

KPMG IN POLAND

# Special Economic Zones

Edition 2012

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## 1

# Introduction

We are very pleased to present another edition of the KPMG report entitled 'Special Economic Zones – Edition 2012.' This series of publications has evoked a high level of interest among special economic zone (SEZ) managers as well as current and potential SEZ investors.

Our report brings a comprehensive summary of the operations of SEZs in 2011 and 2012. Last year witnessed continued positive trends within special economic zones. There was an over 6% increase in the number of newly issued business permits as well as an increase in the number of jobs within the zones, which exceeded 241,000 in 2011. Investment outlays saw a slight decline (by 3%) and reached approximately PLN 6.4 billion. The results presented here have largely confirmed the forecasts from last year's report.

Thanks to contributions from SEZ management boards, our report also presents 2012 estimates, plus expert opinions from members of SEZ management boards.

This year, we decided to expand our publication by analysing the operations of SEZ and similar investor support solutions in selected countries of Central and Eastern Europe. That part was based on opinions expressed by SEZ representatives as well as investors and on data obtained from national investor support centres and KPMG offices in those countries.

We extend our warmest thanks to all of the companies, individuals and institutions who participated in our study as well as to SEZ management boards for their help in preparing this year's edition of our report. We trust this publication will be an interesting read and will serve as a source of comprehensive information regarding the operation of SEZs in Poland.



**Paweł Barański**  
Director  
Tax Advisory



**Kiejstut Žagun**  
Director  
Tax Advisory



|     |     |     |     |     |     |     |     |
|-----|-----|-----|-----|-----|-----|-----|-----|
| 4   | 113 | 215 | 876 | 234 | 113 | 215 | 876 |
| 34  | 216 | 745 | 345 | 34  | 216 | 745 | 345 |
| 557 | 410 | 465 | 890 | 312 | 906 | 321 | 145 |



|      |     |     |     |      |     |     |     |
|------|-----|-----|-----|------|-----|-----|-----|
| 234  | 113 | 215 | 876 | 234  | 113 | 215 | 876 |
| 34   | 216 | 745 | 345 | 34   | 216 | 745 | 345 |
| 657  | 410 | 465 | 890 | 657  | 410 | 465 | 890 |
| 1233 | 432 | 987 | 523 | 1233 | 432 | 987 | 523 |
| 987  | 523 | 412 | 234 | 987  | 523 | 412 | 234 |
| 234  | 113 | 215 | 876 | 234  | 113 | 215 | 876 |
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| 657  | 410 | 465 | 890 | 657  | 410 | 465 | 890 |
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| 657  | 410 | 465 | 890 | 657  | 410 | 465 | 890 |
| 1233 | 432 | 987 | 523 | 1233 | 432 | 987 | 523 |
| 987  | 523 | 412 | 234 | 987  | 523 | 412 | 234 |
| 234  | 113 | 215 | 876 | 234  | 113 | 215 | 876 |
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| 657  | 410 | 465 | 890 | 657  | 410 | 465 | 890 |
| 1233 | 432 | 987 | 523 | 1233 | 432 | 987 | 523 |
| 987  | 523 | 412 | 234 | 987  | 523 | 412 | 234 |

# 2

## Methodology

This study was conducted in September and October of 2012 and consists of three components which were conducted in parallel. In the first part of the project, data were collected through a questionnaire administered among management boards of all the 14 special economic zones operating in Poland. The second stage was executed with the participation of survey research enterprise Norstat, which KPMG in Poland commissioned to conduct nearly 200 computer assisted telephone interviews (CATI) with investors operating within SEZs and 300 interviews with manufacturing companies employing over 49 people, most of which were not present in any SEZ. Finally, KPMG analysed similar support mechanisms in the countries of Central and Eastern Europe. The methodology adopted in this year's report follows in the footsteps of that used in the previous editions. This enables us to compare the analysed phenomena over the years.

