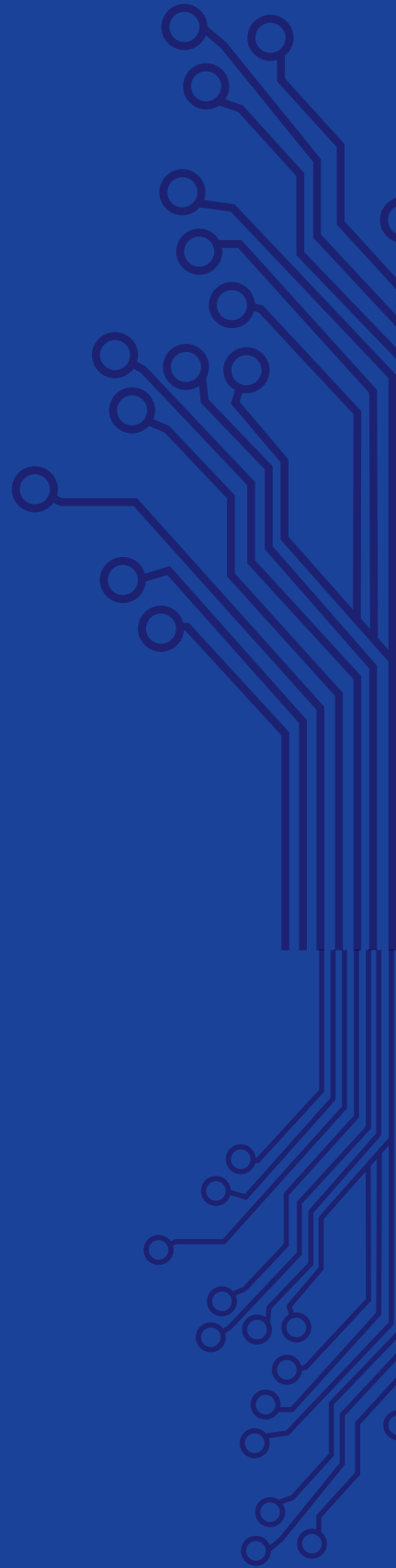
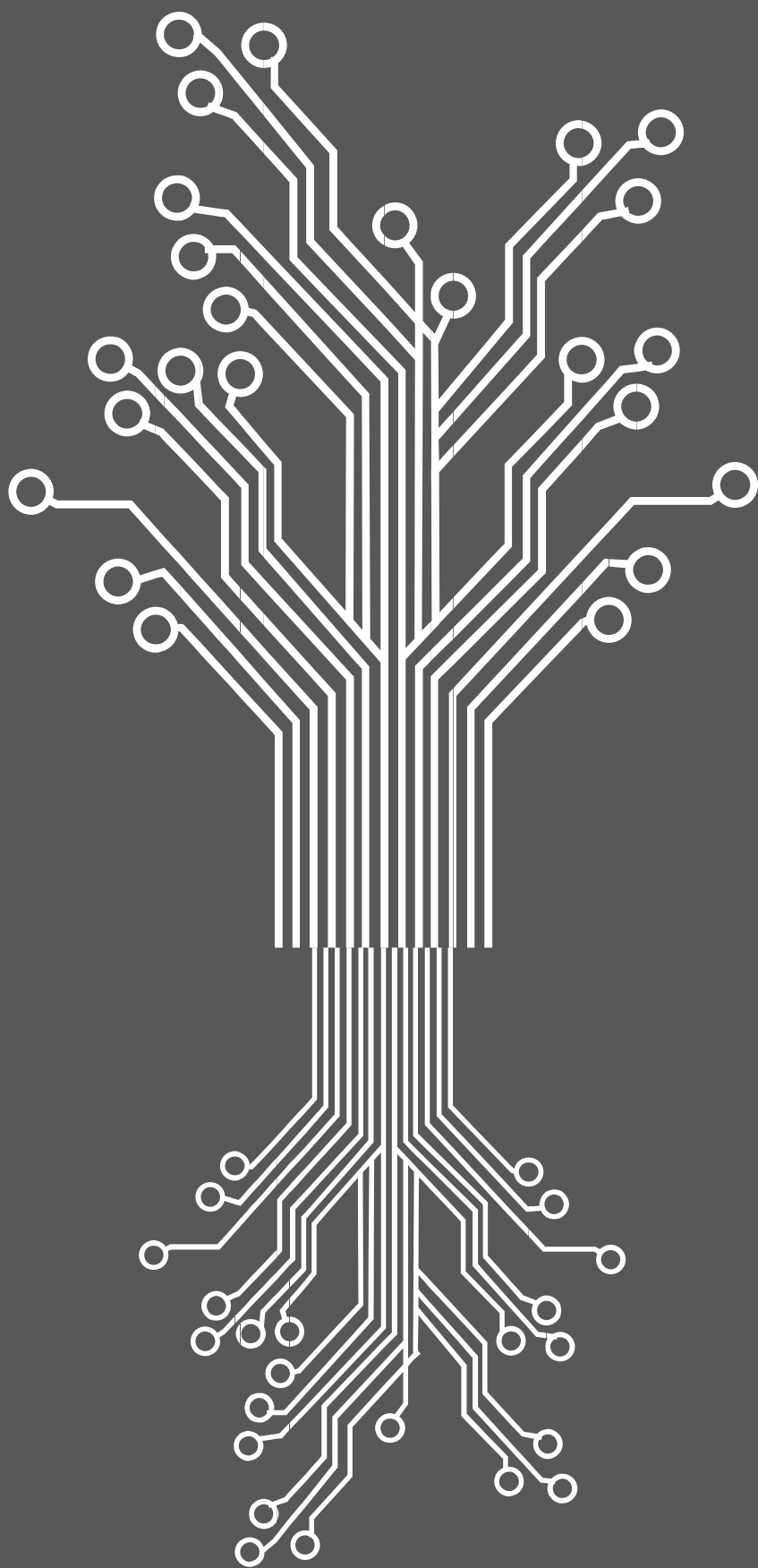




**Business in Małopolska**

# How to do business in Małopolska





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# Good because it's Polish

## Geographic location

The Republic of Poland is the 9th largest country in Europe by geographical area, with an area of approximately 312,679 km<sup>2</sup>, stretching 649 km from north to south and 689 from west to east. Poland shares borders with Germany to the West, the Czech Republic and Slovakia to the South, the Ukraine, Belarus and Lithuania to the East and Russia to the North. Poland's national borders have a total length of 3,496 km. The Baltic Sea coastline forms most of the northern border and provides over 500 km of sandy beaches, bays, steep cliffs and dunes. The majority of the western, central and eastern regions of Poland are lowlands. The Sudety and Carpathian mountains are Poland's natural southern border. The highest point in Poland is the Rysy peak (2,499 m) in the Polish Tatra part of the Carpathian mountain range. Because of its geographic location, Poland generally has a moderate continental climate.

Up until 1998, Poland had 49 provinces, known as regions. This changed on the 1st of January 1999, and today, there are 16 regions, 379 poviats (powiats) and 2,478 gminas (communes). The capital of Poland is Warszawa, with 1.7 million inhabitants (as of 30.06.2006), located in the centre of the country on the Wisła river. Other large cities include Łódź, Katowice, Kraków, Wrocław and Poznań. The major seaport cities are Gdańsk, Gdynia (which together with Sopot are known as Trójmiasto), Szczecin and Świnoujście.

## Population and language

The population of Poland is approximately 38.1 million which makes it the 29th most populated country in the world, 8th in Europe. The retirement age is 65 years for men and 60 years for women.

The majority of Poles (almost 94%) are Roman Catholics.

The official language is Polish, but most educated Poles speak one or more foreign languages. The most commonly spoken foreign languages are English, German and Russian.

Population in Poland (mln)	
Poland	38.1
Pre-working age	7.1
Working age	24.6
Post-working age	6.4

Source: Central Statistical Office, Local Data Bank





## Political system

The Republic of Poland is a democratic state of law, implementing the principles of social justice. Poland's supreme law is the Constitution which was passed on the 2nd of April, 1997 and ratified in a national referendum. The system of government is based on the separation of, and balance between the executive, legislative and judicial powers. Legislative power is vested in a bicameral Parliament, composed of the Sejm (lower house) and the Senat (upper house); executive power is vested in the President of the Republic of Poland and the Council of Ministers, while judicial power is vested in the courts and tribunals.

The President of Poland is elected through a general election for a 5-year term and can remain in office for a maximum of two terms. He is the Head of State and the Commander-in-Chief of the armed forces. As the representative of the state in foreign affairs, the President may ratify and renounce international agreements. The President has the duty to sign statutes approved by Parliament, but also has the right to veto these acts. Such a veto can be overruled by a 2/3 majority vote in the Sejm. He also has the power to dissolve Parliament when it is incapable of performing the tasks of government or cannot agree to approve a draft of the State Budget. The President appoints the Prime Minister and other cabinet ministers.

Legislative power is formed by the Parliament which consists of the Senat – 100 senators, and the Sejm – 460 deputies. They are elected through a general election for a 4-year term of office. The legislative procedure starts with the Sejm. A bill passed by the Sejm is submitted to the Senat, which may approve it, adopt amendments or reject it. However, the Senat's veto may be overruled by an absolute majority vote in the lower house.

The Sejm and the Senat sitting in joint sessions, which are presided over by the Marshal of the Sejm, constitute the National Assembly. The National Assembly's tasks are to adopt the Constitution, receive the oath from the President and resolve to press charges against the President, thus making him accountable to the State Tribunal.

The Council of Ministers, as the executive body, handles the state's internal affairs and foreign policy, ensuring the implementation of statutes, management of the administration, approval of the draft of the State Budget and maintenance of the state's internal and external security. The Council of Ministers consists of the Prime Minister and the subordinate ministers. The Prime Minister,

who is appointed by the President, designates the membership of the government. The government is appointed by the President after its program has been accepted by the Parliament.

## Central and local government administration

The governing tasks in Poland are divided between central and local administration. The central administration is comprised of the Chancellery of the President, the Council of Ministers, their respective ministries and structures, such as committees, centres and councils that operate in accordance with the acts of Parliament. Representatives of the Council of Ministers in the regions are the governors, who also act as supervisory authorities for local government units and represent the State Treasury.

## Justice system

The bodies of judicial authority in Poland are courts and tribunals which are separate and independent of the other institutions of power. The system of justice is vested in the Supreme Court, the common courts, administrative and military courts. Judges are independent, cannot be dismissed and are subject only to the Constitution and regulations.

Supervision over the activities of common and military courts is exercised by the Supreme Court which hears cases under particular regulations, provides for uniformity and accuracy of interpretations of the law and issues opinions on bills.

The Supreme Administrative Court exercises control over the activities of public administration and judges the conformity of resolutions of local government authorities to the regulations and normative acts of local government administration authorities.

The Constitutional Tribunal judges the conformity of laws and international agreements, regulations issued by state authorities and of the objectives and activities of political parties with the Constitution. The Constitutional Tribunal adjudicates on disputes over authority between central state authorities and its judgments are final.

The most important state officials are accountable to the State Tribunal for breaches of the Constitution or a regulation, committed by them within their office or within their responsibilities.





# Małopolska – potential for the region

## General information

Małopolska consists of 22 poviats which are divided into 182 communes over the area of 15,000 km<sup>2</sup>.

The capital of the region is Kraków, with 755 thousand inhabitants. Other large cities in Małopolska are Tarnów, Nowy Sącz, Zakopane, Oświęcim, Chrzanów, Olkusz, Nowy Targ, Gorlice and Zakopane.

The region has around 3.3 mln inhabitants – approximately 50% live in the urban areas (1.62 mln) and the other half (1.68 mln) in the rural territory. When it comes to the demographic structure, the southern society is a young and perspective population. The number of women (1.7 mln) slightly exceed number of men – 1.6 mln. Additionally, people who are of working age form around 64% of the regional population.

