being adequate for the business, and how does it looks next to the investor's bookkeeping procedures
- Lessee ever being late with the rent, or it taking longer to collect rent
- Charges made by the lessee being enough to cover the costs of maintaining the building; and any service charges not settled for any reason.

Analyzing financial issues

The items listed below should be considered when seeking to resolve the previously mentioned issues concerning financial due diligence:

- The financial figures being viable: can the figures be traced back to its origin reliably
- Critical bookkeeping procedures being applied consistently and appropriately; the influence of the bookkeeping procedures on the financial figures
- Assuring that the creation and level of management information is accurate and adequate for the business being considered
- Evaluating the contractual obligations the business has and their influence on profitability and cash flow
- Evaluating critical problems influencing earnings position

- Recognition of the need for cost recharges incurred and focus on areas for improvement; recognizing the "normal" working capital and cash flow tides of the business and probable funding needs down the line
- Making sure constructions costs are properly reflected in the bookkeeping records
- Recognizing the net asset base for acquisition; addressing possible balance sheet valuation discrepancies; making sure everything has been adequately addressed in evaluating the underlying earnings
- Comparing the rent roll against the rental agreements and bookkeeping records
- Comparing the service charges incurred against the bookkeeping records and
- Going over rental agreements to identify balance sheet liabilities.

2.9.3. Tax due diligence

Tax due diligence, in general, focuses on assessing material tax risks pertaining to assets or shares by reviewing the tax position of the target company. By identifying tax risks during due diligence conducted before the transaction, the investor may seek protection or indemnification from the seller.

From a tax perspective, it is also important to ensure that the appropriate tax structure is used, which usually involves a pre-transaction study and the preparation of the transaction structure in accordance with the Polish and international tax regulations. In addition, it can also include an assessment of the tax implications of a future exit scenario.

Acquisition of assets

In the case of an asset deal deemed to be the acquisition of business as a going concern or a viable part of that business (organized part of an enterprise), the acquirer may be held liable for the outstanding tax liabilities of the seller. This liability should be excluded if the acquirer could not have become aware of the seller's tax arrears despite acting with due diligence in attempting to identify such tax arrears. Performing a tax due diligence review is thus a way to limit or exclude such liability.

This liability is in practice of a ‚subordinated' nature, as even if a formal decision declaring that the acquirer is liable for the seller's tax arrears is issued, the claim against the acquirer may crystallize only if the enforcement procedure against the seller is ineffective (and tax claims against the seller are not satisfied).

According to the tax regulations the acquirer (with the seller's consent) or the seller may submit to the tax authorities a formal request for a certificate which lists all the tax liabilities which are transferable to the acquirer. The acquirer is then liable only up to the value of the tax liabilities presented in the certificate.

In the case of a sale of single assets (not constituting a going concern or an organized part thereof), the acquirer should not be liable for the outstanding tax arrears of the seller. However, if the transaction is reclassified into a sale of a going concern, the buyer might then be held liable for the seller's undisclosed tax liabilities.

Acquisition of shares

In the case of a share deal, all the potential outstanding liabilities that are not statue barred remain with the acquired company. As a consequence, the acquirer faces the possibility of incurring an economic loss on the transaction if undisclosed tax liabilities become apparent afterwards. Tax due diligence is therefore conducted to allow the acquirer to assess and minimize this risk.

Generally, the period of limitation for tax liabilities is 5 tax years following the year in which the tax is payable. In practice this means that from the perspective of 2023 there is still a tax risk in relation specifically to a target's corporate income tax payments for 2017-2023, and to other tax liabilities, in general, for 2018-2023.

Tax issues analyzed

The scope of a tax due diligence review depends on the structure of the planned transaction.

In the case of an asset deal, the scope of due diligence depends on the subject of the transaction and the extent to which the acquirer may be liable for the seller's tax liabilities.

In the case of a share deal, as the acquirer faces the full impact of any tax liabilities assumed, full due diligence is usually conducted.

The tax due diligence in case of a share deal usually covers the following areas:

- Review of tax returns for periods previously filed and review of tax calculations for periods that are not yet filed with the tax authorities
- Review of the results of past tax audits to detect tax risks for periods that are still open for tax audits by the tax authorities
- Review of any obtained tax rulings
- Review of any losses carried forward, tax credits and special tax privileges to identify related tax risks for unaudited periods and to assess whether such tax benefits will be available post transaction
- Review of withholding tax procedures and exemptions available
- Review of significant historical reorganizations and one-off transactions and their impact on the tax accounts.

Review of intercompany transactions and present transfer pricing policy in the company is also a part of a standard tax due diligence in the case of a share deal. The process would also likely include an examination of areas typical for a real estate company, such as:

- The existing debt financing structure (e.g. debt push down schemes), thin capitalization and other pending restrictions on the tax deductibility of interest payments on the debt
- Any large differences between book and tax basis of assets, analysis of the deferred tax calculations, in particular identification of any deferred tax liability, e.g. from accrued foreign exchange gains
- Rules for capital expenditure recognition and the impact of foreign exchange differences on the initial value of fixed assets for tax depreciation purposes
- Policies for the tax depreciation of assets, including a review of cost segregation schemes
- Cash incentives offered to lessees such as a rent free period or step-up rent and their impact on the tax accounts
- Treatment of the investment costs incurred by lessees (leasehold improvements) when the lease expires
- Tax recognition of management charges payable by special purpose vehicles to servicing companies within the group
- Any step-up in the value of the real estate performed; review of input VAT refunds in the investment phase
- Policies for real estate tax.

A review of the sale and purchase agreement (SPA) for the acquisition of a real estate target usually covers the following tax points:

- Review of the tax definitions in the SPA, and of the tax representations and warranties
- Review of the tax indemnity clauses in the SPA and
- Analysis of the SPA from the perspective of other protection available against tax exposures
- Review of clauses aiming to reduce or mitigate potential tax exposures resulted from the reclassification of an asset deal transaction.

2.9.4. The use of due diligence results when negotiating

After the whole process of due diligence, the investor gets a general financial and tax risk overview, which makes up the origin of the information for negotiations with the seller and assists in adjusting the financial model for valuation.

This can be used to get a decrease in price in order to alleviate possible tax liabilities and can be used when writing warranties and damages in the SPA.

The results may directly affect the structure of the transaction, for example, transforming an asset deal into a share deal or the other way round; they may also be used for post-acquisition tax planning.

Along with the tax and financial due diligence results, the legal due diligence review should assist the buyer in determining whether or not to complete the transaction, and if so, in what form. Due diligence investigations let the buyer's legal team construct the conditions of the deal so that the buyer is afforded with an adequate amount of comfort and protection. The legal team will then be in a position to address specific problems by asking for further explanations and/or promises or warranties from the seller. The legal team can also evaluate whether or not such promises or warranties need to be covered by an indemnity clause or other legal language allowed under the Polish law.

When taken together, the financial, tax and legal due diligence results are a very strong tool which can very easily have an influence on the final result of negotiations, and, in particular, how much the buyer will ultimately pay.

3

Accounting and auditing

3.1

Introduction to the accounting framework in Poland

Polish accounting is regulated by the Accounting Act as of 29 September 1994 with subsequent amendments (the Accounting Act). The Minister of Finance has also issued several regulations which cover specific accounting areas, such as: financial instruments, consolidation, accounting principles for banks, insurance companies, investment funds and pension funds. Since 1994, the Accounting Act has undergone significant changes to bring Polish accounting regulations closer to the International Financial Reporting Standards (IFRS). However, the differences between the Accounting Act and IFRS, mainly following IFRS developments in recent years, continue to exist. There is currently a project ongoing to revisit the Accounting Act. The following information applies to financial statements prepared for the periods beginning on or after 1st of January 2024.

In order to help to implement the Accounting Act, the Polish Accounting Standards Committee ('the Committee') prepares and issues National Accounting Standards (KSR). As of 1 January 2023, fifteen National Accounting Standards were issued on different topics such as:

- Cash flow statement
- Income tax
- Construction works
- Impairment of assets
- Leasing
- Provisions, accruals, contingent liabilities
- Changes in accounting policies, changes in estimates, correction of errors and subsequent events
- Developers' activity
- Directors' report
- Agreements on public-private partnership and concession contracts for construction works or services
- Property, plant and equipment
- Agricultural activity
- Cost of inventories
- Going concern assessment and non-going concern basis of accounting
- Revenue from the sale of products, semi-finished products, goods and materials.

The Committee has also issued several position papers and recommendations (not referred to as standards) with respect to e.g. stocktaking, green certificates, selected aspects of bookkeeping, true and fair view, settlements with contractors and discontinued operations.

National Accounting Standards and the Committee's position papers are available on the website of the Ministry of Finance.

In the areas not regulated by the Accounting Act or National Accounting Standards, guidance can be sought in IFRSs.

The Accounting Act permits or requires some Polish entities to apply IFRS, as adopted by the EU, as their primary basis of accounting, rather than applying the accounting principles of the Accounting Act. Those regulations are summarized in the following table:

	Standalone financial statements	**Consolidated financial statements**
1. Entities listed on a regulated market in Poland or other European Economic Area (EEA) country.	Choice	Required
2. Banks (other than those included in points 1, 3, 4 and 5).	Not permitted	Required
3. Entities planning to apply or applying for a permission to list on regulated market in Poland or other European Economic Area (EEA) country.	Choice	Choice
4. Entities that are part of a group where the parent prepares consolidated financial statements for statutory purposes in accordance with IFRS as adopted by EU.	Choice	Choice
5. Branches of a foreign entrepreneurs that prepare separate financial statements for statutory purposes in accordance with IFRS as adopted by EU.	Choice	n/a
6. Other entities	Not permitted	Not permitted

The Accounting Act imposes a requirement to prepare the financial statements in an electronic format. Financial statements need to be signed with a qualified electronic signature, trusted signature or a personal signature by members of the management board and the person responsible for bookkeeping.

The electronic financial statements must be filed electronically to the National Court Register.