### **Survey of SEZ management board members**

This study was conducted using a dedicated questionnaire, which was filled by top management members from each special economic zone. Respondents provided a summary of 2011 data and presented their estimates for 2012 and beyond.

support mechanisms in CEE. At the first stage of this component, we developed a questionnaire which – after being circulated to investor support institutions in various countries – helped us to collect information concerning the operations of special economic zones. The data were then verified and supplemented by local KPMG offices in the respective countries.

### **Analysis of operational and financial performance of SEZs**

Based on data from the Polish Ministry of the Economy we conducted an analysis of operational and financial performance of SEZs. A total of 19 indices were used in the comparison to measure the performance of each zone. The results presented here should not be read as a ranking of the zones since SEZs differ, not only in terms of the size and number of investor base, but also, primarily, in their business profiles.

### **Survey of SEZ investors**

The study conducted by Norstat for KPMG covered 190 companies operating in special economic zones. It consisted of computer assisted telephone interviews which were conducted between September and October 2012. The main sampling criterion for the study was that each zone should be adequately represented. The following remaining criteria were applied:

- time of operation within an SEZ
- employment
- sector of investor's business.

### **Analysis of comparable support mechanisms in countries of Central and Eastern Europe (CEE)**

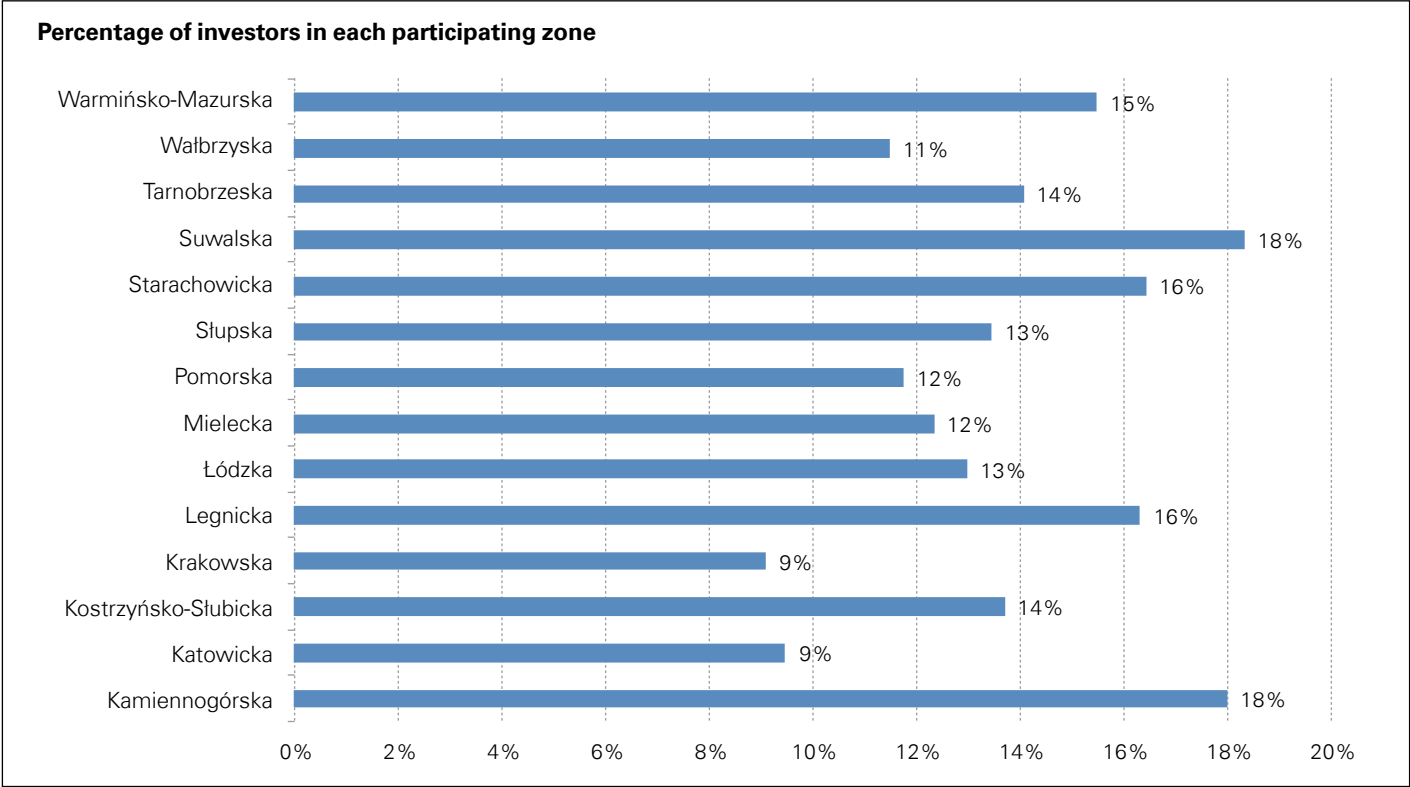
In this year's edition of the study, KPMG analysed the operation of SEZs and similar