Population in Małopolska (mln)	
Pre-working age	0.6
Working age	2.1
Post-working age	0.5

Source: Central Statistical Office, 2010

## Dynamic development

Fast, wide and constant improvement of the region causes Małopolska to be a very attractive place for long-term investment. Multinational business environment provides competitive and dynamic conditions of companies' development. Attractive business surroundings are provided also by services and statutory activities of chambers of commerce, clusters, centres of technologies, agencies and institutions which cooperate with scientific and academic circles – table 2.1 contains the list of these main entities.



## Air connections

John Paul II Kraków-Balice International Airport Ltd is used by military and civil aviation. It provides connections with Warszawa, Gdańsk and Brussels, Frankfurt, London, Paris, Viena, Rome, New York, Chicago and many others. Balice operates the 17th airlines.

Kraków-Balice	2008	2009	2010
Passenger traffic	2,923,961	2,680,322	2,863,996
Aircraft operations	35,568	32,907	32,878

Source: [www.krakowairport.pl](http://www.krakowairport.pl), 2011

Owing to its academic base, Kraków is a good location for R&D activity, which is supported by the data. According to the Central Statistical Office data, there were 112 R&D units located in Małopolska in 2009, comprising over 8% of all such institutions nationwide, thus making the region fourth in Poland. In 2009, the number of people employed in R&D reached almost 14,000, which enabled Małopolska to be second among Polish regions, just behind Mazowsze.



**Table 2.1. Institutions of business environment**

Institutions of business environment	Aim of activities	Webpage
International Cluster of Innovative Technologies MINATECH	Wide cooperation and rational usage of intellectual and material potential of the region.	
The Cluster of Multimedia and Information Systems	Review of trends in technologies and trainings, provide business and financial support.	<a href="http://www.multiklaster.pl">www.multiklaster.pl</a>
Małopolska's Cluster of Information Technologies	Creations of innovative environment of research and education with transfer of knowledge, funds and technologies.	<a href="http://www.klaster.krakow.pl">www.klaster.krakow.pl</a>
Małopolska – Podkarpackie Cluster of Clean Energy	Obtaining research and development funds and investments for clean energy in south-east region of Poland.	<a href="http://www.klaster.agh.edu.pl">www.klaster.agh.edu.pl</a>
Medical Technology Transfer Centre and Technology Park Ltd (CTTMPT)	Broker of medical and pharmaceutical technologies.	<a href="http://www.ctt.krakow.pl">www.ctt.krakow.pl</a>
Technology Transfer Centre – Cracow University of Technology	Promotion of innovation and implementation of international projects aimed at the development of science and the enhanced competitiveness of enterprises	<a href="http://www.transfer.edu.pl">www.transfer.edu.pl</a>
Technology Transfer Centre – Cracow University of Science and Technology	Promotion of innovation and implementation of international projects aimed at the development of science and the enhanced competitiveness of enterprises.	<a href="http://www.ctt.agh.edu.pl">www.ctt.agh.edu.pl</a>
Business in Małopolska	Providing services for investors and promotion of positive regional business climate.	<a href="http://www.businessinmalopolska.pl">www.businessinmalopolska.pl</a>
Centre for Innovations, Technology Transfer and University Development	Promotion of the University knowledge, support for innovations and creation of cooperation with business.	<a href="http://www.citru.uj.edu.pl">www.citru.uj.edu.pl</a>
LifeScience Cluster – Kraków	To create and sustain the Life Science Network, support innovation and develop the resources and competences.	<a href="http://www.lifescience.pl">www.lifescience.pl</a>



# Setting up a business

## Principal forms of a business entity

The main legal forms of a company are:

- joint stock company (spółka akcyjna – SA)
- limited liability company (spółka z ograniczoną odpowiedzialnością – sp. z o.o.)
- limited joint stock partnership
- registered partnership
- limited partnership
- professional partnership
- sole proprietorship
- civil law partnership

Poland also allows for the creation of the European Company (SE).

## Forms of an entity

- Limited liability company (sp. z o.o.)

The sp. z o.o. is a basic type of a company in Poland. It has a separate legal personality from its shareholders, which means that it can acquire rights and incur liabilities on its own behalf when acting through its governing bodies.

A sp. z o.o. has capital that is created from shareholder contributions, but shareholders of an sp. z o.o. are not responsible for the liabilities of the company. The management of an sp. z o.o. is less formal than that of an SA, so it is a somewhat more popular form in which to conduct business.

Details on the formation of an sp. z o.o. include:

**Founders:** There are no restrictions on the number, nationality or residence of shareholders; however, a limited liability company may not be formed solely by another single shareholder limited liability company.

**Capital:** The minimum capital required to establish a limited liability company is PLN 5,000. Contributions to a limited liability company may be made in cash or in kind.

**Legal reserve:** There are no legal reserve requirements.

**Shares:** Shares are registered and may be common or preferred. The minimum share value is PLN 50.

**Management:** There are no residence requirements for the board of directors of an sp. z o.o. If share capital exceeds PLN 500,000 and there are more than 25 shareholders, the company must have a supervisory board with at least three persons. The term of office for the board of directors is not defined. Employees have no influence over the management of private sector firms unless they are shareholders.

**Meetings and votes:** A simple majority of 50% is sufficient to approve most actions; a 75% majority is required for major changes.

**Costs of incorporation:** Legal costs for establishing a company (including notary charges, stamp duty and court costs) depend, inter alia, on the level of capital.

**Registration:** A limited liability company acquires legal personality from its registration in the National Court Register. However, it comes into existence at the time its articles of association are signed.





## ■ Joint stock company (SA)

The SA also has a personality separate from its shareholders, which means that it can acquire rights and incur liabilities on its own behalf when acting through its governing bodies. An SA has capital created by shareholder contributions. As in the case of a limited liability company, the shareholders of an SA are not responsible for the company's liabilities. Management is more formal than in the case of a limited liability company. The SA is frequently used where this form is required by law (e.g. banks, insurance companies) or where the company is planning a floatation on capital markets.

Details on the formation of an SA include:

**Founders:** An SA must be founded by at least one individual or legal person who must sign an article of association agreement. An SA may not be formed solely by a single limited liability company. There are no residence or nationality requirements.

**Capital:** The minimum initial capital is PLN 100,000, of which 25% must be paid up front before registration.

**Legal reserve:** An SA is required to set up a legal reserve equal to 8% of annual net profits, until the reserve reaches one-third of share capital.

**Shares:** Shares may be registered, bearer, common or preferred. Non-dividend shares are not permitted. The minimum share value is PLN 0.01. Shares may be issued to the public.

**Management:** The corporate bodies of an SA are the shareholders' meeting, the management board and the supervisory board. Management is vested in a board of directors. There are no residence requirements for the board of directors, but at least two members of the board of a Polish-registered bank, including the chairman, must have working knowledge of Polish.

The management board may be appointed for an initial term of up to five years, with subsequent terms of up to five years.

A supervisory board with at least three members (five for a listed company), each appointed for a term of up to five years, is mandatory.

Employees have no influence over the management of private sector firms unless they are shareholders.

**Meetings and votes:** A simple majority of 50% is sufficient to approve most actions, with a 75% majority required for major changes.

**Costs of incorporation:** Legal costs for establishing a company (including notary charges, stamp duty and court costs) depend, inter alia, on the level of capital.

**Registration:** An SA comes into existence on the implementation of the company deed, but it obtains legal personality when it is entered into the National Court Register. Approximate time of setting up the above forms of entities is described in Table 3.1.

## ■ Branch of a foreign company

A foreign company may opt to set up a branch in Poland. A branch is a part of a foreign company that does not have its own legal personality, but conducts business in Poland. A branch may only conduct activities that are related to the business of the foreign investor, which may include sales, invoicing and marketing. A branch is allowed to generate income. It must be registered in the National Court Register under the name of the investor and must include the term "branch in Poland."

A foreign investor also may establish a representative office in Poland. A representative office may only carry out the following activities: promotion and advertising activities; acting as a sales agent; and preparing, signing and supervising contracts on behalf of the head office. A representative office may not generate income on its own behalf and must be registered separately with the Ministry of Economy. The registration procedures are similar to those that apply to a branch.



## Business regulations

### ■ Registration and filing requirements

All companies intending to conduct business activities are given a tax identification number (NIP) after registering with the appropriate local tax office. Taxpayers are obliged by law to keep their accounts and calculate tax independently.

### ■ Mergers and acquisitions

The Act on Competition and Consumer Protection empowers the Office for the Protection of Competition and Consumers (UOKiK) to block any merger that would lead to the capture of 40% or more of market share. The UOKiK also imposes reporting requirements for acquisitions of existing firms.

Parties to a proposed merger must notify the UOKiK if their combined sales for the previous year exceeded EUR 1 billion worldwide or EUR 50 million in Poland. There are exceptions, such as when the transaction is within the same capital or financial group and when the concentration results from bankruptcy proceedings. All multinational companies must notify the UOKiK of a proposed merger if any party to the merger has a subsidiary, distribution network or permanent sales practice in Poland.

Certain mergers and acquisitions having an EU dimension fall within EU merger control. As a rule, the European Commission has exclusive power to review such transactions. Under the Merger Control Regulation, the EU has jurisdiction over mergers (1) where the combined aggregate worldwide turnover of all the undertakings concerned exceeds EUR 5 billion and the aggregate EU-wide turnover of each of at least two of the undertakings exceeds EUR 250 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover in a single member state; and (2) where the aggregate global turnover of the companies concerned exceeds EUR 2.5 billion for all businesses involved,

the aggregate global turnover in each of at least three member states exceeds EUR 100 million, the aggregate turnover in each of these three member states of at least two undertakings exceeds EUR 25 million and the aggregate EU-wide turnover of each of at least two of the undertakings exceeds EUR 100 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover within one member state.

The European Commission has 25 days after a merger is reported to approve the transaction or open a procedure. If a procedure is opened, the Commission must issue a ruling within 90 days. However, the Commission can decide to refer the merger to the competition authority of the relevant member state to determine whether the effect of the merger will primarily be in that member state.

Companies whose merger would not normally fall within the jurisdiction of the European Commission can request a Commission review if they are otherwise obliged to notify three or more EU member states. The Commission proceeds as a “one-stop shop” only if none of the relevant member states objects within 15 days.



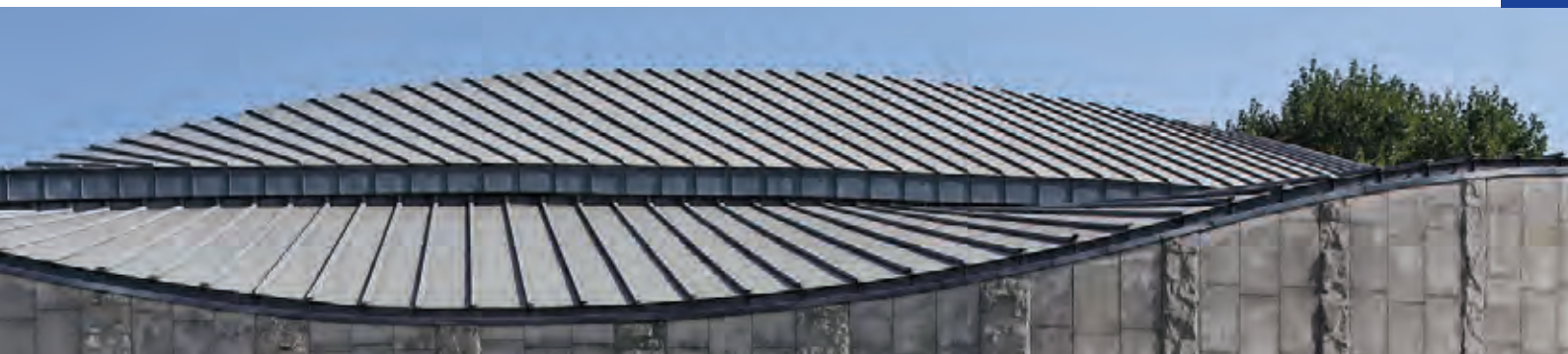


Table 3.1. Approximately time of setting up the business in the form of sp. z o.o. and SA, Deloitte 2011