3.2 Accounting records

The provisions of the Accounting Act and related regulations are applicable to, among others, companies and partnerships that have their registered office or place of management in Poland. For those entities that apply IFRS as the primary basis of accounting instead of Polish principles, the following sections of the Accounting Act still apply:

- Chapter 2 on bookkeeping
- Chapter 3 on stocktaking
- Chapter 6A on report on payments to administration
- Chapter 7 on auditing, filing with the appropriate court register, providing access to and publication of financial statements
- Chapter 8 on data protection
- Chapter 9 on criminal liability
- Chapter 10 on special and interim provisions, and
- Article 49 in regard to directors' report.

Each entity is obliged to maintain its accounting books and other documentation which, in particular, comprises:

- A description of the entity's accounting principles
- Rules for keeping sub-ledgers accounts and their link to general ledger accounts.

It should be noted that the violation of the Accounting Act requirements by a person responsible for preparation of the financial statements (usually the Management Board) may be recognized as a criminal offence, which is punishable by imprisonment for a term not exceeding two years, by a fine, or both.

Accounting records should be kept, and financial statements prepared, in Polish language and presented in the Polish currency. Entity may outsource bookkeeping provided that:

01

Entrepreneur providing outsourcing is in EEA country

02

Tax office was informed

When accounting records are outsourced, the accounting records must still be kept in Polish language and Polish currency and entity should ensure access to books of account to authorized external control or supervisory authorities.

The regulations, summarized in Chapters 3.3 - 3.5 below apply to all entities in general. Certain types of entities such as banks, insurers, or investments funds might be governed by additional specific regulations.

3.3 Financial statements

All statutory financial statements must be prepared in electronic format and in the Polish language and expressed in the Polish currency. Financial statements consist of:

- A balance sheet
- An income statement
- A statement of cash flows
- A statement of changes in equity
- Notes to the financial statements (split into an introduction and additional notes)
- A cash flow statement and a statement of changes in equity are only required by entities whose financial statements are subject to a statutory audit.

For some specialized types of entities additional exceptions or requirements might apply in relation to primary financial statements such as, for example, a summary of investments for the investment funds and alternative investment companies.

The format of the balance sheet, income statement, statement of cash flows, statement of changes in equity, and the contents of notes to the financial statements for entities preparing their standalone financial statements in accordance with Polish GAAP are determined by the Accounting Act. Companies listed on the Warsaw Stock Exchange, if preparing the financial statements in accordance with Polish GAAP, are guided by specific regulations for public issuers. This includes reconciliation between the results reported in accordance with Polish accounting principles and those that would have been met if IFRS, as adopted by the EU, had been applied.

Moreover, the Accounting Act provides some exemptions for entities meeting the definition of a small or micro company. They relate, among others, to the layout and content of financial statements, application of prudence principle, depreciation and amortization.

3.4

Financial reporting, publication and audit requirements

Financial reporting

All entities governed by the Accounting Act are obliged to prepare their standalone and consolidated financial statements (the latter ones only if certain criteria are met) for each financial year. The financial year does not have to be unified with the calendar year. Listed companies are additionally obliged to publish semi-annual and quarterly reports.

An entity must also e.g. prepare financial statements as of the date of the closure of accounting records, and as a result of other events leading to the termination of the activities of an entity, for example, the closure of business (liquidation date).

The standalone and consolidated financial statements should be prepared within three months after the balance sheet date and approved within six months after the balance sheet date.

Directors' report

Specific entities such as, for example, joint-stock companies, limited liability companies, selected partnerships, mutual insurance companies, co- operatives, state-owned companies, investment funds and investment companies prepare, in addition to the financial statements, a financial review by entity's management - the management report on the entity's operations (the 'directors' report). The scope of the report is defined in legal regulations and includes topics such as:

- Description of events that significantly impact upon the entity's performance and that occurred during the reported period and after its closing date, till the date the financial statements are approved
- Expected development of the entity
- Major achievements in the research and development area
- Actual and planned financial situation, including financial ratios
- Details about transactions in own shares
- Information on branches (business units)
- Financial risk management objectives and methods
- Key financial and non-financial efficiency metrics in relations to operations, as well as information on employment and natural environment
- Information on the application of corporate governance rules (only public companies)
- Where there is a link between the values disclosed in the annual financial statement and the information included in the directors' report of the given entity, the management report should include references to the amounts disclosed in the financial statement, as well as additional explanations concerning those amounts.

A micro and small entities which are obliged (based on general rules of the Accounting Act) to prepare a management report on the activities of the entity may not draw up such a report provided that in the additional information, the information relating to the acquisition of own shares will be disclosed.

Starting from 2024 large public interest companies will be required to report under European Sustainability Reporting Standards ('ESRS') in line with the CSRD. This reporting will be a part of the Director's report (more details are presented in chapter "ESG in Real Estate").

Compensation report

From 2020, the Supervisory Board members in listed entities are obliged to prepare an annual report on the remuneration of the management board and the supervisory board and then to pass it to the auditor's assessment.

Publication of financial statements

Management is required to file the annual financial statements with the registration court together with the following documents:

- Auditor's report, if the statements were subject to an audit
- Shareholders' resolution on the approval of the financial statements and distribution of profit or coverage of loss
- Directors' report (if applicable)
- The report on payments to the public administration (if applicable).

Abovementioned documents should be filed with National Court Register (KRS) within 15 days after the approval.

If the financial statements have not been approved within 6 months after balance sheet date, they should be filled with National Court Register within 15 days after its approval.

Listed companies are also required to file their financial statements with the Polish Financial Supervision Authority including interim (quarterly and semi-annual) reporting.

Electronic format of financial statements

In 2018, the Accounting Act imposed a requirement to prepare the financial statements in an electronic format. The electronic financial statements should also be filed electronically to the National Court Register.

Financial statements need to be signed with a qualified electronic signature, trusted signature or a personal signature, by all members of the Management Board and the person responsible for bookkeeping.

Where the management board is composed of a number of members, financial statements may be signed by at least one member, if the remaining management board members confirmed compliance of those financial statements with the Accounting Act (or refused to confirm) in writing.

Financial statements (as of today - other than those prepared under IFRS) should conform to the logical structure published by the Ministry of Finance.

As for IFRS financial statements, issuers whose securities are admitted to trading on the regulated market in the European Union are obliged to prepare annual financial reports in the ESEF format (i.e. XHTML). Additionally, IFRS consolidated financial statements that are part of those annual financial reports shall be marked up using the XBRL markup language.

Other entities that prepare financial statements in accordance with IFRS can choose the format applicable to issuers of securities admitted to trading on the regulated market or other searchable format (i.e. allowing for search and copying of alphanumeric characters in an electronic document).

Audit requirements

Polish statutory audit requirements apply to all annual consolidated financial statements and to the annual standalone financial statements of the following entities that operate as a going concern:

- Banks, insurance companies, reinsurance companies, pension funds, investment funds (including alternative, closed, open and specialized funds), investment fund management companies, joint-stock companies and public companies, payment institutions, brokerage houses and firms
- Other entities that meet at least two of the following three thresholds in the financial year preceding the financial year for which the financial statements were drawn up:
  - Annual average employment (equivalent of 50 individuals employed full-time)
  - Total assets at the end of the financial year (the PLN equivalent of €2.5 million or greater)
  - Net sales including financial income for the financial year (the PLN equivalent of €5 million or greater).

The statutory audit requirements also apply to the financial statements of the acquiring companies and newly formed companies, prepared for the financial year in which the business combination took place.

Also, all statutory IFRS financial statements are subject to audit requirements.

There are also additional requirements in relation to audit or review of interim financial statements of public companies and investment funds.

Audits are governed by the relevant legal requirements in force which include:

- Chapter 7 of the Accounting Act
- The Auditors Act
- International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors
- Regulation (EU) No 537/2014 of the European Parliament and the Council on specific requirements regarding statutory audit of public-interest entities.

Changes in Code of Commercial Companies (KSH) related to the audit process

Amendments to the Code of Commercial Companies entered into force in October 2022 are related to or may affect the audit process of limited liabilities companies, simple joint-stock companies and joint -stock companies that have supervisory board or its equivalent ("Supervisory Board"). The changes include, among others:

- The requirement for the supervisory board to inform the key statutory auditor in advance of the date of the supervisory board meeting at which the annual financial statements and 'directors' report will be discussed and evaluated
- The legal requirement for the key statutory auditor or other representatives of the audit firm to present the independent auditor's report, including the assessment of use of the going concern basis of accounting as well as to answer questions of the members of the supervisory board
- New reporting requirements for the supervisory board to prepare introduction of annual report on its activities and to be then presented to the general meeting or shareholders' meeting respectively

- Clarification of the competencies of the supervisory board to obtain information and data from the entity and its employees, associates and subsidiaries
- Introduction of an advisor to the supervisory board for the implementation of specific tasks.

3.5

Consolidation

Consolidation requirements

A capital group is a group which comprises of a holding company and its subsidiaries.

According to the Accounting Act, a holding company is a company that controls another entity.

A capital group prepares its consolidated financial statements on the basis of standalone financial statements of entities that belong to the group. Groups which, in the preceding and current financial years, did not exceed at least two out of three of the following thresholds before intragroup eliminations:

- Annual average employment - equivalent of 250 individuals employed in full time
- Total assets of all group entities - PLN 38.4m
- Net sales revenues from goods and services of all group entities - PLN 76.8m

or after intragroup eliminations:

- Annual average employment - equivalent of 250 individuals employed in full time
- Total assets of all group entities - PLN 32m
- Net sales revenues from goods and services of all group entities - PLN 64m

are exempt from preparing the consolidated financial statements.

Additionally, a parent that is itself a subsidiary of another entity whose registered office or place of effective management is established in the European Economic Area ('higher level parent') does not need to prepare consolidated financial statements if:

- A higher level parent holds 100% of the shares in this parent (or a higher level parent holds at least 90% of shares in this parent, and the remaining shareholders of this parent have approved a decision not to prepare consolidated financial statements) and
- A higher level parent consolidates this parent as well as all subsidiaries of this parent

The above provision shall not apply if a parent is an issuer of securities admitted to trading on one of the European Economic Area regulated markets.