<sup>1</sup> The most important publication used here was the report from the Polish Ministry of Economy entitled 'Information on progress in implementing special economic zones' (Original Polish title: Informacje o realizacji ustawy o specjalnych strefach ekonomicznych). Additionally, press publications and comments from SEZ representatives were used for analysis.

The study covered a minimum 9% of investors from each special economic zone. The largest proportion of all investors operating in SEZs

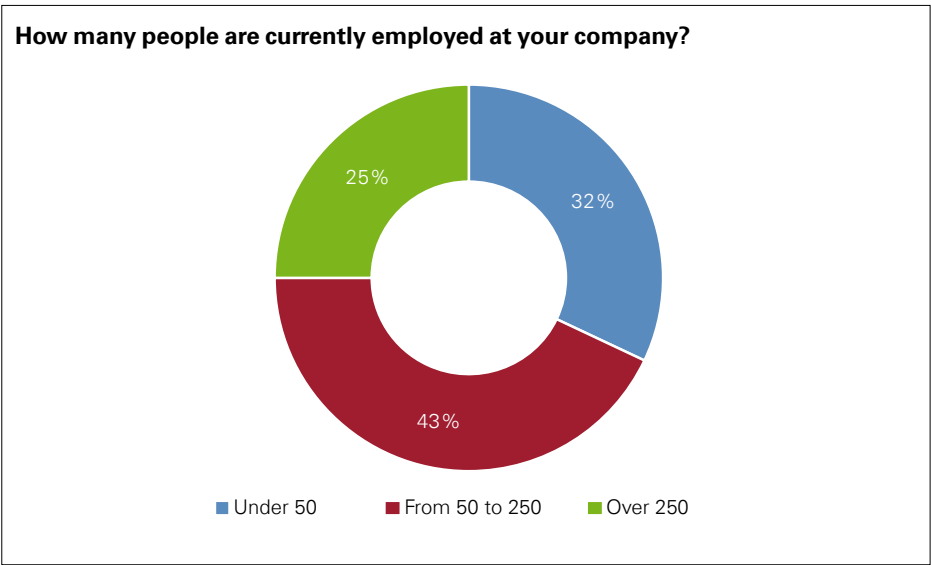
were surveyed in the Suwalska and Kamiennogórska SEZs (as many as 18% in each case). The share of surveyed investors is also highly satisfactory for

the Starachowicka (16%), Legnicka (16%) and Warmińsko-Mazurska (15%) zones.



N = 190  
Source: KPMG in Poland

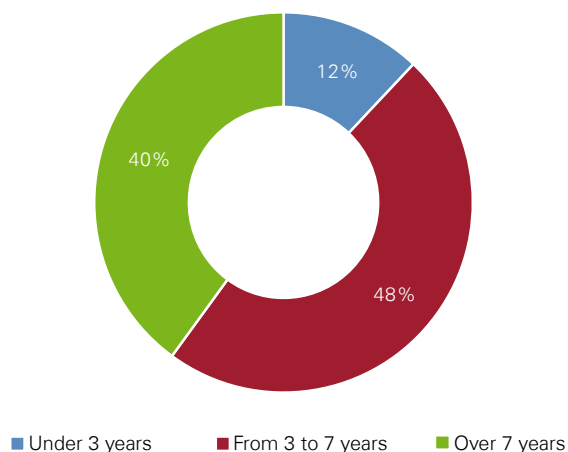
The study covered small, medium-sized and large companies. Medium-sized companies, employing 50 to 250 people, comprised the largest group (43%). The second group consisted of small companies, employing under 50 people (32%). The remaining part represented large companies (25%), employing over 250 people.