### Limited liability company (sp. z o.o.)

Step	Action	Time
Step 1	Preparation of the articles of association of a limited liability company.	Approximately 1–7 days
Step 2	<p>Execution of the following:</p> <ul style="list-style-type: none"> <li>• conclusion of the articles of association in form of a notarial deed;</li> <li>• appointing corporate bodies (Management Board and/or Supervisory Board / auditors committee);</li> <li>• making contributions towards share capital.</li> </ul> <p><b>NOTICE!</b> Upon conclusion of the articles of association, a limited liability company in organization shall be created.</p>	Approximately 1 day
Step 3	<p>Registration in the National Court Register, tax authorities, statistical authorities and social security authorities</p> <p><b>NOTICE!</b> Registration in the National Court Register shall be made by the registry court having jurisdiction over the seat of the company.</p> <p><b>NOTICE!</b> With the application for registration of the company by the registry court, the management board shall request to the tax office for granting the NIP number (Tax Identification Number), request to the statistical office for granting REGON number (statistical identification number) and request for registration to social security authorities (if applicable).</p> <p><b>NOTICE!</b> If the formation of the company is not reported to the registry court within six months of the date of conclusion of the articles of association the company in formation shall be dissolved.</p>	Approximately 2–4 weeks
Step 4	<p>The company is ready to operate</p> <p><b>NOTICE!</b> Certain specific activities may require obtaining prior administrative permits (e.g. mining, energy, real estate brokerage).</p>	





## Joint-stock company (SA)

Step	Action	Time
Step 1	Preparation of a statutes of a joint-stock company.	Approximately 1–7 days
Step 2	<p>Execution of the following:</p> <ul style="list-style-type: none"> <li>• signing of the statutes by the promoters (the statutes of a joint-stock company shall be made in the form of a notarial deed);</li> <li>• consent to the formation of the joint-stock company and the wording of the statutes, as well as to the subscription for the shares by the single promoter or promoters, or jointly with third parties (those shall be expressed in notarial deeds);</li> <li>• making contributions to finance the share capital;</li> <li>• taking-up of all shares;</li> <li>• appointing corporate bodies (Management Board and Supervisory Board);</li> </ul> <p><b>NOTICE!</b> The joint-stock company in organization shall be formed when all of its shares are subscribed for.</p>	Approximately 1 day
Step 3	<p>Registration in the National Court Register, tax authorities, statistical authorities and social security authorities</p> <p><b>NOTICE!</b> Registration in the National Court Register shall be made by the registry court having jurisdiction over the seat of the company.</p> <p><b>NOTICE!</b> With the application for registration of the company by the registry court, the management board shall request to the tax office for granting the NIP number (Tax Identification Number), request to the statistical office for granting REGON number (statistical identification number) and request for registration to social security authorities (if applicable).</p>	Approximately 2–4 weeks
Step 4	<p>The company is ready to operate</p> <p><b>NOTICE!</b> Certain specific activities may require obtaining prior administrative permits (e.g. mining, energy, real estate brokerage).</p>	

# Remember about the details: taxation in Poland

## General information

The main taxes imposed on companies in Poland are:

- Corporate income tax;
- Tax on civil law transactions (TCLT);
- Value added tax (VAT);
- Real estate tax; and
- Excise duty.

There is no excess profits tax or alternative minimum tax. In general, foreign companies and individuals pay the same taxes as Polish legal entities (except where a tax treaty provides otherwise).

Main taxes applicable to companies operating in Poland	
Corporate income tax	19%
Withholding tax	
Dividends	19%*
Interest	20%*
Royalties	20%*
Branch profits tax	–
Net worth tax	–
Value added tax	23%
Capital duty	0.5%
Tax on civil law transactions	0.5–2%

*\*In many cases tax treaties, EU directives provide for lower rates or even exemption*

## Taxes on companies

Companies and organizational units (with the exception of partnerships) are subject to taxation at a 19% rate. Taxpayers that have their registered office or their management board in Poland are liable for corporate income tax on their worldwide income.

If a corporate taxpayer does not have its registered office or management board in Poland, tax is levied only on income derived in Poland, unless otherwise provided in a tax treaty. Foreign-source income derived by residents is generally subject to corporate income tax in the same way as Polish-source income, usually with a foreign tax credit granted, unless a tax treaty provides otherwise. Branches generally are taxed the same as subsidiaries.

### ■ Taxable income

Taxable income comprises all revenue earned in a tax year, both financial and operating (with some exceptions), net of deductible expenses. A company's profits consist of business/trading income, passive income (e.g. dividends, interest and royalties) and capital gains. Business income derived from abroad is aggregated with other income and is subject to Polish corporate income tax.

### ■ Dividends

Dividends paid by Polish companies to nonresidents are subject to a 19% withholding tax, unless a tax treaty provides for a lower rate or the EU directive applies (so called PSD directive). The PSD applies, inter alia, where the recipient company holds at least 10% of the capital of the Polish payer company (25% where the dividends are paid to a Swiss company) for at least two years. Dividends paid to a Polish resident individual are subject to a 19% withholding tax.

To benefit from a reduced rate under a tax treaty, the foreign recipient should provide the Polish payer with a certificate of tax residence issued by the tax authorities in the recipient's home country.

#### ■ Tax treaties

Poland has a broad tax treaty network, with many treaties reducing the withholding tax rates that apply to dividend, interest and royalty payments by Polish companies to nonresidents. If the European Community (EC) parent-subsidiary directive (PSD) applies, no tax is withheld on dividend payments. Under transition rules in the EC interest and royalties directive (IRD), Poland is permitted to impose a 5% rate on interest and royalties until 1 July 2013. The full exemption will apply after that date.

#### ■ Deductions

All expenses incurred by a company for the purpose of preserving and protecting taxable revenue generally are deductible. Examples include interest, royalties, employee remuneration, net operating losses and depreciation. Specified categories of expenses are nondeductible (e.g. certain advertising and entertainment costs, penalties, etc.). Also dividends paid are not deductible for tax purposes.

#### ■ Losses

Losses incurred by a company may be carried forward to future years, but it is not possible to carry back losses and offset them against income for prior years. Losses may be offset against income generated in the subsequent five tax years, but only up to 50% of the original loss may be deducted in a single tax year. In the case of a merger, only the tax losses of the surviving company can be utilized; the losses of the acquired company are forfeited.

#### ■ Taxation of nonresident entities

As a rule, a company whose legal seat and place of management are located abroad is subject to corporate income tax on income earned in Poland, under the same rules as Polish entities. A Polish branch of a foreign company is taxed in the same manner as a Polish subsidiary.





## Transactions between related parties

### ■ Transfer pricing

Poland's transfer pricing rules generally follow the OECD guidelines. Thus, transactions between related parties must be concluded on arm's length terms. If such transactions are concluded on terms that differ from the arm's length standard and, as a result, a taxpayer reports a lower taxable income than it otherwise would have disclosed, the tax authorities may adjust the taxable income of the taxpayer.

The transfer pricing rules apply both to domestic and cross-border transactions.

Documentation must be prepared for domestic and cross-border related party transactions exceeding annual value thresholds (generally, EUR 100,000 for tangibles; EUR 30,000 for services and transactions involving intangibles;).

If the taxpayer does not provide the tax authorities with the required documentation on related party transactions within seven days of a request, and the additional income is assessed by the tax authorities based on the transfer pricing rules, the additional income will be subject to a 50% corporate income tax penalty.

### ■ Groups of companies

Polish tax law contains provisions governing companies in a group relationship. The Corporate Income Tax Act allows for the creation of a tax consolidated group, whereby all companies in the group are treated as a single taxpayer for corporate income tax purposes. Companies intending to create a tax consolidated group are obliged to meet specific requirements listed in a CIT Act. A tax group must be established for at least three years and the group must satisfy also certain requirements after its creation (i.e. 3% profitability).

When a fiscal unity is formed and registered with the tax authorities, the tax losses of group members may be set off against the taxable income of the other members of the group, donations between companies will be deemed to be a tax-deductible expense for the donor, the transfer pricing rules do not apply to transactions between group companies and only one company in the group files a tax return.

## VAT

VAT is a broad-based tax levied on the supply of goods and services in Poland unless the transaction is exempt. Polish regulations are based on EU directives. The standard rate of VAT is 23%, which is charged on most goods and services. A reduced rate of 8% or 5% is imposed on certain foods, medicine, hotel and catering services, certain transport services, municipal services, etc. A zero-rate applies on the intra-community supply of goods, the export of goods, some international transportation and related services. Some financial services, medical services and certain cultural services are exempt, which means that the taxpayer is unable to recover input VAT incurred on the transactions.

### ■ Payment

Tax due to the tax authorities is calculated as the output VAT minus the input VAT on purchase invoices. As a rule, the surplus of output VAT over input VAT must be paid within 25 days following the month in which the VAT obligation arose (for small taxpayers, VAT must be paid within 25 days following the quarter in which the VAT obligation arose). If input VAT exceeds output VAT, a VAT refund is generally available. Penalties apply for failure to comply.





## Other taxes

### ■ Capital tax

A tax on civil law transactions (TCLT) is levied on certain contracts (and amendments to such contracts if they result in an increase in the base of TCLT), such as sales, loans and donations, mortgages, and the establishment of usufruct, and partnership or company deeds. However, a transaction is not subject to TCLT if at least one of the parties to the transaction is subject to or exempted from VAT, with some exemptions. The TCLT rate varies depending on the type of contract. An increase in a company's share capital is subject to a 0.5% rate, the acquisition of shares is subject to a 1% rate and loans are subject to a 2% rate (except for shareholder loans). Exemptions apply in certain cases (e.g. loan agreements with financial institutions seated abroad).

Poland does not levy a net worth or net wealth tax on companies or individuals.

### ■ Local taxes

A number of taxes such as real property tax, road vehicle tax, agricultural tax and forestry tax are imposed by the municipalities within the limits regulated in the law depending on the subject of taxation. The most significant local tax is the real property tax, which is applied to the tax basis constituting an area of a building, land area or the value of a structure (2%).

### ■ Excise duties

Excise dutiable goods are categorized as harmonized or non-harmonized excise duty goods. Harmonized excise duty goods are subject to special rules in Polish legislation that are based on EC directives. In particular, such goods can be produced only in tax warehouses, and excise duty is due when the goods are moved outside the warehouse (unless they are

moved under an excise duty suspension procedure). Excise tax is levied on the producer, importer and seller of non-taxed excise goods, entities providing manufacturing services for the excised goods and other entities explicitly specified by the law.

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Kraków has always been recognized as the academic capital of Poland. It has 23 HEIs, including 10 state and 13 private institutions. The most famous and prestigious are: the Jagiellonian University, which came second in the 2010 ranking of HEIs by the "Perspektywy" periodical in the category for universities; the AGH University of Science and Technology – third in the category for technical HEI. and the Cracov University of Economics – sixth in the field of economics.





# Conducting business activities: basic accounting and reporting regulations

## Accounting and finance regulations

The accounting regulations in Poland are based on the Accounting Act of 29 December 1994 with its subsequent amendments. Regulations of Polish accounting standards differ significantly from international standards. Furthermore, in cases where no national accounting standards exist, the appropriate International Financial Reporting Standard(s) (IFRS) may be applied. As of 1 January 2005, all companies listed on the Stock Exchange are obliged to prepare their consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union. Also the financial statements of eligible issuers of securities, intending to apply or those applying for admission for trading in one of the regulated markets in the European Economic Zone can be prepared in accordance with IAS. In addition, the Polish subsidiaries of companies listed on any stock exchange within the European Union may decide to prepare their statutory financial statements under International Financial Reporting Standards that have been adopted by the EU, rather than in accordance with local accounting laws. That is possible only if the parent company also prepares its financial statements in accordance with International Financial Reporting Standards.

Accounting may be handled by the company itself (at the company's registered office) or outside the company's registered office or also by another authorized entity providing external accounting services. The Tax Office should be informed of the two latter cases in writing.