In accordance with the Accounting Act, a subsidiary is excluded from consolidation if:

- The shares in such entity were acquired, purchased or otherwise obtained for the sole purpose of subsequent resale within one year from the date of acquisition
- There are severe long term restrictions on the exercise of control over the entity which prevent free disposal of its assets, including net profit generated by this entity or which prevent exercise of control over the bodies managing the entity
- It is impossible to get the information necessary for preparation of a consolidated financial statement without delay incurring unreasonably high cost (applies in exceptional cases only).

Moreover, a subsidiary does not have to be included in the consolidated financial statements if the amounts stated in that entity's financial statements are immaterial in relation to the holding company's financial statements.

Consolidated financial statements

Consolidated financial statements comprise:

- A consolidated balance sheet
- A consolidated income statement
- A consolidated statement of cash flows
- A consolidated statement of changes in equity
- Notes to the consolidated financial statements (split into an introduction and additional notes).

Consolidated financial statements should be accompanied by a Group 'directors' report prepared by the Management Board of the holding company. Group 'directors' report can be prepared together with a directors' report of the holding entity as a single report.

Consolidated financial statements should be prepared at the same balance sheet date and for the same financial year as the financial statements of the holding company. If this date is not the same for all entities within the group, then consolidation may cover financial statements prepared for a twelve-month period different to the financial year, if the balance sheet date of those financial statements is earlier by no more than three months of the balance sheet date adopted by the group. Companies included in the consolidation should adopt consistent accounting policies and consistent methods of preparation of financial statements. If the accounting policies of consolidated entities differ from those applied for consolidation, then appropriate adjustments must be carried out at the consolidation level. According to the Accounting Act, separate financial statements may be published before consolidated financial statements.

Methods to include entities in consolidated financial statements

A subsidiary is consolidated using the full consolidation method. Joint ventures are consolidated using a proportional consolidation method or accounted for using an equity method. Associates are accounted for using the equity method. When the associate prepares its consolidated financial statements, the equity method applies to the net consolidated assets of the associate.

3.6 Hot topics in accounting with potential implications for the real estate industry

Current macroeconomic outlook

The current macroeconomic environment, resulting from a combination of inflation, increase in the interest rates, geopolitical risks, including war in Ukraine and deterioration of the business climate as well as uncertainties regarding future developments, cause significant challenges to companies and their operations. Assessing the potential effects for companies and how these should be reflected in financial statements will be critical for financial reporting, e.g. an increased level of uncertainty may exist with respect to the determination of fair values.

Climate-related matters

Action to mitigate impact of climate changes has never been of greater importance, and the risks associated with it are, or may soon be, a source of significant uncertainty. At the same time, there is a growing interest of investors and other stakeholders in this issue and the interrelations between climate change and the activities of business entities.

Climate-related matters require to be adequately addressed in financial statements – both in the context of the valuation of assets and liabilities, e.g. fair value measurement of investment properties and in the context of transparency of disclosures. This is also a priority for capital market regulators, which impacts the directions of supervisory activities.

Consistent treatment of climate-related matters across the annual financial report is also highlighted as a key element in mitigating the risk of greenwashing. Those aspects are further discussed in Section “ESG in Real Estate”.

Current geopolitical and macroeconomic situation as well as climate-related matters may impact many areas of financial reporting.
For entities from real estate industry this could encompass among others:

- → Going concern assessment
- → Impairment of assets
- → Fair value measurement of investment property
- → Granting rent concessions and recognition of rental income
- → Loan covenants and classification of liabilities as current or non-current
- → Renegotiation of debt agreements (e.g. repayments deferral, etc.)
- → Government grants/government assistance
- → Expected credit losses on trade receivables

Also, higher degree of uncertainty regarding estimates and assumptions used by the management leads to higher sensitivity of reported figures.

As a result, companies should take into consideration the importance of providing sufficiently detailed disclosures in the financial statements. Disclosures should be clear, relevant and they have to depict the impact of the current macroeconomic environment on the financial statements. The significance of disclosures is emphasized both by regulators and standard setters (including the Polish Financial Supervision Authority (UKNF), the European Securities and Markets Authority (ESMA) and the Polish Ministry of Finance).

The Polish Accounting Standards Committee issued recommendations which provide guidance for entities reporting under Polish Accounting Regulations. Among others these included:

- "Financial statements and management reports during Russian aggression on Ukraine", issued in April 2022, and
- "Financial statements and management report for 2022 in times of macroeconomic uncertainty", issued in January 2023.

4

ESG in Real Estate

4.1

Introduction to ESG in real estate

Climate changes are happening faster than we thought, which is why governments and organizations globally have agreed ambitious targets to cut and eventually end dependency on coal for energy production.

Buildings in the EU are responsible for nearly 40% of energy consumption and 36% of GHG emissions. As urbanization is set to continue with 70% of world's population living in the cities by 2050, this trend will continue.

There is a great chance to improve environmental performance of buildings through their entire live cycle and real estate players are taking steps to minimize negative effects of the sector on the environment by complying with ESG (Environmental, Social and Governance) regulations and implementing more stringent ESG tools and solutions. It is not only beneficial for the climate but also improves the standard and quality of life by creating friendly, livable and healthy urban places.

The fast implementation of ESG standards is proceeding in the areas, which bring the real efficiencies. It is related to both newly constructed buildings as well as existing ones, which require rebuilding, refurbishing or retrofitting. Measures implemented in order to enhance the environmental performance include i.a.:

- Applying eco-friendly and energy efficient construction materials and furnishing materials
- Designing interiors in a way enabling soft & hard refurbishment
- Applying renewables (photovoltaics, geothermal heat pumps)
- Introducing efficient waste and water management systems
- Installing smart A/C systems adjusting to the level of occupancy.

Another aspect of ESG, which contributes to cutting emissions, is supporting transformation in transport and mobility. Modern buildings are designed with the idea to promote public, shared and low-emission transport. Landlords limit number of parking lots, equip their projects with bike racks and EV charging stations.

Real estate can also play an important role in strengthening social ties. One of the key elements of good design is the idea of place making – creating a place for social interaction. Offices, retail centers and hotels should merge into a liveable city, creating an inclusive space for inhabitants, whose environmental awareness is also increasing. Their demands, whether as a tenant, a customer or a resident, are growing in terms of eco solutions applied and social values represented.

When analyzing the annual 2022 report published by the Polish Green Building Council it is clear that the sector is going green at the fast pace.

Over the last year, the usable space of certified buildings (BREEAM, LEED, DGNB, WELL, HQE, GBS) increased by around 24%, totaling 28.6m m^2 (1,359 buildings)[1].

ESG solutions not only contribute to tackling climate and social challenges but also can form a resilient and lucrative business model. Seemingly non-financial aspects of real estate impact the commercial conditions of investment. Compliant properties attract a broader pool of potential tenants, increasing the demand and limiting vacancies. Energy efficiency, reduced resource use and longevity decrease operational and maintenance expenses. The buildings are more resilient to energy and utilities costs fluctuations, which is crucial in the current global energy crisis. Lower occupancy costs and higher demand for premises mean that ESG complainant buildings obtain higher rents on the market. Furthermore, upholding high standards ensure compliance with environmental regulations, minimizing the potential risks of future necessary improvements. The various upsides of seemingly non-financial environmental solutions can therefore effectively offset additional initial acquisition or construction costs. Investors perceive ESG compliant real estate as desired and highly sought-after product, with some funds specializing in green investment. Sustainable properties are associated with reduced risks and stable returns and are therefore expected to achieve higher transactional prices.

1 Sustainable Certified Buildings. 2022 Analysis, Polish Green Building Council, 2022.

4.2 ESG-related legislation in real estate

Beyond horizontal regulations, which pertain particularly to non-financial reporting (CSRD Directive and EU Taxonomy), the real estate sector is subject to significant ESG regulatory dynamics in terms of sector-specific legislation, notably on the EU law dimension. Legal changes related to ESG in real estate strictly have a purposive dimension and are intended to contribute to achieving the European Union's climate objectives, with paramount aim of climate neutrality by 2050. Nevertheless, ensuring compliance with new EU regulations will be crucial for alignment with taxonomy criteria and will constitute a significant metric within non-financial reporting.

The pivotal elements of legislative dynamics in the ESG sector-specific legislation in relation to the real estate sector are:

- **Directive (EU) 2023/959 of the European Parliament and of the Council of 10 May 2023** amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system (hereinafter: ETS 2)[1]
- **Proposal of the recast of the Directive on the energy performance of buildings** (hereinafter: EPBD)[2].

1 https://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:32023L0959.
2 The legislative process for amending the EPBD is at the stage of negotiations between co-legislators i.e., the Council and the Parliament. On December 7, 2023, the Commission, the Council, and the European Parliament reached a political agreement (within the so-called trilogues) on the EPBD revision. This guide refers to the assumptions of the legislative proposals contained in this document agreed within the trilogues. The text of the agreement must be officially adopted by the Council and the Parliament. The directive will then be published in the Official Journal of the EU (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52021PC0802).

Legal changes relating to major ESG-related regulations affecting primarily the real estate sector will have significant implications for valuation, increased property maintenance costs, market positioning as well as construction costs for new buildings. The evaluated legislation will force increased investment activity in the field of building renovation, as well as the integration of construction and renewable energy sources. Real estate sector participants should adjust their investment strategies to ensure compliance with new regulatory trends on the European Union dimension.

4.3

ESG reporting

ESG has become not only a good market practice, but also a legal requirement to many companies and therefore it can no longer be simply regarded as a part of publicity campaign - it now has a potential to alter the business environment as a whole. ESG factors in the real estate sector are often understood as different environmental certificates (such as ones listed above), however, social and governance criteria deserve some recognition as well. They are derived form a complex network of binding legal regulations, soft law, rankings, ratings and standards deriving not only from European but also local legislation.

As a result of the EU Directive 2014/95/EU of 2014 and the amendment of the Polish Accounting Act, starting from 2018, large Polish listed companies are required to publish ESG data in their non- financial reports.

The obligation to report ESG data has been expanded by an EU ective, the so-called CSRD (Corporate Sustainability Reporting Directive), which was adopted by the European Parliament in December 2022. However, Polish regulations implementing CSRD are not yet adopted.