N = 190  
Source: KPMG in Poland

The duration of an enterprise's operations within a special economic zone was an important sampling criterion. This helped us to explore and compare opinions expressed by long-time investors as well as newcomers. Nearly one in two enterprises operating within a special economic zone had been there for 3 to 7 years. In turn, 40% of companies have operated in an SEZ for over 7 years. The remaining respondents (12%) are those who started their business in a special economic zone relatively recently (under 3 years ago).

**How long has your company been operating in a special economic zone?**

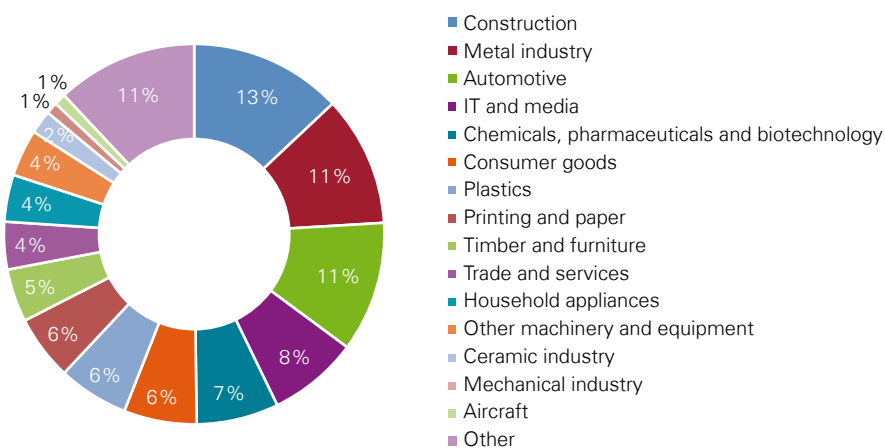


N = 190

Source: KPMG in Poland

The structure of investors in terms of their business profile is an important aspect from an analytical point of view. For our study, we invited representatives of sectors which had made the highest capital expenditures in special economic zones. The largest share of the respondents represented the construction sector (13%), the metals industry (11%) and the automotive sector (11%).