Accounting policy, records and reports must be prepared in the Polish language and denominated in the Polish currency (zloty, PLN). Only the source documents do not need to be translated into Polish. However, a reliable translation of the specified bookkeeping vouchers must be provided at the request of the fiscal authorities or an auditor. All source documents, records and reports for at least the last five years of activity (including tax returns) must be held by the company.

For some specific documents (i.e. relating to employees) this period is different as stated in Art. 74 of the Accounting Act. The approved annual financial statements must be retained permanently.

Companies that do not report under International Financial Reporting Standards must apply the accounting principles specified in the Accounting Act to ensure a true and fair presentation of their economic and financial position, as well as their financial results. Activities (including business transactions) must be entered into the accounting ledgers and disclosed in the financial statements in accordance with the nature of the business. An entity may simplify some elements of the application of accounting rules, on the condition that these do not significantly affect the outcome of the accounting and bookkeeping procedures. The manager of the entity is responsible for the accounting obligations being fulfilled as stated in Article 3.1.6 of the Accounting Act. The accounting year (which must overlap the fiscal year) must cover 12 sequential months (exceptions apply in the first year of operations and in case of change in accounting year end). Should it not coincide with the calendar year or should a change in the fiscal year occur, the appropriate Tax Office should be informed accordingly.

## Financial statements

Annual financial statements consist of a balance sheet, profit and loss account, additional information (including an introduction to the financial statements), as well as supplementary information and explanations (notes). Companies audited in a given year must also present a cash flow statement and a statement of changes in equity. Together with the annual financial statements, the management must prepare a report on the company's activities, which, in particular, contains information on major events that are material to the company's activities, the company's expected development and major achievements in the area of R&D, as well as the company's present financial condition and projections (this catalogue is much wider for listed companies which have to fulfill the requirements of the Ordinance of the Minister of Finance of 19 February 2009, on current and periodical information disclosed by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state).

## Audits

Annual consolidated financial statements of capital groups and annual financial statements of listed companies, joint-stock companies, banks, insurers, reinsurance companies and investment and pension funds must be audited.

Other companies must be audited if two of the following three conditions were met in the preceding financial year:

- Average annual employment amounted to at least 50 people;
- The total balance sheet assets as at the end of the accounting year amounted to at least EUR 2.5 million;
- The total net turnover and financial income amounted to at least EUR 5 million.

The EUR/PLN exchange rate announced by the National Bank of Poland (NBP) on the last day of the fiscal year is used for the calculation. Audits must be conducted by an independent auditor with a license to perform audits before the financial statements are accepted by the Annual General Shareholders' Meeting. The choice of auditor for review or audit is to be performed by the Shareholders' Meeting unless it is stated

otherwise in the company's articles of association, an agreement or another law regulation. The choice cannot be made by the Company's management.

All companies that have a duty to prepare annual audits must publish their balance sheet, profit and loss account, statement of changes in equity and cash flow statements, as well as an introduction to the financial statements, the auditor's opinion, the statement of discharge granted by the Annual General Shareholder's Meeting and the decision on profit distribution in the publication "Monitor Polski B". The manager of the company has to submit all the above documents for publication within 15 days from the date on which the annual financial statements are approved.

There is also a wider catalogue of documents to be submitted to the appropriate Court Register under Art. 69 of the Accounting Act.

Several changes have been introduced from 2009 with regard to accounting regulations mainly concerning the implementation of EU directive 2006/46/WE, which require additional financial statement disclosures regarding:

- The character and purpose of contracts normally recognized as off the balance sheet (such as special purpose entities, lease or outsourcing contracts);
- Related party transactions including those carried out in non-market conditions;
- Information about the auditor's fee, including separate disclosure for all types of services rendered;
- Establishment of common responsibility for members of the management, supervisory, as well as the administrative board for preparing and publishing financial statements;
- Corporate governance principles (for public companies only).

Probably, together with the changes resulting from the aforementioned directive, other changes will be made that are aimed at closer relations of national accounting rules to IFRS requirements, as well as the adaptation of some regulations to new economic realities.





## Knowledge as a key to success

The appropriate qualifications and knowledge among corporate employees are at the foundation of success to every enterprise. Some of it can be acquired within the organization through various training programmes; however, the foundation of employment is usually graduation from a Higher Education Institutions (HEI) with a profile which is in line with the tasks that will be performed in a given position. Therefore, it is extremely important that the HEI system functions correctly in order to prepare its graduates, among other things, to operate freely in the labor market. Enterprises use knowledge not only to employ people with relevant education, but also by cooperating with R&D units in a given region, using their achievements or commissioning specific research.

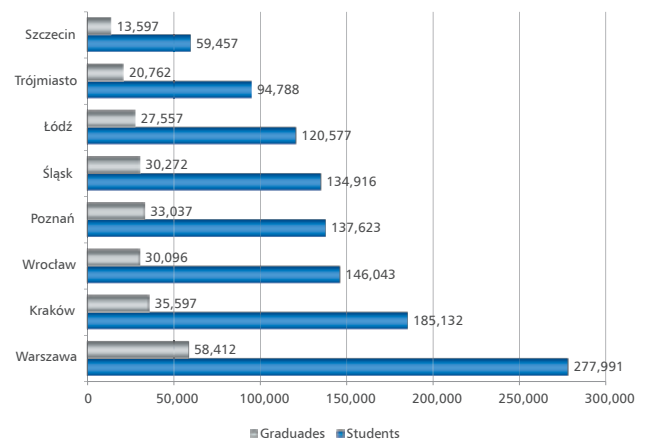
### HEIs and students

Kraków has always been recognized as the academic capital of Poland. It has 23 HEIs, including 10 state and 13 private institutions. The most famous and prestigious are: the Jagiellonian University, which came second in the 2010 ranking of HEIs by the "Perspektywy" periodical in the category for Polish universities; the AGH University of Science and Technology – third in the category for technical HEIs; and the Kraków University of Economics – sixth in the field of economics, staying ahead of the University of Economics in Katowice, the University of Wrocław and many others. It is also worth mentioning that the Jagiellonian University – as one of two Polish HEIs – has been included in the prestigious Shanghai list, a ranking of the



best HEIs in the world published every year by the Shanghai Jiao Tong Un.

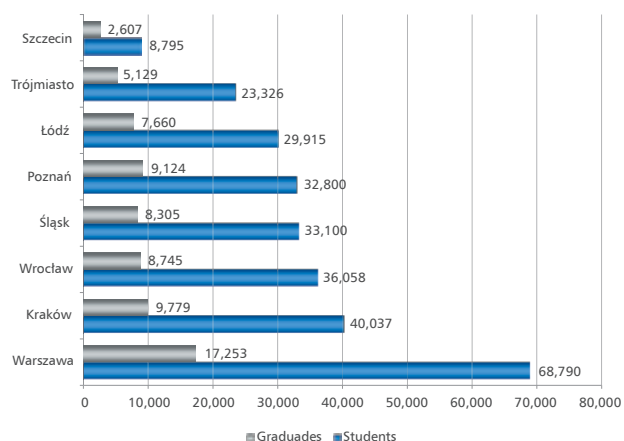
The position of Kraków as an important academic centre is also confirmed by a large total number of students and graduates. Detailed data in this respect is shown in Chart 6.1.



**Chart 6.1. Total number of students and graduates in selected cities in Poland, 2009**

Source: Central Statistical Office, Local Data Bank

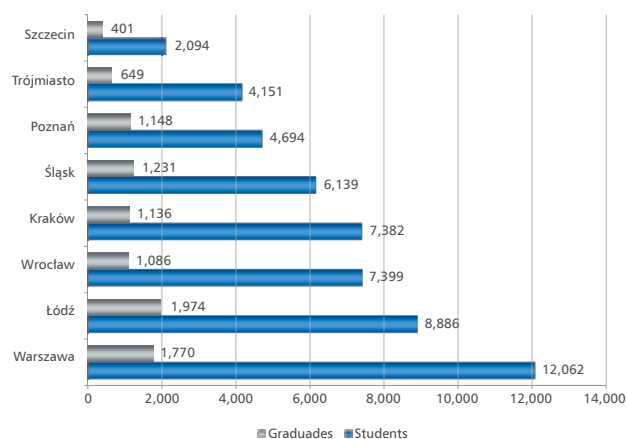




**Chart 6.2. Number of students and graduates in economic fields of study in selected cities in Poland, 2009**

Source: Central Statistical Office, Local Data Bank

Warszawa is first in respect of the number of students; however, it is worth mentioning that Kraków is in the second place and has 4000 more students as compared with the third largest academic centre, Wrocław. Another important factor is the number of people studying in individual faculties, in particular economics, IT, applied science and technical fields. Figures are presented in Charts 6.2, 6.3 and 6.4.

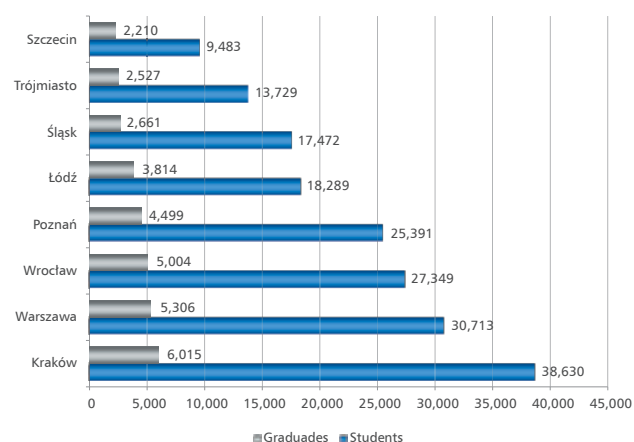


**Chart 6.3. Number of students and graduates in IT fields of study in selected cities in Poland, 2009**

Source: Central Statistical Office, Local Data Bank

The data also shows that Kraków is high in the rankings in respect of the number of students in individual fields of study: it is second in terms of the number of students in the field of economics and fourth in the field of IT. These educational profiles are particularly important for BPO/SSC investors because graduates of these fields of study are among the most sought after talents by service centres. Students in the technical and applied science fields of study comprise a separate category; their numbers in Poland have long been insufficient to satisfy the demands of the labor market. In 2010, the adverse trend was partly reversed (the number of people studying in universities of technology was higher than in general universities for the first time).

In view of this, Kraków is particularly distinguished by the number of almost 39,000 students in technical fields of study. In this respect, it has managed to get ahead of other academic centres, including Warszawa; therefore, the city seems to be the perfect location for R&D investment. Data regarding the number of students in technical and applied science fields of study is shown in Chart 6.4.

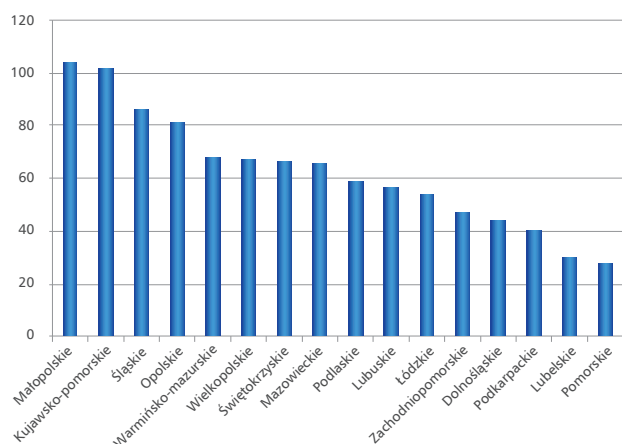


**Chart 6.4. Number of students and graduates in technical and applied science fields of study in selected cities in Poland, 2009**

Source: Central Statistical Office, Local Data Bank

## Research and development sector

Owing to its academic base, Kraków is a good location for R&D activity, which is confirmed by the data. According to the Central Statistical Office data, there were 112 R&D units located in Małopolska in 2009, comprising over 8% of all such institutions nationwide, thus making the region fourth in Poland. In 2009, the number of people employed in R&D reached almost 14,000, which enabled Małopolska Region to be second among Polish regions, just behind Mazovia region. Expenditure on R&D activity was high, reaching over PLN 922 million in 2009, i.e. over 10% of all Polish expenditure. Per employed person, this gives Małopolska Region the first place in Poland! In 2009, according to the Central Statistical Office data, the expenditure amounted to PLN 103,500, i.e. 38% more than Poland's average of PLN 85,000 at that time. The data is shown in Chart 6.5.