The reporting rules will take effect between 2024 and 2028:

- From January 1, 2024 for large public interest companies (with more than 500 employees) already covered in the Non-Financial Reporting Directive, with reports in 2025
- From January 1, 2025 for large companies not currently subject in the Non-Financial Reporting Directive (with more than 250 employees and/or €50m in turnover and/or €25m in total assets), with reports in 2026
- Starting January 1, 2026 for listed SMEs with reports in 2027. Listed SMEs can opt-out from reporting for a transition period of two years (i.e. till 2028), provided they briefly state in the management report why the sustainability information has not been provided.

The main categories of information that will be affected by the new reporting requirements are primarily environmental issues, but also human rights in the broadest sense, especially working conditions, work-life balance and health and safety.

All disclosures should include a forward-looking perspective, but at the same time take into account the past and should be qualitative and quantitative in nature. They should address the short-, medium- and long-term horizon and the company's entire value chain, including its operations, products and services, business relationships and supply chain.

Corporate Sustainability Reporting Directive (CSRD)/ European Sustainability Reporting Standards (ESRS)

CSRD requires reporting entities to apply European Sustainability Reporting Standards (ESRS). First set of ESRS has been published and will be mandatory for reporting for 2024. The standards comprise of the following:

Published standards	
ESRS 1	General Requirements
ESRS 2	General disclosures
ESRS E1	Climate change
ESRS E2	Pollution
ESRS E3	Water and marine resources
ESRS E4	Biodiversity and ecosystems
ESRS E5	Resource use and circular economy
ESRS G1	Business conduct
ESRS S1	Own workforce
ESRS S2	Workers in the value chain
ESRS S3	Affected communities
ESRS S4	Consumers and end-users

The published ESRS reporting standards contain numerous new requirements. For example, companies will have to calculate and report GHG emissions in scope 1, 2 and 3, as well as, emissions reduction targets (and later status of meeting those targets) in the 2030 horizon and then in 5-year cycles, and describe their climate and other ESG risks.

Each organization will have to carry out a double materiality analysis in order to identify which of the above standards (ESG topics) will need to be reported. Double materiality has two dimensions: impact materiality and financial materiality. Both assessments should be performed, as they are interrelated and the interdependencies between these two dimensions need to be considered. The standards will impose an obligation to describe policies and actions taken in the environmental and social areas and to assess the ESG impact of the company's operations also in the value chain.

The reports under CSRD will be subject to external assurance - initially at the level of the so-called limited assurance, and ultimately at the level of reasonable assurance, i.e. similarly to the audit of financial statements. Assurance requirement applies from the first year of reporting requirement, as detailed above.

The CSRD regulations shall be transposed to Polish local law by July 2024. The ESRS are already published by the European Commission as delegated acts and will be obligatory for reporting entities mentioned above.

Connectivity with financial reporting

The pervasive nature of climate change has caused increasing concerns from investors about the economic ramifications on issuers' prospects, therefore in 2022, ESMA communicated its strategic priorities for the 2023-2028 period. Amongst these priorities, ESMA announced its commitment to enable sustainable finance by promoting high quality sustainability disclosures and the concept of connectivity between information included in financial statements and non-financial reporting. This is currently a topic of research and discussion across several standard setters, most notably the IASB, the International Sustainability Standards Board (ISSB) and European Financial Reporting Advisory Group (EFRAG). While climate is not explicitly referred to in IFRS, issuers must consider climate risks and opportunities when applying IFRS standards. To this effect, the International Accounting Standards Board (IASB) recently re-published an educational material: Effects of climate-related matters on financial statements, which highlights potential impacts and required disclosures to be provided in financial statements to reflect the effects of climate related matters. ESMA's European common enforcement priorities for 2023 (so-called ECEP) issued in October 2023 include the following priorities related to IFRS financial statements:

- **Consistency between IFRS financial statements and non-financial information**, indicated as a key element in mitigating the risk of greenwashing. There is a need for consistency between the assumptions used in estimations and measurements related to climate matters and the information provided across the different sections of the annual financial report, with a focus on climate-related commitments and targets, such as the reduction of greenhouse gas (GHG) emissions and decarbonization plans

- **Accounting for emission trading schemes and renewable energy certificates** - issuers should provide information on the accounting policies used for the recognition, measurement and presentation of emission trading schemes and renewable energy certificates (including information on the main terms and nature of such schemes)
- **Impairment of non-financial assets** – the risks arising from climate-related matters (either physical or transition risks) should be considered, when assessing if indications exist that non-financial assets may be impaired. Cash flow projections in value in use measurements should be based on reasonable and supportable assumptions representing management’s best estimate of the range of economic conditions (related to climate matters) that will exist over the remaining useful life of the asset
- **Power Purchase Agreements (PPAs)** - issuers should provide details on the characteristics of the PPAs used (e.g. price terms, volume of energy contracted, objectives and duration) as well as the accounting treatment followed.

Among other accounting topics important from the ESG perspective there are:

- Significant judgements, major sources of estimation uncertainty and accounting policies – IAS 1 outlines the disclosure requirements behind such significant judgements and major sources of estimation uncertainty on climate-related matters. Useful lives of tangible and intangible assets - as climate change is impacting the world on multiple dimensions, this may prompt issuers to adapt or change business models, operations and research and development to remain viable and relevant, all of which entails costs. Accounting for such adaptations or changes, and accompanying expenditures, are guided by the requirements of IAS 16 and IAS 38, which specify the accounting treatment for recognizing costs as assets and prompts the review of estimated residual (terminal) values and expected useful economic lives of assets at least every financial year-end. Climate-related matters are also relevant considerations from the perspective of IAS 16 and IAS 38 given that they might incur potential changes to the amount of depreciation or amortization that is recognized in current or future periods
- Provisions - Climate-related matters may impact the recognition and measurement of provisions and the disclosure of those provisions and any contingent liabilities.

EU Taxonomy

Companies covered by the CSRD reporting obligation will be required to disclose financial ratios in terms of alignment with the environmental objectives of the EU Taxonomy, which combines non-financial and financial reporting. EU Taxonomy reporting is already required for companies subject to Non-Financial Reporting Directive (NFRD).

Each entity subject to the CSRD will disclose what percentage of turnover, capital expenditure (CapEx) and operating expenditure (OpEx) relate to activities that are eligible and aligned with EU Taxonomy. Additionally, to the abovementioned KPIs, Taxonomy Regulation require to disclose the accompanying narrative disclosures which should provide transparency on:

1. How an issuer assessed the compliance with the technical screening criteria with respect to multiple environmental objectives.
2. The turnover, CapEx and OpEx that arise from the activities that contribute to multiple environmental objectives.
3. Explain how an issuer has addressed the occurrence of double counting, including the rationale for selecting one specific objective over the multiple available objectives.

The EU Taxonomy focuses on climate change mitigation and adaptation and thus puts emphasis on sectors with high GHG emissions, such as real estate and construction. Therefore, it will be important part of real estate ESG reporting for all stakeholders, including banks and investors.

On 27 June 2023 the European Commission adopted final delegated acts supporting the Taxonomy Regulation - the related reporting obligations will apply to Taxonomy-related disclosures for 2023 (for companies already in scope of EU Taxonomy reporting). These delegated acts include:

- Updates to the mandatory reporting templates
- Set out technical screening criteria for additional activities for the first two environmental objectives
- Introduce the technical screening criteria and related reporting obligations for activities pursuing the remaining four environmental objectives.

In the first year of reporting in relation to the newly established criteria for the four new environmental objectives, as well as, for the newly introduced activities in relation to climate change mitigation and adaptation, non-financial undertakings will only be required to disclose the proportion of Taxonomy eligible and Taxonomy non-eligible economic activities vis-à-vis these objectives.

Since there is no turning back from ESG in real estate, it should become a priority to any company active in the real estate sector. In recent years, environmental and social issues have become a public and political priority, and ESG factors have begun to represent a key value for investors. In last year's edition of the Polish Stock Exchange's survey on the impact of ESG factors on investment decisions, as many as 81 percent of professional stock market investors in Poland rated companies with an implemented ESG strategy as lower risk. A systematic and conscious approach to identifying and managing ESG issues can not only increase the resilience of investment portfolios and protect them from potential declines in value, but also provide better financing terms for a larger pool of new "green" capital that is sure to have a positive impact in ESG-related areas. Simply put, this is an area that cannot be neglected and all companies should make it a priority.

4.4

ETS 2

Within the review of the ETS Directive adopted in 2023, a new emission allowance trading system called ETS 2 was established, separate from the existing EU ETS system. This new system will cover CO2 emissions from fuel combustion in buildings, road transport and additional sectors (mainly in small industry not covered by the existing EU ETS system).

ETS 2 will become operational in 2027. **It's the fuel suppliers, not end-users such as households, who will be obligated to purchase and retire allowances to cover their emissions.** The ETS 2 cap will be set to reduce emissions by 42% by 2030 compared to 2005 levels.

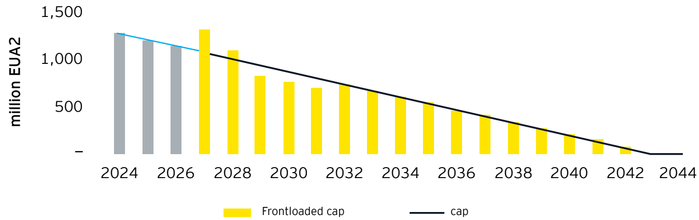
Timeline of the implementation:

- Monitoring and reporting will begin in 2025. Full functionality from 2027 (may be deferred up until 2028 in case of high energy prices)
- The number of allowances will be reducing up to 2030. From 2027, the allowance numbers will be linearly diminishing, starting from 2024
- If the allowances' price surpasses €45 over a certain timeframe, additional allowances will be released to increase market supply.

All emissions allowances within ETS 2 will be sold at auctions, and a portion of the revenues will be used to support vulnerable households and micro-enterprises through a special Social Climate Fund. Member States will be obliged to use the remaining ETS 2 revenues for climate action and social measures and will also be reporting on how these funds are being spent.