**What is your company's sector of operation?**



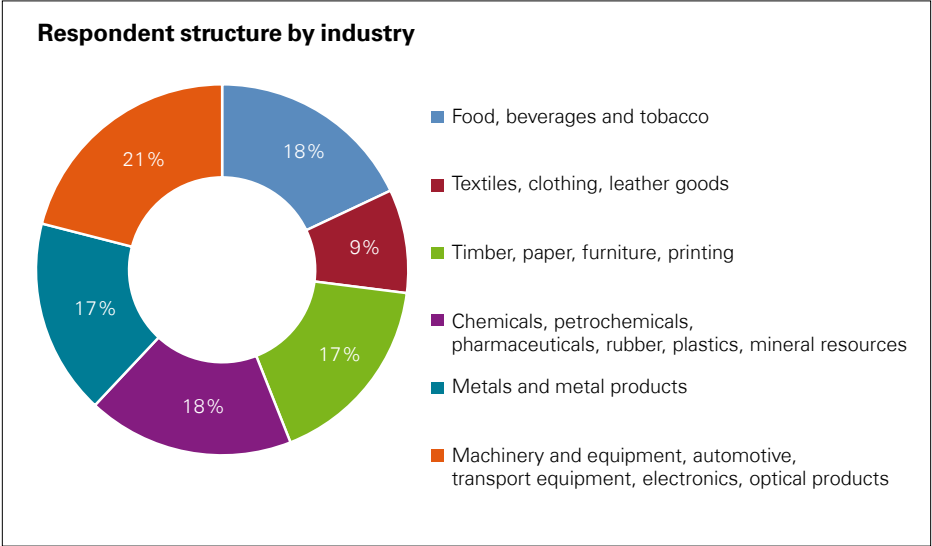
N = 190

Source: KPMG in Poland

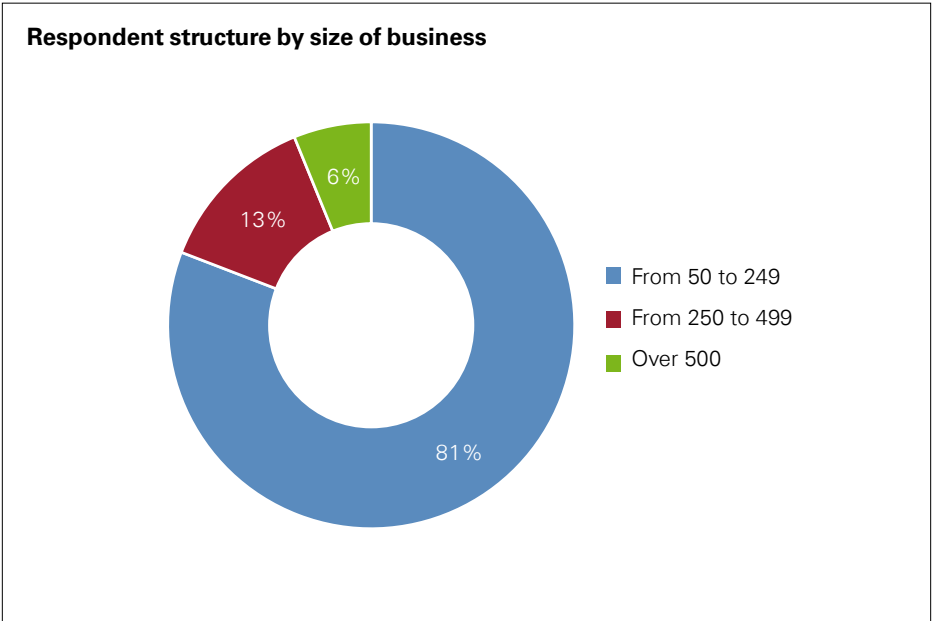
**A study among manufacturing companies**

In parallel with the investor study, interviews were held with companies from the processing sector. The fieldwork was performed by Norstat using CATI methodology.

In total, 308 interviews were completed. Surveyed companies were subdivided by type of business: a total of six industries were identified, all of which are part of the processing industry in Poland, with the size of the enterprise being an additional factor.



N = 308  
Source: KPMG in Poland



N = 308  
Source: KPMG in Poland







# 3

## Key Findings

### 2012 a year of stabilisation

Members of SEZ management boards expressed that 2012 was expected to witness stabilisation of operational and financial performance. If those expectations prove right, there will be a total of approximately 185 new business permits issued in 2012. This will mark a 2% decline versus 2011. In turn, according to respondents, the number of jobs in 2012 (accrued) would increase by only about 3%, exceeding 249,000 positions. If this forecast is realised, this would be the greatest increase since the start of our analysis. Nevertheless, 2012 would have seen only 8,000 new jobs reported whereas more than 16,000 new jobs were reported in 2011. The anticipated capital expenditures may reach over PLN 7.3 billion, which is nearly 13% up versus the preceding year and the highest value since 2009.

### Number of permits increasing in 2011

In 2011, the number of business permits issued in all the 14 SEZs in Poland amounted to 188, which was a nearly 6% increase on the preceding year. On the other hand, the number of jobs exceeded 241,000, up by 7% versus 2010. The level of capital expenditures stabilised: a 33% decline was recorded in this case for 2009. In 2011, the value of capital expenditures amounted to PLN 6.4 billion (3% less than in the preceding year). As many as 10 SEZs recorded positive dynamics in their financial performance versus 2010. Only one SEZ closed its financial year with a negative financial result.