**Chart 6.5. Expenditure on R&D in thousand PLN per person employed in the sector**

Source: Central Statistical Office, Local Data Bank

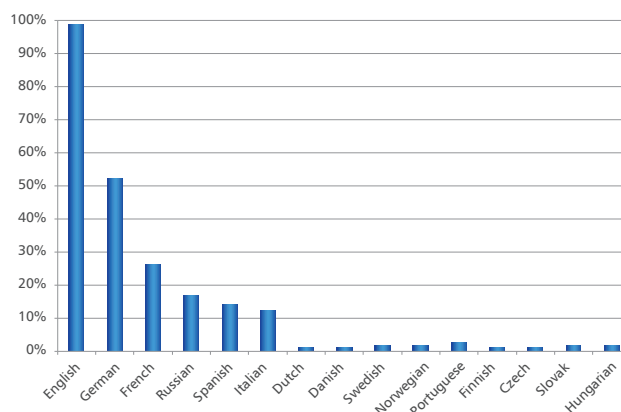
## Command of foreign languages

Currently, owing to the progress of globalization, command of foreign languages by potential employees has grown in importance; it makes contacts with customers, suppliers and partners from abroad easier. It is also important to be able to compare this skill across various regions, enabling investors to make a better selection of location for their operation. Owing to the lack of an appropriate indicator that would allow for the

direct comparison of individual Polish regions with one another, Hays Poland has developed the Hays Language Indicator that enables one to compare degrees of command of the four foreign languages most popular in Poland (English, German, French, Russian) in individual regions, in a direct manner, using generally available data. Even though the indicator does not translate directly into the number of users of a given language, it does, however, show trends in respect of command of a given foreign language; therefore, it can be used to compare regions in this respect. The detailed calculation methodology of the indicator is shown on next page.

Małopolska is second among all regions in respect of English and French. It is ninth and sixth, respectively, in German and Russian among 16 regions, which is a very good general result.

Additional information on students' language skills can be provided by a survey conducted in February 2011 by Hays Poland on a group of 150 students of Kraków universities. The results of the survey are presented in the Chart 6.6.



**Chart 6.6. Knowledge of foreign languages declared by students in Kraków (n=150)**

Source: Hays Poland 2011

In 2009, the number of people employed in R&D reached almost 14,000. Expenditure on R&D activity was high, reaching over PLN 922 million in 2009, i.e. over 10% of all Polish expenditure. Per employed person, this gives Małopolska the first place in Poland!

The Hays Language Indicator is based on four sub-indicators, each having the same weight:

- the percentage of learners at all levels of education (excluding higher education students) that are learning a specific language as part of mandatory or additional classes,
- the number of learners that are obliged to pass an examination in a given language during secondary school final examinations (matura) per 1,000 people participating in the examination,
- the number of language schools that offer classes in a given language, registered on the [www.nowoczesnafirma.pl](http://www.nowoczesnafirma.pl) website base per 1,000 population,
- the percentage of people declaring active command of a foreign language, according to the 'Diagnoza Społeczna' (Social Survey) from 2009.

The data is calculated separately for each of the four most popular languages in Poland: English, German, French and Russian.

The calculations are based on the latest data available at the date of this report (February 2011).



## Select your co-workers

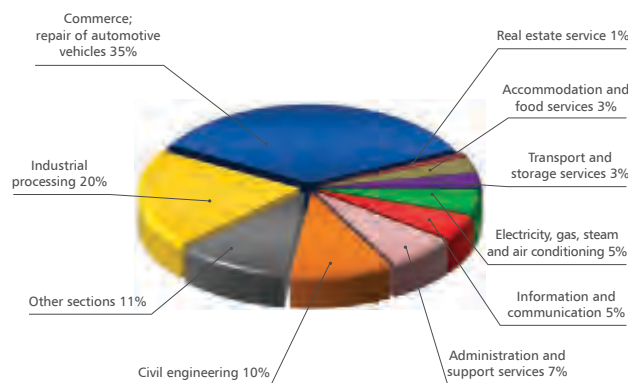
The general situation in the labor market is extremely important when making a decision about locating an investment in a given area. The availability of employees with relevant qualifications makes it easier to find them and, therefore, reduces the time for starting the operation of an enterprise and ensures possibilities for further development. Therefore, the current employment structure, level of unemployment and average salary rates are still very important data for investors. Małopolska is in an excellent position in all the analyses, offering skilled personnel who are willing to work for competitive salaries.

### Employment structure

Kraków has always been a city that attracted investors in the advanced sectors of the economy. This is particularly noticeable in the case of the BPO/SSC sector that is well-developed in Kraków. According to ASPIRE data from June 2010, the sector employed about 16,000 people – the highest number nationwide! The city has, among others, a branch of CapGemini, which employs over 2,500 people and is the largest employer in the BPO/SSC sector in Poland. The investment attraction of this city for these services is confirmed by Kraków's No. 1 position in the Top 10 Emerging Cities for Outsourcing in 2010, prepared by Global Services and Tholons.

Because of its academic traditions, Kraków is also a place that attracts investment in the R&D sector; the city hosts the centres of such companies as: ABB, Google, Sabre and Motorola, which employ over 2000 people in total.

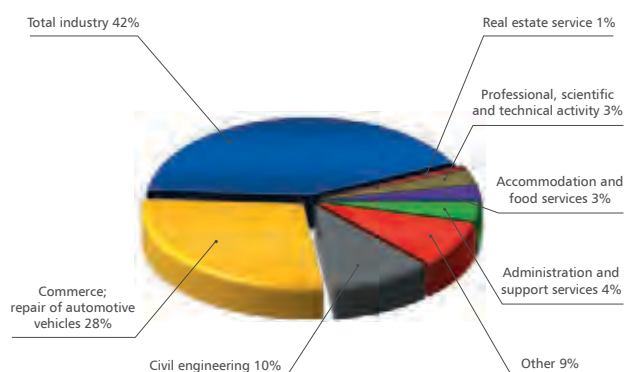
Charts 7.1 and 7.2 show [average employment in the business enterprise sector](#) both in Kraków and in Małopolska, broken down into PCA sections. You can clearly see that the structure is dominated by services; the services sector provides employment for 80% of people in Kraków and 68% in Małopolska.



**Chart 7.1. Average Employment in the business enterprise sector in Kraków in 2009 according to PCA**

Source: Central Statistical Office

Evidently, the most important role is played by commerce, which ensures employment for 35% of people in Kraków and 28% in the Region. It is worth noting that as many as 10% of people are employed in the high-tech, IT and communications sector; this confirms the conclusion regarding the modernization of Kraków's economy.



**Chart 7.2. Average Employment in the business enterprise sector in Małopolska in 2009 according to PCA**

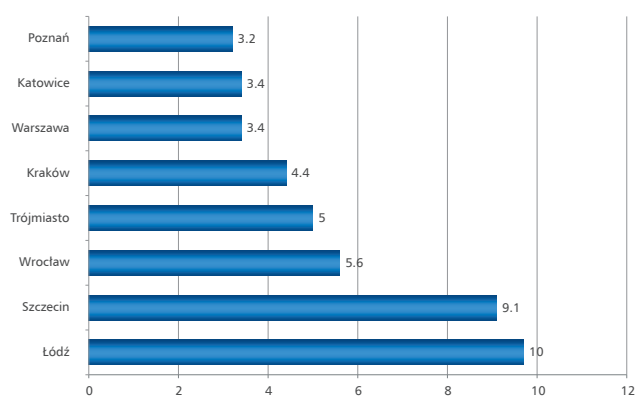
Source: Central Statistical Office





## Unemployment

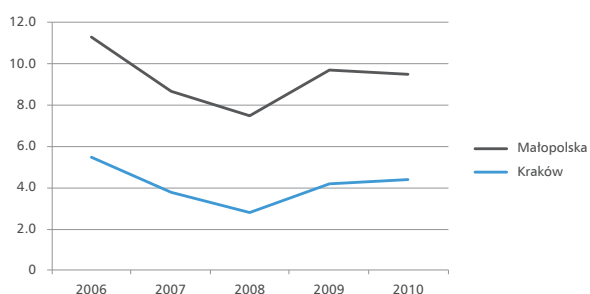
Chart 7.3 shows a comparison of unemployment rates in selected cities in Poland. Kraków is among the cities where the rate is noticeably low, yet it is still higher than in Warszawa, Katowice or Poznań.



**Chart 7.3. Registered unemployment rate at the end of Q3 2010 in selected cities in Poland**

Source: Central Statistical Office

Chart 7.4 shows the trend of the unemployment rate in Kraków, as well as in Małopolska in the period from 2006 to 2010. You can clearly see the similarity between the two unemployment rates: when the unemployment rate falls or rises in the Region, the same happens in the city. However, the rate has always been lower in Kraków by about 5%.

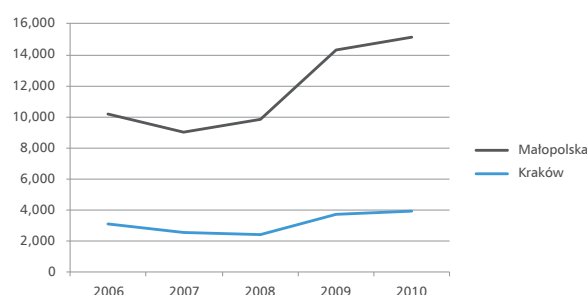


**Chart 7.4. Registered unemployment rate in Kraków and Małopolska in the period from 2006 to 2010**

Source: Central Statistical Office

The lowest unemployment rate was recorded in 2008; afterwards, it increased as a result of the economic slowdown that affected Poland in 2009; it remained the same in 2010. In 2011, it is expected to drop as the economy accelerates.

Charts 7.5 show the level of unemployment among groups that are of particular importance for investors who are interested in personnel with university degrees.



**Chart 7.5. Numbers of registered unemployed people with higher education in Kraków and Małopolska in the period from 2006 to 2010**

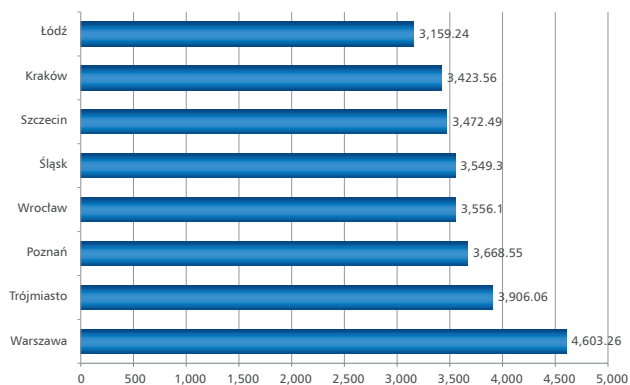
Source: Central Statistical Office

This number increased in 2009; however, it is worth noting that the growth was much stronger in Małopolska than in Kraków. This results from the much stronger economic position of the city and the higher concentration of companies offering jobs. The number of the unemployed also increased in 2010; however, this rise was much lower as compared with 2009. Evidently, the reason was the accelerating economy. Investors may also be interested in fact that in Q3 2010, 18% of the unemployed with a university degree in Małopolska were graduates under the age of 27, whereas in Kraków they comprised 13% of the group.

## Average salaries

The data presented in chart 7.6 shows that the average salary in Kraków is among the lowest in large Polish cities. Lower salaries are offered only in Łódź. Obviously, the location factor appears very beneficial, because skilled employees can be recruited here at a lower cost.

According to the Central Statistical Office data from 2009, the highest average salaries in the service sector are earned by employees in the PCA section: information technology and communication, and financial and insurance activity. In both sections, the average monthly gross salary exceeds PLN 4,700. The section employs, among others, people providing corporate IT services, programmers and financial analysts, as well as employees of, e.g. pension funds. The lowest salaries are earned by people employed in the catering/hotel sector, and administration and supporting activity, which also includes companies dealing with security, cleaning, and equipment rental. In both cases, the monthly gross salary is below PLN 1,900. Chart 7.7 presents the latest data from the monthly salary reports by Hays Poland that allow the trend in salaries for individual positions, in selected industries, to be identified.