According to the legislation, allowances (to be termed as 'regulated entity allowances') created in relation to the EU ETS 2 will not be interchangeable with allowances launched in relation to the EU ETS. Additionally, regulated entity allowances cannot be held in accounts opened in connection with the EU ETS, though transaction accounts will be able to hold both types of allowances. Instead, each entity covered by the EU ETS 2 will need to open a 'regulated entity holding account'.

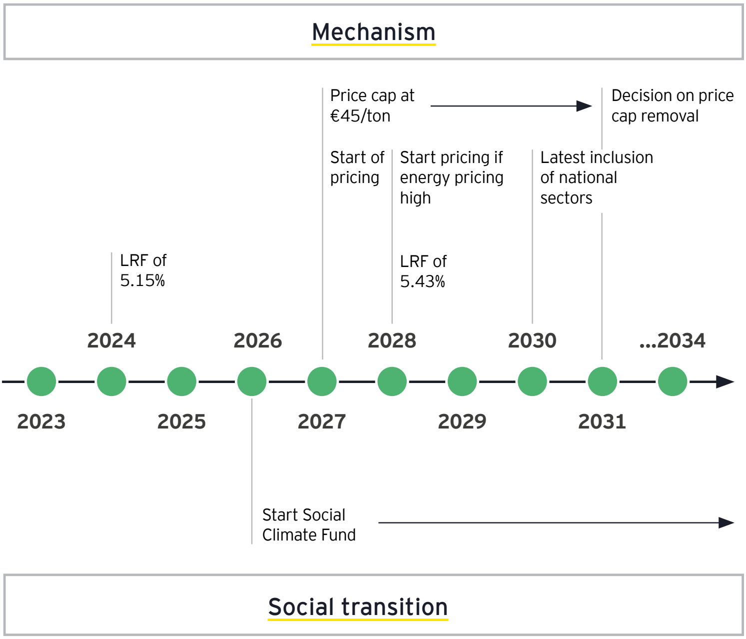
EU ETS2 CAP



Forecasting ETS 2 cap vs actual supply (source: Vertis Environmental Finance)

The compliance scheme for the EU ETS 2 will also differ from the EU ETS in the following ways:

- There will be no free allocation of allowances for regulated entities under the EU ETS 2
- The annual deadline for regulated entities to cancel allowances is May 31, compared to September 30 for compliant entities under the EU ETS.



Implementation scheme of the ETS 2 (source: energypost.eu)

4.5 Energy performance of buildings

Pursuant to the data presented by the European Commission, ca. 40% of EU's energy usage can be attributed to buildings, which also account for over half of the EU's gas utilization mainly via heating, air conditioning, and domestic hot water usage, as well as 36% of the emissions related to energy. Currently, roughly 35% of EU's buildings have been standing for more than 50 years, and near about 75% of the total buildings lack energy efficiency. However, the annual rate of energy renovation is staggeringly low at around 1%.

The primary goals of the updated recast of the EPBD are to notably cut down greenhouse gas emissions and energy use in the EU's building industry by 2030 and to achieve a climate-neutral stance by 2050 (this includes measures to attain a building stock with zero emissions by 2050). In addition, it aims to expedite renovations of buildings with poor energy efficiency and enhance information dissemination regarding energy performance.

Energy performance of buildings directive explained

The revision of the directive sets up new, more ambitious energy efficiency standards for new and renovated buildings in the EU. The aim is to encourage property owners across the EU to renovate their buildings.

By 2050, all buildings in the EU should be zero-emission buildings.

EPBD Infographic (source Council of the European Union)

The revision of the EPBD will present a set of strategies assisting EU nations to structurally improve the energy efficiency of buildings, focusing especially on the poorest performing buildings.

- National measures must ensure that a minimum of 55% reduction in average primary energy use is achieved by renovating the worst-performing buildings
- Each Member State will outline its national trajectory to lower the average primary energy consumption of residential buildings by 16% by 2030 and 20-22% by 2035, considering its unique circumstances. The choice of target buildings and measures is up to Member States
- For non-residential properties, revised regulations necessitate progressive improvements through minimum energy performance standards. This will result in renovating 16% of the worst-performing buildings by 2030 and 26% by 2033
- Special categories of residential and non-residential properties, including historical buildings and vacation homes, may be exempted from these obligations by Member States
- Enhanced Energy Performance Certificates will be developed from a standard EU template with unified criteria to facilitate financing decisions and better inform European citizens
- Financing measures targeting especially vulnerable customers and poorly performing buildings should accompany and encourage renovations to combat energy poverty and lower energy bills
- Member States must also introduce safeguards for renters in order to prevent their eviction due to excessive rent hikes following a renovation

- The revised EPBD includes measures to enhance renovation strategic planning and ensure its execution. Member States will, according to the agreed provisions:
  - Develop national Building Renovation Plans outlining their strategy to decarbonize their building stock and overcome existing obstacles, like financing and skilled worker shortage
  - Initiate national building renovation passport programs to guide owners toward zero-emission buildings
  - Set up one-stop-shops providing independent support and advice for homeowners, SMEs, and other participants in the renovation sector.

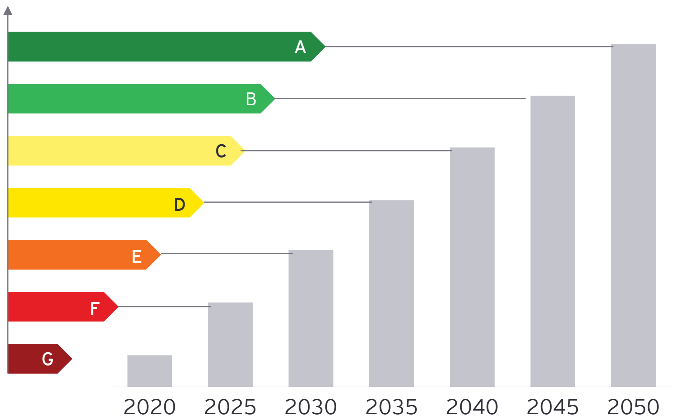
Moreover, the agreement aids the EU in gradually eliminating fossil fuel-powered boilers. Subsidies for standalone fossil fuel-powered boilers will be forbidden from January 1, 2025. The revised Directive provides a clear legal foundation for Member States to introduce requirements for heat generators based on greenhouse gas emissions, fuel type, or minimum renewable energy use for heating. Member States will also have to lay out specific measures to phase out fossil fuels in heating and cooling with the aim to fully eliminate fossil fuel-powered boilers by 2040.

The main components of the EPBD encompass:

1. The existing standard for new constructions is the nearly zero-emission building (nZEB). The Proposal puts forward a **zero-emission (ZEB) criterion for new buildings** – for non-residential constructions, this comes into effect from 2030 (2027 for public buildings; while the Council is lobbying for a 2030/2028 divide, the European Parliament in its report is advocating for a more ambitious 2028/2026 divide).

2. The revised EPBD aims to **standardize the requirements for energy performance classes on a scale from A to G throughout the EU.** The A classification will be synonymous with zero-emission buildings (ZEB), whereas G will denote the 15% worst-performing buildings in a nation's building stock at the time of the scale's implementation. Member States must oversee and ensure that the intermediate classes (B to F) distribute energy performance indicators evenly among the relevant classes. The EPC must adhere to a template, designated as Annex V to the EPBD, by the end of 2025, and the validity of EPCs in the lower classes (D-G) will be shortened from 10 to 5 years. Additionally, the EPBD demands a digital format (Art. 16 to 18; Art. 2 no. 29). According to the current draft, by 2025, all energy performance certificates need to be standardized on a scale of energy performance classes and align with the template defined in Annex V of the draft. However, the harmonization of the scale does not imply that an A EPC in one Member State is equivalent to an A EPC in another. Although the scale's standards will be consistent, the requirements for each step on the scale will still fluctuate.

Illustration of an incrementally increasing minimum energy performance standard by energy performance certificate class



Source: Regulatory Assistance Project

3. The existing guidelines on major renovations, which present a chance to enforce minimum energy performance criteria in place (to guarantee a minimum depth of renovation), are supplemented with fresh EU-level **minimum energy performance standards** (with the goal to boost renovation rates) for the most underperforming public (i.e., buildings and building units owned by public entities) and non-residential buildings. The directive obliges member states to ascertain that non-residential and public buildings reach at least a class F rating by 2027 (the European Parliament proposes a class E rating by 2027), and a class E by 2030 (whereas the EP proposes a class D by 2030). Residential buildings should achieve a minimum of a class F rating by 2030 (the European Parliament suggests a class E rating by 2030), and class E by 2033 (EP: class D by 2033). The Council's version impels member states to implement MEPs to confirm that non-residential buildings do not surpass specific maximum energy performance limits. For residential buildings, this will be founded on national progress pathways for the gradual renovation of the building stock in harmony with the goals for 2030, 2040, and 2050 (Art. 9 NEW). The emphasis on the most low-performing classes of the building stock is designed to deliver efforts focused on structures with the most significant potential for decarbonization, alleviation of energy poverty, and extensive social and economic benefits. Similarly, to other parts of the draft, the European Parliament's suggested amendments are stricter than those initially proposed.
4. The revised EPBD brings in the optional use of **renovation passports** to aid building owners planning to renovate their building in stages. Renovation passport is a document, which offers a customized plan for the renovation of a particular building in several phases that considerably enhance its energy performance. According to the EPBD, a renovation passport must be issued by a skilled and certified professional after an on-site inspection. The passport should present a renovation plan showing a series of renovation actions that complement each

other, with the aim of turning the building into a zero-emission building (ZEB) by no later than 2050. It should also indicate the anticipated benefits in terms of energy savings, reductions in energy bill costs, and operational greenhouse gas emissions savings, as well as additional benefits related to health, comfort, and the building's increased ability to adapt to climate change. Moreover, it should provide details about potential financial and technical support. The Commission shall put into effect delegated acts to supplement the EPBD criteria by 31 December 2023. A requirement will be set for the Member States to implement a renovation passports scheme by 31 December 2024.