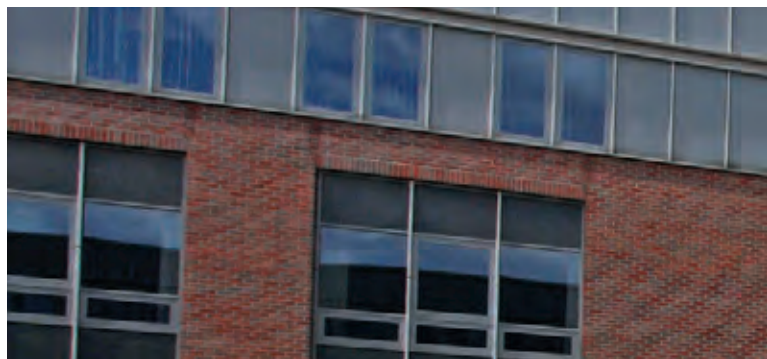
**Chart 7.6. Average monthly salary in selected cities in Poland, 2009**

Source: Central Statistical Office

Table 7.7. Monthly gross salary for individual positions in selected industries, Hays Poland, 2011

Construction & Property	Małopolska		
Position	dominant	minimum	maximum
Junior Architect	4,000	3,000	5,000
Architect	6,500	5,500	8,000
Senior Architect/Team Leader	15,000	10,000	20,000
Site Supervisor	6,500	5,500	7,500
Site Engineer	5,500	4,500	8,000
Site Manager	9,500	6,500	15,000
Project Manager	15,000	8,000	25,000
Quantity Surveyor	8,000	6,000	12,000
Commissioning Engineer	11,000	7,000	15,000
Wind Project Developer	15,000	7,000	20,000
Electrical & IC Supervisor	11,000	8,000	15,000
Piping & Mechanical Supervisor	11,000	8 000	15,000
Designer	8,000	6,000	11,000
Designer Assistant	3,500	2,000	5,000
Technical Director	13,000	8,000	18,000
Development Manager	12,000	10,000	18,000
Expansion Specialist	10,000	7,000	12,000
Leasing Manager	15,000	10,000	18,000
Facility Manager	11,000	7,000	15,000

Manufacturing & Operations	Małopolska		
Position	dominant	minimum	maximum
Production Director	15,000	11,000	25,000
Quality Director	15,000	12,000	20,000
Maintenance Manager	13,000	10,000	16,000
Logistics Director	17,000	15,000	23,000
Project Manager	9,000	8,000	14,000
HR Director	13,000	10,000	25,000
Shift Manager	8,000	6,000	9,000
Quality Engineer	6,500	5,000	9,000
Process Engineer	6,000	5,000	8,000
Logistics Specialist	5,000	4,500	8,000
Indirect Buyer	6,000	4,500	8,000
Sales Engineer	13,000	10,000	18,000
Purchasing Specialist	6,000	4,500	8,000
Purchasing Manager	15,000	12,000	20,000
Purchasing Director	20,000	15,000	25,000



Sales & Marketing	Małopolska		
Position	dominant	minimum	maximum
Sales Representative	4,000	2,500	6,000
Account Manager / Senior Key Account Manager	8,500	6,000	10,000
National Key Account Manager	12,000	9,000	15,000
Area Sales Manager	8,500	6,000	10,000
Export Manager	10,000	8,000	15,000
Sales Director	18,000	11,000	25,000
Sales Analyst	4,200	3,000	4,500
Trade Marketing Manager	12,000	8,000	14,000
Trade Marketing Specialist	6,700	4,500	8,000
Marketing Specialist	4,500	3,000	6,000
Junior Brand Manager	7,000	6,000	8,000
Brand Manager	8,000	6,000	12,000
Senior Brand Manager	10,000	8,000	14,000
Marketing Manager	17,000	12,000	22,000
Product Manager	9,000	7,000	12,000
Transport Manager	8,000	6,000	12,000
Forwarding Manager	8,000	6,000	10,000
Logistics Director	18,000	12,000	20,000
Distribution Centre Manager	10,000	8,000	12,000
Logistics Specialist	5,000	3,500	7,000
Regional Visual Merchandiser	6,000	4,000	8,000
Retail Manager	10,000	8,000	12,000
Store Manager	5,000	3,500	7,000

The investment attraction of this city for these services is confirmed by Kraków's No. 1 position in the Top 10 Emerging Cities for Outsourcing in 2010, prepared by Global Services and Tholons.





Acc & Finance / Legal	Małopolska		
Position	dominant	minimum	maximum
CFO / Board Member	35,000	20,000	50,000
Finance Manager	15,000	12,000	20,000
Finance Controller	11,000	8,000	15,000
Financial Analyst	7,000	4,500	10,000
Internal Auditor	8,000	6,000	12,000
Accountant	4,000	2,500	5,000
Independent Accountant	5,500	4,500	7,000
Deputy Chief Accountant	8,000	6,500	10,000
Chief Accountant	12,000	9,000	15,000
Tax Manager	18,000	15,000	25,000
Tax Specialist	8,000	5,500	12,500
Retail Outlet Manager	5,000	4,500	6,500
Leasing Specialist	5,000	3,000	8,000
Receivables Analyst	4,500	4,000	5,000
Claims Specialist	5,500	4,000	10,500
Stockbroker	4,500	3,000	7,000
Investment Analyst	6,000	4,500	9,000
Capital Market Manager	13,000	10,000	20,000
Tax Advisor	11,000	9,000	14,000
In-house Lawyer	11,000	8,500	14,000
Head of Legal Department	24,000	16,000	35,000
Junior Lawyer	5,000	3,000	8,000
Senior Lawyer	23,000	12,000	30,000

Information Technology	Małopolska		
Position	dominant	minimum	maximum
Java Programmer	9,000	5,000	14,000
C++ Programmer	7,000	5,000	11,000
.NET Programmer	8,000	5,000	13,000
SQL Programmer	7,000	5,000	9,500
System Administrator	7,000	4,500	12,000
Database Administrator	7,500	5,000	13,000
Network Administrator	6,000	4,000	12,000
System Analyst	6,000	4,500	12,000
IT Business Analyst	8,000	5,000	15,000
Project Manager	10,000	7,000	17,000
Cisco Engineer	6,000	4,000	11,000
IT Manager	11,000	8,000	25,000
SAP Consultant	12,000	8,000	25,000
WEB Designer	5,000	3,000	10,000
Pre-Sales Specialist	6,000	4,000	10,000
Account Manager (with bonus)	8,000	5,000	25,000

SSC / BPO	Małopolska		
Position	dominant	minimum	maximum
Junior Accountant**	3,000	2,200	3,500
Accountant**	4,000	3,200	4,500
Junior IT Helpdesk**	3,500	2,500	5,500
IT Helpdesk**	4,000	3,000	6,000
Team Leader	6,500	5,500	8,500
SSC / BPO Director	28,000	20,000	35,000

\*\* depending on language skills –the monthly salary range presented covers the most popular European languages (English, German, French, Spanish, Italian); knowledge of rare languages (Dutch, Scandinavian etc) can drive the salaries up even by 60%

Administration / CS / HR	Małopolska		
Position	dominant	minimum	maximum
Call Centre Agent	2,000	1,500	2,500
Call Centre Agent (with a foreign language)	3,200	2,500	3,900
Customer Service Representative	2,900	2,200	4,500
Call Centre Manager	9,000	7,000	11,000
Receptionist	3,000	2,500	5,000
Executive Assistant	5,000	4,000	10,000
Administrative Assistant	4,000	3,000	6,000
Office Manager	7,000	4,000	10,000
HR Specialist	5,000	4,000	8,000
HR Manager	12,000	8,000	15,000
HR Director	20,000	16,000	25,000
Recruitment Consultant	5,000	3,000	6,000

## Foreign employees

Kraków has always been an attractive place to live in for foreigners; you can notice this based on the data regarding arrivals from abroad for permanent residence: according to the Central Statistical Office data, the number of people who registered their residence in Małopolska increased over four years (2006–2009) by 78%!

The BPO/SSC sector has recently attracted a large number of foreigners. According to the report drawn up by ASPIRE (Association of IT and Business Services Companies), 400 foreigners worked in 13 BPO/SSC centres in Kraków at the end of June 2010. Most of them came from the UK, Italy and the Netherlands. Information regarding the number of foreigners starting work in Małopolska can also be obtained based on the data from the Małopolska Region Office, regarding the number of work permits issued to foreigners. In the first half of 2010 alone, 1,059 of such job permits were issued in Małopolska, which constituted more than 6% of permits issued in the entire country, making the Region rank second in Poland.

The highest number of permits was issued to the citizens of the Ukraine, namely to 362 of them. China is the second country in the ranking. 186 permits were issued to its citizens.



# A perfect place to work

## Kraków office market

### ■ Stock and supply

Kraków, after Warszawa, is the second most developed office market in Poland. With over 60,400 m<sup>2</sup> of new space added to the stock in 2010, the total modern office space in the city amounts to almost 450,000 m<sup>2</sup> (Warszawa – 3.5 million m<sup>2</sup> of office market).

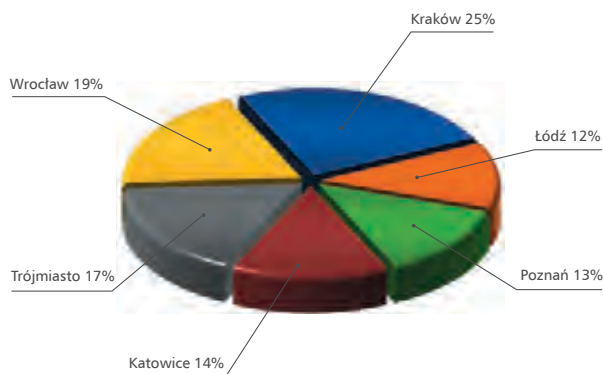


Chart 8.1. Office stock by city

Source: Jones Lang LaSalle 2011

Table 8.1. Selected office developments 2011–2012

Building	Address	Office size / m <sup>2</sup>	Developer
2011			
Bonarka for Business B4B	Puszkarska	17,400	TriGranit
Quattro Business Park	Gen. Bora-Komorowskiego	11,800	Buma
Jasnogórska Business Centre	Jasnogórska 11	8,400	Mix Nieruchomości
Green Office B	Czerwone Maki	8,000	Buma
Pascal	Przybyszewskiego	5,200	GTC
2012			
Centrum Biznesu Opolska	Opolska / 29 listopada	17,000	Echo Investment
Enterprise Park A&B	Na Dołach 4	15,200	Avestus Real Estate
Centrum Biznesu Zielińskiego	Zielińskiego	13,400	Gerium Polska
Avia Office Centre	Al. Jana Pawła II 41a	10,900	GD&K
G2O/Oknoplast	Lublańska	7,800	Oknoplast
Fronton	Kamienna	7,500	Fronton

Source: Jones Lang LaSalle, 2011

Due to its historical nature, Kraków does not have a typical Central Business District. The developments located in the Old Town– or City Centre – are usually small (3,000–5,000 m<sup>2</sup>) with a few exceptions. More popular office locations are:

- The surroundings of Rondo Ofiar Katynia and Al. Armii Krajowej;
- North-East region, which includes the Czyżyny subzone, part of the Special Economic Zone with a fast developing high-tech sector;
- South region, where office buildings are located mainly along exit roads to Zakopane and Tarnów.

The office space market in Kraków has experienced rapid development in the last four years. The vast majority (ca 69%) of office space was delivered after 2006. The peak in new supply was recorded in 2009, when over 86,600 m<sup>2</sup> was added to the modern office stock. The pace of development slowed in 2010 and is expected to slow even further in 2011 with eight developments totaling 58,000 m<sup>2</sup> which is a forecast for delivery throughout the year. According to the developers' plans, another 75,000 m<sup>2</sup> will be added in 2012, of which ca. 61,000 m<sup>2</sup> is either under construction or has a valid building permit.