5. The revised EPBD provides a definition for and seeks to promote **deep renovation** – initially, prior to 1 January 2030, this pertains to renovation that turns buildings into nearly zero-energy edifices (ZEB). Staged deep renovation refers to a comprehensive renovation conducted in multiple stages, adhering to the steps outlined in a renovation passport in accordance with the stipulations of the EPBD.

6. Alongside reducing the precondition for **the installation of recharging stations** – for instance, in non-residential buildings that are new or undergoing significant renovations, when there are five parking spaces, the revised EPBD mandates the installation of at least one recharging point (whereas the current version requires it when there are ten parking spaces). Additionally, it imposes a requirement to install pre-cabling (for electric vehicles) for every parking space, and brings in necessities to establish bicycle parking spaces (one for each car parking spot). Once again, there is a discrepancy between the Council and the European Parliament regarding the prerequisites concerning pre-cabling and bicycle parking spaces. This is a segment to monitor in the final approved position, as it will influence the ability and viability of undertaking renovation projects aligned with the improving EPC standards.

7. Based on the Council's draft, Member States are to guarantee that new buildings are designed to optimize their potential for solar energy generation, considering the site's solar irradiance, to enable future cost-effective **installation of solar technologies**. Member States are compiled to ensure the deployment of appropriate solar energy installations for all non-residential buildings with a floor area exceeding 250 m^2 by the end of 2026, and on other non-residential buildings undergoing a major or profound renovation by the end of 2027, and all new residential buildings by the end of 2029. The European Parliament has proposed an even more rigorous timeline. To ensure the deployment of suitable solar energy installations, if they are technically suitable and economically and functionally feasible (within 24 months after the EPBD comes into force, on all new public and non-residential buildings; by the end of 2026, on all existing public and non-residential buildings; by the end of 2028, on all new residential buildings and covered car parks; and by the end of 2032, on all buildings undergoing a major renovation), [EP draft, 9a NEW].

Solar energy installations must be installed, if technically suitable and economically and functionally feasible, on:

2031

All new public and non-residential buildings with usable floor area over 250 m^2

2030

All existing public and non-residential buildings with useful floor area over 2000 m^2

All existing non-residential buildings with usable floor area larger than 500 m^2 undergoing an action requiring a relevant administrative permit

2029

All existing public and non-residential buildings larger than 750 m^2

2028

All new presidential buildings

All new roofed carparks next to the building

2027

All existing public buildings with useful floor area larger than 250 m^2

Source: Regulatory Assistance Project

8. The revised EPBD introduces modifications to make **national building renovation plans** (currently referred to as "long-term renovation strategies") more practical, including a uniform template (as Annex II to the EPBD). The aim is to align with target setting in accordance with upcoming EU laws, including the annual energy renovation rate, primary and final energy consumption of the national building stock, and its operative GHG emissions. Member States are required to deliver their (preliminary) national building renovation plans as a part of their (draft) integrated national energy and climate plan (NECP) (Art. 9 of the Governance Regulation) every five years (with progress reports being a component of the biannual NECP reporting); the first draft must be submitted to the Commission by 30 June 2024, with the final plan due by 30 June 2025. The Commission will then review the draft and potentially issue recommendations specific to each country (3 (formerly 2a), Annex II). In addition to this, as a facet of their national building renovation plans, Member States are obliged to set specific timelines to reach higher energy performance categories. They also have the potential opportunity to include national minimum energy performance standards in their national renovation strategies.

9. The proposed revised EPBD incorporates a legal framework for **national prohibitions on fossil fuel-based boilers**, thereby permitting Member States to establish requirements for heat generators based on greenhouse gas emissions or the type of fuel utilized. Furthermore, to prevent new generations of fossil fuel-based boilers from becoming stranded assets, the updated EPBD mandates (Art. 2 no. 2; Annex III) that a zero-emission building (ZEB) does not generate any on-site carbon emissions from fossil fuels.

10. In line with the rest of the EPBD, there is a heightened emphasis on guaranteeing that new constructions and renovation projects implement appropriate **smart meters and building management systems** to collect data on energy performance. These requirements will have implications for property management.

11. Member States will be required to establish **national databases to collect information on the energy performance of buildings** as well as the overall energy efficiency of the national building stock (related to EPCs, inspections, the building renovation passport, the smart readiness indicator, and the calculated or metered energy consumption of the covered buildings). Access to this data must be ensured, subject to data protection regulations – for example, EPCs should be accessible to owners, tenants, managers, financial institutions for their investment portfolio, prospective tenants, or purchasers; anonymized aggregated data should be available to the public; and data should be provided to the (EU) Building Stock Observatory once per year. Additionally, these databases should be capable of interoperating with other administrative databases containing building information, such as the national building cadastre and digital building logbooks (Art. 19 NEW).

4.6 Green leases

A green lease is a type of commercial space lease that aligns the interests of the contracting parties in energy efficiency, water management and the use of environmentally friendly measures. This is to ensure that the development of the project - from the construction phase to occupancy - is done in a sustainable manner in terms of environmental solutions, urban design or the potential impact of the building on the local community.

In Poland, as in other European Union countries, green leases are a part of a broader ESG strategy.

Both Polish and EU legislation has not yet developed a strict definition of a green lease agreement. However, in the context of environmental requirements, such a solution is already quite standardized in Western markets, where the so-called green annexes or green provisions are popular, comprehensively describing the principles of cooperation of the parties to the lease agreement in terms of environmentally friendly use of real estate.

Although the green lease is not yet mandatory on the Polish real estate market, already its conclusion is becoming at least a kind of gentleman agreement between the tenant and the landlord. This, however, does not constitute a lack of enforceability of such an agreement. Depending on the type of clauses used, the parties can sanction compliance with the balanced aspects of the lease agreement. In terms of binding force, two types of green clauses are distinguished - light green clauses and dark green clauses. Light green clauses, as a rule, are merely a declaration of the parties' willingness to comply with green provisions, and their non-compliance does not carry contractual sanctions. Dark green clauses, on the other hand, are treated as an obligation on the part of the parties to fulfill specific obligations and carry, for example, the risk of contractual penalties in the event of non-fulfillment.

In practice, it is possible to introduce green clauses to ensure sustainable solutions both at the construction or site development stage, such as by ensuring that the building is properly certified in accordance with the tenant's requirements or that the equipment in the building is based on only sustainable materials, as well as at the maintenance and management stage of the property, for example, by being obliged to ensure the use of sustainable energy sources to the maximum extent possible or selecting suppliers that care about ESG aspects.

Each lease agreement should be individually "tailored" for the parties to the agreement to implement their sustainability strategies, taking into account the type of property and the expectations of the landlord, tenant or other users of the building. As a rule, green clauses are developed and incorporated into the lease at the initiative of the landlord. Nevertheless, it happens that some tenants, especially corporations with international reach, have developed a number of provisions that, in accordance with the guidelines and assumptions of the corporate group, must be included in the content of the lease. This is mainly caused by the need for non-financial reporting, introduced by the CSRD directive as part of the implementation of the EU Green Deal. On the other hand, the desire to introduce green provisions into contracts is not only due to reporting reasons, but also due to the increased competitiveness and attractiveness of investments and the possibility for the landlord to obtain so-called green financing on preferential terms.

Green leases are beneficial from both an environmental and business perspective. They make an unquestionable contribution to creating a more sustainable and friendly place to live and work. Buildings using sustainable solutions, as a rule, allow for higher returns on investment and can significantly reduce the cost of using the property, including operating costs. An entrepreneur deciding to lease office space in a green building, through the provisions of a green lease agreement, can be obliged, among other things, to optimize electricity consumption, use air conditioning sensibly and regulate room temperature appropriately, limit water consumption or use environmentally friendly cleaning products. In turn, the developer or property manager may be obliged to implement sustainability principles by, for example, providing charging stations for electric cars, bicycle parking spaces, locker rooms or showers at the office building, with the aim of providing comfortable conditions for people coming to work by bicycle.

Sorting out such a multitude of criteria that a building must meet to be considered "green" is not easy, which is why multi-criteria certification systems have been developed. These are universal, standardized sets of indicators that make it easier for designers, building owners and managers to implement practical and measurable solutions for environmentally friendly design, construction and use of real estate.

However, despite the ever-growing popularity of green leases, economic and financial issues are sometimes a source of contention between the parties. Sometimes tenants cite the issue of setting aside the additional funds necessary to fulfill their obligations under green clauses. This is also the case the other way around - landlords need to budget funds for adapting buildings to the evolving real estate market. After all, today's tenants are not only increasingly aware of environmental aspects, but they are also increasingly willing to choose properties whose owners are undertaking sustainability initiatives. That's why it's so important to have a dialogue between the parties and work out an agreement acceptable to the parties.

Also crucial is the commitment of the parties (mainly the landlord) to conduct educational programs and campaigns for employees and tenants to promote sustainable real estate practices. It should be remembered that even the best-worded clauses will not produce the expected results if they are not put into practice.

The dynamics of the development of green building clearly shows that parties to lease agreements are no longer dealing with a fad or trend, but a clearly defined direction, the adoption of which is associated with certain benefits, both for the environment and for building users.