### ■ Demand

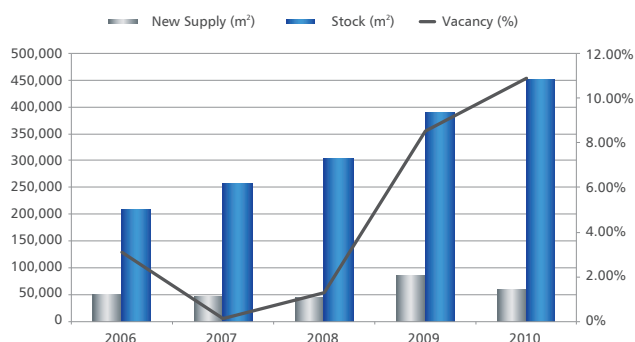
Kraków is one of the most popular BPO (Business Process Outsourcing) / SSC (Shared Services Centre) destinations in Poland. There are approximately 50 companies with ca 16,000 employees operating in Kraków in the BPO / SSC sector.

The rising number of BPO centres alongside strong interest from the finance and insurance sectors has resulted in low vacancy rates and increased office development. In 2007, vacant office space represented less than 1% and 1.3% of the total office stock in 2007 and 2008, respectively. In Q4 2008 and 2009, the market conditions worsened and demand for



office space across Poland weakened. Vacancy rates in all the major regional cities increased. In Kraków the vacancy rate increased to 8.5%. This tendency continued in 2010 reaching 10.9% by the end of Q4.

The major new leases signed in Kraków in 2010 included: Motorola in Green Park (11,800 m<sup>2</sup>) and Capgemini in Quattro Business Park (7,000 m<sup>2</sup>). A large number of companies decided to remain in their current locations. The biggest lease renegotiations and extensions included: IBM in Galileo (5,300 m<sup>2</sup>); Delphi in Kraków Business Park (4,700 m<sup>2</sup>) and UPM-Kymmene in Kraków Business Park (1,800 m<sup>2</sup>).



**Chart 8.2. New supply, letting activity and vacancy in Małopolska**

Source: Jones Lang LaSalle, 2011

Kraków's population, the city's growing importance as an economic centre and its reputation as one of the biggest scientific centres in Poland is still very attractive for investors. Despite the financial crisis the development of the office market is still dynamic.



## ■ Rents

Prime headline rents in Kraków are currently at a similar level to non-centre locations in Warszawa and vary between EUR 13.0 and EUR 15.5/m<sup>2</sup>/month; in lower standard offices they are ca EUR 2/m<sup>2</sup>/month lower. Rental levels are 10–15% lower compared with the 2008 market peak. Effective rents are usually up to 15% lower than headline rents.

The service charge rate is at a similar level to the rest of Poland and varies between PLN 15 and PLN 20/m<sup>2</sup>/month.

## ■ Development prospects

Kraków's population, the city's growing importance as an economic centre and its reputation as one of the biggest scientific centres in Poland are still very attractive for investors. Despite the financial crisis the development of the office market is still dynamic. Over 130,000 m<sup>2</sup> of office space is to be delivered in the next two years of which ca 20% is already pre-let to companies such as Motorola or Capgemini. As the economic conditions improve, the demand for office space is forecasted to increase. We expect the vacancy rate to decrease in the long-term. The average annual net absorption in the city was 42,500 m<sup>2</sup> in the last 7 years. The highest absorption was recorded in 2009 (57,500 m<sup>2</sup>) and the lowest in 2004 (14,700 m<sup>2</sup>). We believe that net absorption will stabilize around 60,000 m<sup>2</sup>.

**Table 8.2. Major projects in Kraków**

Project	GLA / m <sup>2</sup>	Developer	Completion date
Bonarka City Centre	91,000	TriGranit / IPR Ltd	2009
Galeria Krakowska	57,000	ECE Projektmanagement	2006
Zakopianka	52,700	ERE Group	1998
M1	42,500	MRE Metro Group	2001
Galeria Kazimierz	36,000	Globe Trade Centre	2005

Source: Jones Lang LaSalle, 2011

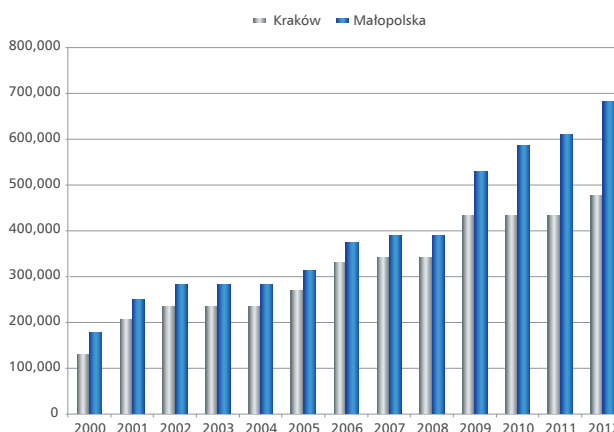
## Retail market

### ■ Stock & new supply

Kraków's modern retail market started in 1997 with the opening of two shopping centres, Krokus and Tesco, each anchored by a hypermarket. Today the modern retail stock amounts to 476,000 m<sup>2</sup>, of which 90% is concentrated in shopping centres. New supply peaked in 2001 with the opening of M1 and Plaza Krakow, adding 73,500 m<sup>2</sup> of GLA to the market. In 2009, 2001's peak in new supply was surpassed with the opening of Bonarka City Centre comprising of 91,000 m<sup>2</sup> of GLA.

Most of the popular DIY chains are present in the city. Leroy Merlin, Castorama, Praktiker and Obi are either part of a shopping centre (Praktiker in M1) or have a stand alone big box scheme.

In addition to modern retail schemes, a lot of popular and well-known brands have stores located on one of the best high street retail areas in the country. The Old Town, with streets such as Floriańska, Szewska and Grodzka, is not only a popular tourist destination, but also home to brands like Promod, Reserved, Benetton, Vero Moda, Sephora and more up-market brands such as Pollini, MaxMara or Miss Sixty.



**Chart 8.3. Evolution of shopping centre space in Kraków and in Małopolska**

Source: Jones Lang LaSalle, 2011

In 2011, another 42,000 m<sup>2</sup> of GLA will be added to the stock in Kraków. Neinver's Futura Park, currently under construction, comprises an outlet and retail park; two types of retail centres that are not yet present in the city. The park will consist of two parts: Futura Retail Park part totaling 19,000 m<sup>2</sup> and a Factory outlet of 21,300 m<sup>2</sup> GLA. In 2012, another 42,000 m<sup>2</sup> will be delivered as Serenada Shopping Centre by Mayland is planned to be opened. The construction should start in H1 2011.

Retail space density in Kraków amounts to 630 m<sup>2</sup> per 1,000 inhabitants, but drops to 574 m<sup>2</sup> / 1,000 inhabitants if only shopping centres are taken into consideration. It is one of the lowest rates when compared to the majority of cities with the population in excess of 500,000 inhabitants.

At the end of 2011, after the opening of Futura Park, the retail space density will increase to 683 m<sup>2</sup> / 1,000 inhabitants, but will still remain below Warszawa, Wrocław, Poznań and Gdańsk.

#### ■ Rents

Prime rents for units of ca 100 m<sup>2</sup> range between EUR 45 and EUR 55/m<sup>2</sup>/month in the best shopping centres. Rental levels for units of a similar size on high streets depend on the location and the standard of the space. We estimate that the rents for the best retail units vary between EUR 80 and EUR 95/m<sup>2</sup>/month.

#### ■ Development prospects

In comparison with other major cities in Poland, Kraków is judged to be undersupplied with retail space. As the second biggest city in the country, a popular tourist and business destination, it still offers a lot of retail development potential.



## Warehouse market

### ■ Supply

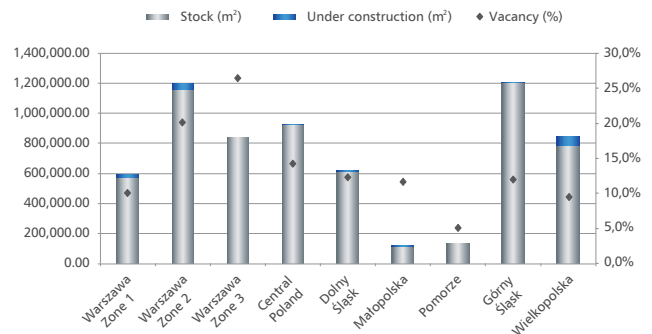
When compared with other warehouse and logistic hubs in Poland, Małopolska has a small market share with ca 2% of the total modern warehouse space. The majority of warehouse properties are situated within the Kraków agglomeration. Małopolska's location adjacent to Silesia, the second biggest warehouse market in the country, compromises potential to increase market dominance.

Development of the S7 express route, as well as the extension of A4 highway to Tarnów may enhance this position and increase the region's attractiveness both for developers and prospective tenants. By the end of Q4 2010, the total stock of modern warehouse space in Małopolska was 109,500 m<sup>2</sup> and had remained unchanged since mid 2009.

Currently, there are four existing warehouse developments in Małopolska: Centrum Logistyczne Olkusz by RB Logistic (37.6% share), Krakowskie Centrum Logistyczne by MK Logistic (29.5% share), BIK's Kraków Logistic Centres I and II (17.3% share) and Panattoni Park Kraków (15.4% share). The majority of the existing properties are located along the national route No. 4, close to the A4 highway (ca 2 km).

Another warehouse developer, Goodman, is planning to build the Kraków Airport Logistic Centre close to Balice International Airport. The project proposes development of 8 buildings offering a total lettable area of 150,000 m<sup>2</sup>. The first building in the project is under construction and by the end of 2010, 74% of it had already been let. The construction of the second building will start in the near future.

Developers already operating on the market have plans to expand their existing properties. Completion of two projects: BIK's Kraków Logistic Centre III and Kraków Kokotów Logistic Centre by 7R Logistic are scheduled for 2011 / 2012, however, neither project has entered construction.



**Chart 8.4. Stock, under construction and vacancy rate by region**

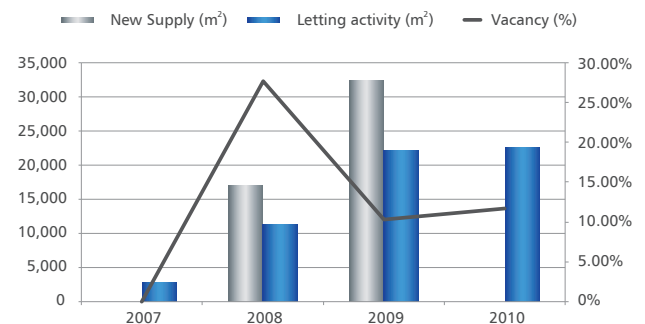
Source: Jones Lang LaSalle, 2011

### ■ Demand

As the second biggest city in Poland and a location on an important transport route, Kraków is an attractive location for logistics / industrial occupiers.

The total volume of transactions concluded in Małopolska in 2010 reached ca 22,600 m<sup>2</sup>, i.e. up 2% on the previous year. The biggest transactions concluded in Małopolska include Iron Mountain in RB Logistic Centre (4,300 m<sup>2</sup>, Scot, Farutex and Eurodruk in Krakow Airport Logistics Centre (3,500 m<sup>2</sup> each).

In Q4 2010, the vacancy rate stood at 11.7%, a 1.4% fall from the previous year. The rate is the third lowest in the country and translates to only 12,800 m<sup>2</sup> of immediately available warehouse space.



**Chart 8.5. New supply, letting activity and vacancy in Małopolska**

Source: Jones Lang LaSalle, 2011



## ■ Rents

The location of most of the current market stock within Kraków administrative border capped with the limited stock means rents are slightly higher than in the other logistic hubs.

Prime headline rents in Małopolska range from EUR 3.80 to EUR 4.50/m<sup>2</sup>/month. When taking into account the possible incentives that can be granted by developers the effective rent decreases to ca EUR 3.30–EUR 4.10/m<sup>2</sup>/month.

## ■ Development prospects

The warehouse market in Kraków is now mostly occupied by companies that supply the city with a variety of goods. The limited number of new projects and close vicinity to one of the largest logistic hubs in Poland, Górny Śląsk, suggests that the Kraków warehouse market will remain largely local. Increasing demand for warehouse space and relatively low availability will result in a decrease in the vacancy rate with pre-lease agreements being the most popular as tenants need to secure space before the project is put in use.

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# Benefit from an alternative source of financing

## Foreign capital in Poland

Poland was very successful in attracting foreign direct investment (FDI) in the 1990s. Its market size, membership in the OECD (1996) and NATO (1999), as well as its recent membership in the European Union (May 2004), have made it attractive to foreign investors. Cumulative FDI inflows reached EUR 103 billion in 2000–2010 according to the Polish Agency for Information and Foreign Investment (PAIIZ). The peak of FDI inflow was in 2007 at EUR 16.7 billion. In 2010, FDI inflow amounted to EUR 7.5 billion, which is 25% less compared to the previous year. The forecasts for the future are positive and in 2011, FDI should grow to a total value of EUR 10–11 billion according to PAIIZ. 30% of all investments are from the USA, the next biggest investors are enterprises from Germany and Great Britain.

Investment attractiveness rankings	
AT Kearney – FDI	Out of 20 locations Poland was ranked 6 in 2010
Confidence Index Report	(22nd position in 2007)

Małopolska – investment attractiveness rankings		
Institute of Market Economy Research "Investment attractiveness of Regions and Sub-regions in Poland"	Małopolska ranked No. 4	2010
Global Services / Tholons; "50 outsourcing cities" – report describing world outsourcing investment attractiveness	Poland – Kraków ranked No. 5	2008

## Poland – economic projections

Due to a flexible exchange rate, the credit facility granted by the International Monetary Fund (IMF) and sound economic policies that allowed avoiding large external and internal imbalances, Poland's growth remained positive in 2009 and continued to be dynamic in 2010. According to the European Commission, Poland was the only EU country that achieved a GDP growth in 2009 (+1.7%) and is now among the leaders regarding this indicator (Eurostat).

## Małopolska Region – a good place for investments

Małopolska is a leader in GDP growth among Polish regions with an average of 7.5% (in years 2004–2010). This makes for a better background for business development and strengthens the local market. According to the 2011 forecast by the Małopolska Economic Observatory (MEO), FDI inflows into the region will reach EUR 0.89 billion, which will amount to approximately 6% of the FDI in Poland.

Up until now, many foreign companies have decided to outsource parts of their businesses to Małopolska. The region has become a sort of an outsourcing valley for new BPO centres:

Shared Service Centres in Małopolska
ABB, Accounting Plaza (Ahold), Affiliated Computer Services, Alexander Mann Solutions, BP, Comarch, Cap Gemini, Delphi, Electrolux, Google, Hewitt Associates, Hitachi Data Systems, IBM, International Paper, Lufthansa, Motorola, Philip Morris, Pliva, RR Donnelley, Sabre Holdings, Shell, State Street Corporation, Tesco, UBS

## Investment incentives

Enterprises investing or expanding their activities in Poland may apply for various types of tax and non-tax investment incentives, such as investment grants, training grants, tax exemptions and many others. Support comes from both domestic and European Union sources. Investment incentives constitute aid that is non-refundable and free of additional costs. Grants are credited to the investors' account after the completion of the investment.





## EU funded aid

In the programming period 2007–2013, Poland is the major beneficiary of EU funds. The budget set for support for investments in Poland is several times higher than the allocation for the previous years (2004–2006), and it amounts to EUR 67 billion. So far, a significant amount of the EU funds has been distributed; however, there are still some possibilities for enterprises regarding applications for grants, also in Małopolska Region:

Types of investments supported by the EU funds	
Technology Innovation	Investment grants for new technologies and product/services implementation
Trainings	Employee training, including e-learning and related HR advisory support
Research & Development	R&D goal oriented projects
Service centres	Investments in the modern services sector (Shared Service Centres, IT and R&D centres)

So far, many enterprises from Małopolska Region have successfully applied for EU funds for various types of projects. The total value of subsidies granted in Małopolska Region amounts to ca PLN 3 billion for entrepreneurs' investment and R&D undertakings, and ca PLN 217 million for human capital development in enterprises. In regards to new technologies and R&D (examples):

- Comarch – 40 projects co-funded (total support value PLN 27.3 million);
- Shell Polska Sp. z o.o. – PLN 4.6 million subsidy,
- Electrolux Poland – PLN 4.5 million subsidy,
- Asseco Poland – PLN 10.3 million subsidy,
- Intersport – PLN 8 million subsidy.
- Grants for employees' trainings (examples):
- Motorola Polska Electronics – PLN 1 million subsidy;
- Sabre Polska – PLN 0.8 million subsidy;
- Enion Energia – PLN 1.1 million subsidy.

## SEZ exemptions from CIT

Tax incentives in the form of CIT exemption are available for investors in Special Economic Zones in Poland. Special Economic Zones (SEZs) are designated areas where business activities (manufacturing and service provision) can be conducted on advantageous terms. In order to benefit from tax incentives in SEZ, a new investment project has to be located within a SEZ and a special permit has to be obtained from the SEZ Management.

The Kraków Special Economic Zone – Kraków Technology Park (SEZ–KTP) is located within the Małopolska Region. It consists of 19 subzones situated in 17 gminas (communes). To this day, 86 permits to operate in SEZ–KTP have been issued, creating 8,934 new jobs with a total outlay of PLN 1.6 billion. The application procedure takes approximately 1–2 months, including preparation of relevant documents.

An investor should spend at least EUR 100 thousand while the new employment level is usually negotiated with the Management of the SEZ selected by the investor. Additionally, for specific project types, SEZ area maybe extended in order to cover the project location (SEZ enlargement). In accordance with the Act on SEZ, eligible activities include both manufacturing (such as automotive, household appliances, plastic products, wooden products, metal and non-metal products) and services (also modern services, such as: R&D, IT, BPO, call centres). Tax incentives in SEZ (CIT exemption) are recognized as regional aid and they cannot exceed the maximum aid intensity for a given region of Poland (see the Regional Aid Map). Eligible expenditures covers investment expenses for tangible and intangible assets. Alternatively, eligible expenditure can be calculated based on two-year labor costs of newly employed staff. Such an amount can be utilized with regard to an investor's SEZ permit-specified operation until the end of SEZ existence (now up to 2020).



## R&D tax incentives

Investments concerning the purchase of new technology, as well as undertakings regarding R&D centres may benefit from the tax incentives by the decrease of the tax base.

The company investing in new technology (especially R&D results in the form of intangible assets, i.e. licenses, patents etc.) that is not used for more than 5 years worldwide and resulting in the production of new or improved products or services may benefit from a decrease in the CIT tax base of up to 50% of the initial value of the R&D deliverables purchased.

Should the company be granted the R&D centre status (after fulfillment of specific formal conditions), it may benefit from a decrease in the CIT tax base of up to 20% of income (write-off for an innovativeness fund). The crucial requirement is preserving the ratio of incomes from sales of the company's own R&D services or industrial property rights at least on the level of 20%. Moreover, the company must yield net income of min. EUR 1.2 million for the previous financial year.

## Real Estate Tax (RET) exemption

The Kraków City Council decided to grant RET exemption to small investors who create jobs or invest in the area of Kraków City in the new technologies sector, although public aid lasts no longer than 1 to 3 years. The RET exemption cannot exceed EUR 200 thousand. Real estate tax exemption can also be offered as part of regional investment support for business entities that are operating in Kraków City.

## Powiat Labour Office in Kraków

The Powiat Labour Office offers different forms of help for investors including: internship at the employer's seat, odd jobs, cost reimbursement of full or partial equipment of a work-stand, cost reimbursement by virtue of the paid social insurance, trainings.

# SEZ and Technology Parks: attractive conditions for new investments

## The Kraków Technology Park

The Kraków Technology Park (KTP) is a part of the Polish System of Special Economic Zones (SEZ) established by the Council of Ministers. Special Economic Zones are designated areas in which business activity can be carried out on preferential terms. It was created in 1998 for a period of 20 years (until 1 January 2018, but in 2009 the period was extended until 31 December 2020) to support and accelerate the development of the Kraków area.

Unlike other Polish SEZ, the KTP was designed especially for companies from the high-tech sector, including electronics, information technologies, communication technologies, biotechnologies, etc.

The above has not, however, prevented attraction by KTP as well as investors operating in more 'traditional' sectors such as automotive or printing. Investors who have decided to locate their businesses within the KTP were encouraged – in addition to the tax exemptions – by the opportunities of exploiting the scientific achievements and the rich resources of highly qualified specialists in the region of Kraków, being the most renowned academic centre in Poland.

KTP is one of the most dynamic of the 14 economic zones in Poland covering more than 528 hectares (1,029 acres). To this day, 90 permits for running businesses in KTP have been issued. This translates into the creation of ca. 9,000 new jobs and the investment expenditure amounting to PLN 1.6 billion.

SEZ fact sheet	Poland	Kraków Technology Park
Number of SEZ in Poland	14	–
Permits for Investors	1,196	ca 90
Amounts Invested (PLN billion)	56.7	1.6
Jobs created	156,036	9,000
Area (hectares / acres)	12,589 / 24,534	528 / 1,029

Source: Deloitte report on SEZ, July 2010

Land offered for development is mostly greenfield and is located within KTP 19 subzones situated in 17 gminas (also areas in Podkarpackie Region). Moreover, as every SEZ, KTP offers to investors the infrastructure necessary for starting a business.

The most important investments in the SEZ include Man Trucks, Meiller, Motorola, RR Donnelley, Shell, Woodward Governor, UBS and Sabre.

In recent years, the KTP has attracted investors from the BPO and R&D sectors (e.g. Shell Polska) and is looking to develop further in this direction. In order to assist these investors with starting up their businesses, since 2005, the KTP's offer has also included office space for rent.



## Investment incentives in the SEZ

In relation to operating within the SEZ territory, foreign investors enjoy the same treatment as domestic entities. The main investment incentive to be benefited from is exemption from corporate income tax. The value of this exemption depends both upon the invested funds and upon the size of investor.

The amount of exemption might be calculated, at the discretion of an investor, as a percentage of investments costs of both tangible and intangible assets or two-year labor costs of the newly created workplaces. Large enterprises might enjoy tax exemption amounting up to 50% of the aforesaid costs, medium and small enterprises at the level of, respectively, 60% and 70%.

Every investor is obliged to obtain a formal document entitling it to tax exemption – the SEZ permit. The application procedure takes approximately two months, including preparation of relevant documents. An investor should spend at least EUR 100 thousand while the new employment level is usually negotiated with the Management of the SEZ selected by the investor. Additionally, for specific project types, the SEZ area may be extended in order to cover the project location (SEZ enlargement). In order to take advantage of favorable terms of conducting business activity, the investment, together with newly created jobs resulting from the investment, should be maintained for at least five years (three years for small and medium companies).

In addition to CIT exemption, businesses operating in the KTP territory can be granted with an exemption from real estate tax.

Employees of KTP S.A. (zone managing enterprise) help investors to acquire land and buildings and offer training opportunities and consulting support. Rental opportunities (office and warehouse space) also are available.

## Main investors in the KTP are:

- Comarch S.A.
- Food Care Sp. z o.o.
- Grupa ONET.pl S.A.
- Hannecard Polska Sp. z o.o.
- HCL Poland Sp. z o.o.
- MAN Trucks Sp. z o.o.
- Meiller Polska Sp. z o.o.
- Motorola Polska Electronics Sp. z o.o.
- Nidec Motors and Actuators (Poland) Sp. z o.o.
- RR Donnelley Poland Sp. z o.o.
- Sabre Polska Sp. z o.o.
- Shell Polska Sp. z o.o.
- UBS Service Centre (Poland) Sp. z o.o.
- Woodward Governor Poland Sp. z o.o.





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The report prepared for Małopolska Regional Development Agency S.A.

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