4.7

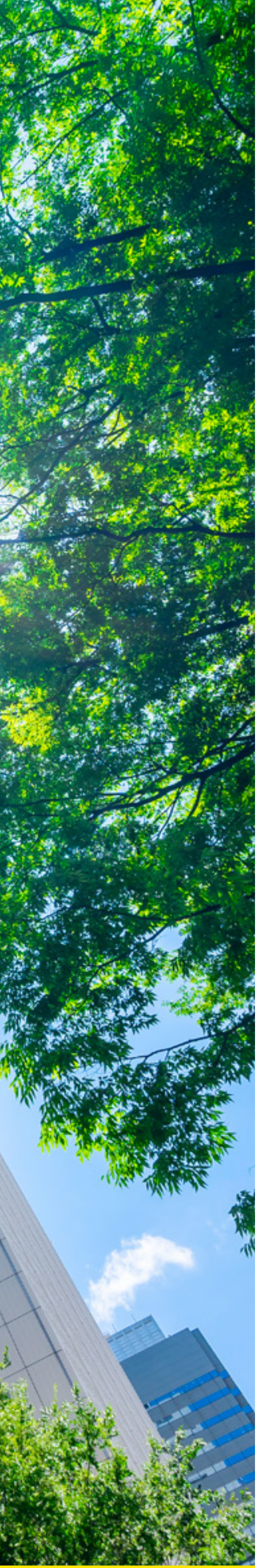
ESG trends in real estate

The above-presented dynamics on ESG-related and sector-specific regulations at EU level amplify the following trends:

- **Enhanced energy efficiency:** due to costs associated with CO_2 emissions, property owners will need to invest in technologies that enhance the energy efficiency of their buildings
- **Increased operational costs:** property maintenance costs may rise due to higher energy prices (stemming from ETS 2 burdens) and the necessity to invest in energy efficiency (EPBD) technologies
- **Impact on property value:** properties with low energy consumption and low CO_2 emission levels may increase in value, while those that are less energy efficient may lose their appeal to buyers and tenants. ESG standards will increasingly affect property valuations, leading to greater differentiation between assets from an investor's perspective
- **The need for renovation:** existing buildings will require renovations to meet new, stricter CO_2 emission standards
- **Greater emphasis on sustainable construction:** property owners will need to pay more attention to sustainable construction practices and materials in order to minimize CO_2 emissions
- **New financing opportunities:** new financing opportunities may arise for projects that increase energy efficiency, such as green bonds or funds investing in sustainable properties.

5

Contacts



Real Estate Advisory Group

Anna Kicińska

Anna.Kicinska@parthenon.ey.com

+48 505 107 010

Anna Kicińska is a Partner in Strategy and Transactions Department and Leader of the Real Estate Advisory Group. She has over twenty years of experience in strategic real estate advisory, transaction support, valuations and asset management. She was leading major real estate asset and M&A transactions in the CEE region. Since 1997 she is a certified Polish appraiser and since 2001 a member of The Royal Institution of Chartered Surveyors (MRICS). She is also Certified Commercial Investment Member (CCIM) and Urban Land Institute Member (ULI).

Tomasz Tondera

Tomasz.Tondera@pl.ey.com

+48 607 252 581

Tomasz Tondera is a Partner in Strategy and Transactions Department responsible for M&A Advisory in Real Estate for Poland.

He worked for 12 years at Griffin Capital Partners, the largest privately-owned investment and asset manager in real estate in CEE, 5 years at Bank BPH (HVB Group). Recently was in charge of Business Development Strategy as well as M&A execution at Dom Development, the largest Polish residential developer.

Tomasz was responsible for fund and asset management of the office and mixed use portfolio of 9 properties of total investment volume of about €500 million.

Graduate of the Warsaw School of Economics, Tomasz obtained a master's degree in economics (specialization: Banking & Finance).

Anna Andrzejewska

Anna.Andrzejewska@parthenon.ey.com

+ 48 660 440 137

Anna Andrzejewska is a Director in the Real Estate Advisory Group. She specializes in strategic advisory consultancy, especially in corporate strategic advisory including portfolio & processes management, consolidations & relocations, optimal business locations. Anna also conduct valuations for transaction, accounting and debt financing purposes. She graduated from the University of Łódź with Master's degree in Finance and Banking and specialization in Investments and Real Estate. She completed a post-graduate School of Real Estate Valuation at Warsaw School of Technology. She is a certified Polish property manager and a member of The Royal Institution of Chartered Surveyors (MRICS).

Dominik Wojdat

Dominik.Wojdat@parthenon.ey.com

+ 48 519 511 412

Dominik Wojdat is a Director in the Real Estate Advisory Group. He has broad experience in providing both developers and investors with market, highest & best use and feasibility studies for commercial as well as residential properties. Dominik also managed large scale urban redevelopment projects for the benefit of local authorities and European institutions.
He graduated from Faculty of Geography and Regional Studies at University of Warsaw. He completed a post-graduate property management studies at Warsaw University of Technology and became a certified property manager. Dominik is Certified Commercial Investment Member (CCIM) and member of the Royal Institution of Chartered Surveyors (RICS).

Ewelina Świderska

Ewelina.Swiderska@parthenon.ey.com

+ 48 573 339 089

Ewelina Świderska is a Manager in the Real Estate Advisory Group. Ewelina has over 9 years of real estate experience in providing real estate advisory services including valuation for accounting, investment and loan security purposes, market analysis, highest & best use and feasibility studies, strategic advisory and transaction support. She graduated from the Warsaw University of Technology with Master's Degree in Geodesy and Cartography, spatiality Cadaster and Property Management. She is a certified Polish appraiser.

Kamil Filiński

Kamil.Filinski@parthenon.ey.com

+ 48 573 339 089

Kamil Filiński is a Manager in the Real Estate M&A Advisory Team. Kamil has over 9 years in providing real estate transactional advisory. Kamil gathered broaden professional experience in the Ministry of Infrastructure, European Commission and in town planning studio prior joining to the real estate sector. He specializes in conductions of transaction processes, analysis of the commercial real estate market, analysis of the optimal real estate development, preparation of feasibility studies and spatial planning consultancy.

He graduated from the Warsaw University of Life Sciences with Master's Degree in Spatial Planning and Lazarski University (postgraduate studies: Property Management & Real Estate Brokerage. He is a certified town planner, licensed real broker & property manager and obtained membership in The CCIM Institute.

CFO Consulting

Hubert Rogoziński

Hubert.Rogozinski@pl.ey.com

+ 48 789 407 582

He has over fourteen years of professional experience gained in EY CFO Consulting, EY Audit and also real estate strategic consulting.

Hubert specializes in addressing key challenges from the CFO agenda including financial and management reporting, real estate transactions, capital market transactions (IPO, SPO), finance process optimization, internal controls testing, application of the IFRS, Polish and US GAAP and implementation of the new accounting standards. He was also responsible for establishing global reporting hub (SSC) for real estate consultancy, IFRS adoptions and IFRS reporting projects.

Hubert graduated from Warsaw School of Economics with a Masters' Degree in Finance and Accounting, specializing in accounting and management of enterprises. He is a Polish Certified Auditor, ACCA member and mRICS.

Assurance Services

Łukasz Jarzynka

Lukasz.Jarzynka@pl.ey.com

+ 48 510 201 290

Łukasz is a Partner in Warsaw Office and Head of Real Estate Audit and Assurance Services. Łukasz holds a Polish Statutory Auditor (Biegły Rewident) license number 11959. He gained extensive experience in auditing and advising both large and multinational groups, as well as smaller private companies. That included auditing local GAAP, IFRS and US GAAP financial statements, as well as performing other attestation services for various companies, including SEC registrants. Łukasz has led number of listed companies' audits, IPO/SPO transactions, comfort letters issuance and other audit work in connection with debt or equity financing transactions (bond issuances, capital increases, private placements).

Since July 2023 he serves as Assurance Quality Leader for Central, Eastern and Southeastern Europe & Central Asia.

Rafał Hummel

Rafal.Hummel@pl.ey.com

+48 504 112 778

Rafał is a Partner in the Warsaw practice of EY and a Leader of Climate Change and Sustainability Services. This team specializes in ESG and supports clients in building ESG strategies, ESG reporting preparation and external verification. Rafał holds a Polish Statutory Auditor (Biegły Rewident) license number 12455.
Rafał was the co-author of and led the team who worked on the Carbon Disclosure Project Central Eastern Europe Report for 2015 and 2016 as well other articles related to non-financial reporting and non-financial data verification since 2015. He regularly attends trainings in the area of non-financial reporting in accordance with Global Reporting Initiative – GRI. In 2013–2015, Rafał, living in the region of San Francisco led US GAAP financial audit (including IPO) projects for EY public clients from the biotechnology sector listed on NASDAQ and based in California. Given his experience on the US market, since his return to Poland in 2015, Rafał is a Vice-Leader of the US Desk at EY Poland.

Mariusz Kędzierski

Mariusz.Kedzierski@pl.ey.com

+ 48 501 487 796

Mariusz is an Associate Partner in EY Assurance and member of the Real Estate Group at EY's Warsaw office. Mariusz is a Polish Chartered Accountant and has over 16 years of experience in audit, including real estate companies. He specializes in audits of entities from real estate market (real estate groups/funds, listed residentials and real estate developers). He has also experience in IPO audits of reals estate groups.

Maksymilian Fizek

Maksymilian.Fizek@pl.ey.com

+48 573 339 121

Maksymilian is Senior Manager in Assurance Services, Member of EY Poland Real Estate Group at EY Warsaw. Maksymilian is a Polish Chartered Accountant with over 11 years of experience in auditing majorly of listed entities. He gained extensive experience in EY working in Poland for private and public companies from various sectors, i.e. real estate, construction and development, TMT, retail, rental and leasing, energy. Maksymilian has a strong track record in auditing standalone and consolidated financial statements prepared in accordance with the Polish Accounting Regulations and International Financial Reporting Standards („IFRS"). He has been directly responsible for auditing financial statements prepared in accordance with IFRS of the largest public companies listed on the Warsaw Stock Exchange ("WSE").

Aleksandra Lichocka

Aleksandra.Lichocka@pl.ey.com

+ 48 797 974 298

Aleksandra is a Manager in Assurance Services, Member of EY Poland Real Estate Group at EY Warsaw, with over 8 years of experience in audit. She gained wide experience in audits of standalone financial statements and consolidated financial statements of private and public companies, in accordance with Polish Accounting Act as well as International Financial Reporting Standards.

Tomasz Michalak

Tomasz.Michalak@pl.ey.com

+48 510 201 331

Tomasz is Director in EY Assurance, Climate Change and Sustainability Services. He has over 13 years of experience in assurance and advisory services. Tomasz is a member of ACCA and a Polish Statutory Auditor (Biegły Rewident 13765). He coordinated projects related to ESG reporting including advisory on ESG reporting, assurance on reporting, CSRD readiness and EU Taxonomy. He is co-author of the Carbon Disclosure Project Central Eastern Europe Report for 2015 and 2016 and other articles related to non-financial reporting and non-financial data verification. He coordinated the project that involved the design of key business and financial processes in a newly-established construction entity in a well-known real estate developer group.

IFRS Desk

Anna Sirocka

Anna.Sirocka@pl.ey.com

+ 48 602 509 848

Anna is EY IFRS Desk Leader in Poland. She has over 20 years of professional experience as an auditor and accounting expert. She is Polish Chartered Accountant, Certified Internal Auditor, member of ACCA and member of Accounting Standards Committee in Poland (appointed by the Minister of Finance). She is involved as IFRS subject matter expert during audits of multinational groups, listed companies as well as smaller private clients operating on real estate market. She participated in numerous IPOs, mergers and acquisitions with accounting advisory services.

Małgorzata Matusewicz

Małgorzata.Matusewicz@pl.ey.com

+ 48 510 201 220

Małgorzata is an Associate Partner in the EY global IFRS Desk. She is Polish Chartered Accountant and member of ACCA. Małgorzata is responsible for assisting clients and EY teams by providing consultations on complex accounting issues and promoting consistent interpretation and application of IFRS. Małgorzata has also many years of experience in accounting advisory - accounting opinions, IFRS conversions and reorganization of reporting processes.

Katarzyna Żołnowska

Katarzyna.Zolnowska@pl.ey.com

+ 48 505 171 632

Katarzyna is a Manager in the EY IFRS Desk in Poland. She is Polish Chartered Accountant and member of ACCA. Katarzyna is a part of a team assisting clients and EY teams by providing consultations on complex accounting issues and promoting consistent interpretation and application of IFRS. Katarzyna has participated in accounting advisory projects relating to IFRS conversions, implementation of new standards, etc.

Marek Błaszczak

Marek.Blaszczak@pl.ey.com

+ 48 513 135 601

Marek is a Senior Manager in the EY IFRS Desk in Poland. He is Polish Chartered Accountant and member of ACCA. Marek is a part of a team assisting clients and EY teams by providing consultations on complex accounting issues and promoting consistent interpretation and application of IFRS. Marek has participated in accounting advisory projects relating to IFRS conversions, implementation of new standards, etc.

TAX Services

Tomasz Ożdziński

Tomasz.Ozdzinski@pl.ey.com

+ 48 573 339 341

Tomasz Ożdziński is the head of the Tax Real Estate Group of EY in Poland and a member of EY's Transaction Tax (M&A) Team. He is a graduate of the Faculty of Law and Administration of the University of Adam Mickiewicz in Poznań and an Executive Programme in Real Estate at the Solvay Brussels School of Economics & Management at Université Libre de Bruxelles. Tomasz is a certified tax advisor and has over two decades of experience in managing large, complex projects, including in particular transaction services and restructurings, undertaken both locally and internationally.

Michał Sawicki

Michal.Sawicki@pl.ey.com

+ 48 510 201 301

Michal Sawicki is Partner in Tax Real Estate Group at EY's Warsaw office. He has been with EY since 2007. He is a certified tax advisor. His skills include advising on global restructurings, transaction support and structuring, tax accounting. He was involved in projects concerning tax issues in relation to the process of setting up, operating and restructuring of companies, tax assistance in establishing tax effective exit scenarios, international tax structuring.

Michal is an author of various articles relating to tax aspects of investing on the real estate market and co-author of the book "Taxation of the Real Estate Market".

Michał Koper

Michal.Koper@pl.ey.com

+48 519 511 485

Michał Koper is Partner within International Taxation and Transaction Services and Real Estate Group of EY in Warsaw. He has been with EY since 2006. From 2013 to 2015 he held a position at Ernst & Young LLP's International Tax Services group based in New York where he led the Polish tax desk. He is a certified Polish tax advisor. His professional skills include advising on tax planning for international investments in Poland, tax effective ownership structures and financing schemes, global restructurings, providing tax advisory services on domestic tax law. He was involved in projects concerning tax aspects of setting up, operating and restructuring of companies, tax assistance in establishing tax effective exit scenarios.
Michał is a co-author of the book "Taxation of the Real Estate Market" and author of various articles relating to tax issues.

Agnieszka Owsiak

Agnieszka.Owsiak@pl.ey.com

+48 512 147 446

Agnieszka Owsiak is a Senior Manager within Indirect Taxation and Real Estate Group of EY in Warsaw. Agnieszka has 18 years of experience in advising companies and people running business. She specializes in ongoing consultancy for national and foreign companies, mainly in the area of indirect taxation.
Her professional skills include advising on tax planning for international investments in Poland, different types of restructuring, but also with qualifying of the transferred set of assets for the tax purposes.

Edyta Winnicka

Edyta.Winnicka @pl.ey.com

+ 48 573 339 215

Edyta Winnicka is a Senior Manager within International Taxation and Transaction Services of EY in Warsaw. She has been with EY since 2016 and prior to joining EY she has gained valuable experience working in other Big Four law firm and independent law firm. She has extensive experience in tax advisory on international projects involving numerous jurisdictions. She has worked on a number of deals involving mergers & acquisitions, demerger, transformations, sales and part disposals, including multidisciplinary projects.

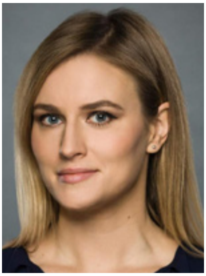
Michał Pacyga

Michal.Pacyga@pl.ey.com

+48 789 07 496

Michał Pacyga is a Senior Manager within International Taxation and Transaction Services and Real Estate Group of EY in Warsaw. Michał is legal advisor and a member of The Regional Chamber of Legal Advisers in Warsaw.

He is also a certified Polish tax advisor. Michał has comprehensive theoretical and practical M&A knowledge. He participated in numerous due diligence projects, tax structuring's, contract negotiations and post- merger integrations. He has extensive transaction support experience, as he advised in various complex restructuring operations, both as a tax and legal advisor. He is co-author of the book entitled "Real estate tax in practice" (2016) and an author of a number of tax related publications in professional press.



Marta Czerwińska-Szczygieł

Marta.Czerwinska-Szczygiel@pl.ey.com

+ 48 517 882 444

Marta is a Manager in International Tax and Transaction Services at EY Warsaw. Before joining EY, she has gained valuable experience working in other Big Four law firms, and in a real estate Group, as an internal tax advisor. Marta is a certified tax advisor (license no. 13450) and an advocate. She was involved in a due diligence projects, tax reviews, tax structuring support and reorganization projects.

Arkadiusz Kołłątaj

Arkadiusz.Kollataj@pl.ey.com

+ 48 573 339 010

Arkadiusz Kołłątaj is a Senior Manager within International Taxation and Transaction Services of EY in Warsaw. He has been with EY since 2014.

He has broad experience in providing tax advisory services for domestic and international Clients including in particular the following areas: effective investment structures, reorganizations and structuring of financing flows, withholding tax as well as providing support related to the obligations connected with Mandatory Disclosure Rules (MDR).

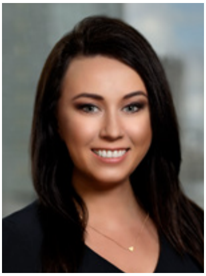
Legal Services

Magdalena Kasiarz

Magdalena.Kasiarz@pl.ey.com

+48 519 404 979

Magdalena Kasiarz is an advocate and Partner in EY Law with 15 years of experience in advising on the sale, reorganization and liquidation of companies with international capital (conducting M&A transactions and legal audits), advising on the restructuring of capital groups, including mergers, divisions and transformations of companies, as well as cross-border mergers. She advised in numerous transactions on shares and assets related to real estate both on the buyers and sellers' side. She also specializes in providing the ongoing legal assistance in the scope of civil law and company law, including preparation and negotiation of lease and service agreements.



Anna Palczewska

Anna.Palczewska@pl.ey.com

+ 48 797 971 828

Anna is an advocate and Manager in EY Law with broad experience in legal advisory for businesses in the real estate and development sectors. Anna provides legal advice to Polish and foreign real estate developers and investment funds in the field of acquiring and disposing of commercial real estate, as well as preparing and completing real estate investment projects. She was involved in many due diligence projects, asset deals and share deals for real estate, as well as projects concerning the preparation and completion of investment processes.
Anna graduated from the Jagiellonian University.
She is a CCIM candidate.

Katarzyna Kłaczyńska

Katarzyna.Klaczynska@pl.ey.com

+ 48 519 511 521

Katarzyna Kłaczyńska, LL.M., is an attorney specializing in energy and environmental matters. Each year since 2013 she has been recognized by Chambers & Partners ranking as one of leading environmental law attorneys in Poland. She has also been recommended by Who's Who Legal for her climate change law expertise. She has worked with clients representing variety of sectors, assisting them in pursuing their environmental, sustainability and resources efficiency objectives.

Katarzyna is a member of the New York Bar.
She graduated from Jagiellonian University in Poland, and Harvard Law School, where she was granted Gammon Fellowship for Academic Excellence.

Dariusz Kryczka

Dariusz.Kryczka@pl.ey.com

+ 48 571 663 520

Dariusz Kryczka, is a Senior Manager at EY Law Poland, in the field of Energy and Sustainability Practice.
He graduated in Law and Political Sciences from the University of Silesia and from University of Florence on one-year LLP/Erasmus fellowship. He also completed postgraduate studies in European Energy Trading at the Warsaw School of Economics and graduated from the Academy of Young Diplomats at the European Academy of Diplomacy. Dariusz is certified by AgilePM® Foundation Examination, TSPM™ TenStep Project Manager Certification, Prince 2 Practitioner Examination and Prince 2 Foundation Examination.

EY | Building a better working world

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

ey.com

Real Estate
Consulting & Transaction Services

Anna Kicińska
e-mail: Anna.Kicinska@pl.ey.com
Phone +48 505 107 010

Assurance Services

Łukasz Jarzynka
e-mail: Lukasz.Jarzynka@pl.ey.com
Phone + 48 510 201 290

Tax Services

Tomasz Ożdziński
e-mail: Tomasz.Ozdzinski@pl.ey.com
Phone + 48 573 339 341

Legal Services

Zuzanna Zakrzewska
e-mail: Zuzanna.Zakrzewska@pl.ey.com
Phone + 48 602 789 839