### SEZs viewed positively by investors

In 2011, a total of 78% of investors positively rated the operation of special economic zones. This is by four percent points lower than in the the preceding year. There has also been a decline in the share of companies which rated the operation of an SEZ negatively. Only 4% of those surveyed negatively assessed their operation, whereas last year's study brought a figure of 7%. This year, investors rated the following zones highest: Starachowicka and Warmińsko-Mazurska.

### Investors interested in extending SEZ operations period

According to investors opinion, if the period of an SEZ's operation were extended by six years, i.e. until 2026, 73% of companies would plan their future investments (an increase of two percentage points compared to 2011). Last year's and this year's analysis by KPMG shows that an extension of SEZs by six years could drive capital expenditures by as much as PLN 40 billion.

### Manufacturing companies highly interested in SEZ investments

Nearly one in ten of the surveyed companies (9%) from the industrial processing sector are already present in a special economic zone, and 4.5% plan to enter an SEZ in the near future. Enterprises which are most interested in launching their operations in an SEZ represent the following industries: chemicals, pharmaceuticals, rubber, plastics and minerals.



**SEZ investors have no broad knowledge regarding SEZ competitiveness in other countries**

Before deciding to invest in a Polish SEZ, only one in four enterprises analysed special economic zone frameworks in other countries. The same question was

asked to management boards of SEZs. Nearly all boards had studied the investor support frameworks in special economic zones located in other countries and most of them indicate that Polish SEZs offer competitive terms of business.





## 4

## What are SEZs?

Currently, Poland has 14 special economic zones in operation. By the end of June 2012 Polish SEZs (in total) had issued nearly 1,500 business permits, entrepreneurs active in SEZs had invested over PLN 82 billion and employed over 240,000 people. Investors are attracted to special economic zones mostly thanks to their well-developed infrastructure, availability of skilled personnel and preferential terms of business.

The preferential terms of running a business within a special economic zone mean that investors can access incentives. Such assistance is allocated both in the form of income tax exemption, as well as real property tax exemption. The former exemption means that enterprises do not pay income tax on their earnings generated from an SEZ-based business between the date of the permit and the exhaustion of regional aid or the end of an SEZ's operation. The size of aid provided under income tax exemptions is limited by the amount of eligible costs and the maximum public aid intensity calculated for a particular area. Eligible costs are determined on the basis of the costs of a new investment or two years' worth of labour costs for newly employed staff. Incentive rates are computed as a percentage of eligible costs. The maximum thresholds are defined in the Council of Ministers' ordinance of 13 October 2006. In Poland, the values of that index are higher than those in other EU countries since Poland has lower GDP figures. Regional aid associated with business operations within an SEZ may also be allocated in the form of a real property tax exemption. Such an exemption is introduced by a municipal board, which needs to adopt a relevant resolution. The rules of this exemption are defined

in the Council of Ministers' ordinance of 5 August 2008 regarding conditions applied to exemptions from real property tax and from means of transport tax which represent regional investment assistance (Dz.U. – Official Journal of 2008, No. 146, item 927). The real property tax exemption is also granted under the so-called *de minimis* aid.

Initially, SEZs were established for a period of 20 years. An amendment to the SEZ Act of 30 May 2008 introduced significant changes to the SEZ legislative framework and the period of operation was extended until the end of 2020. Regrettably, the amendment applied only to those investors who obtained their SEZ business permits under secondary legislation to that Act, which became effective on 30 December 2008. The actual period of SEZ operation will become increasingly important for investors who choose a location for their new investments. The opportunity to use a tax exemption expires with the end of SEZ operation. Any revenue from an SEZ business that is entitled to a tax exemption is usually generated 18–24 months following the permit date. This means that an investor who receives an SEZ permit in 2015 will generate their first tax-exempt revenue in 2017 and will have merely three years to enjoy

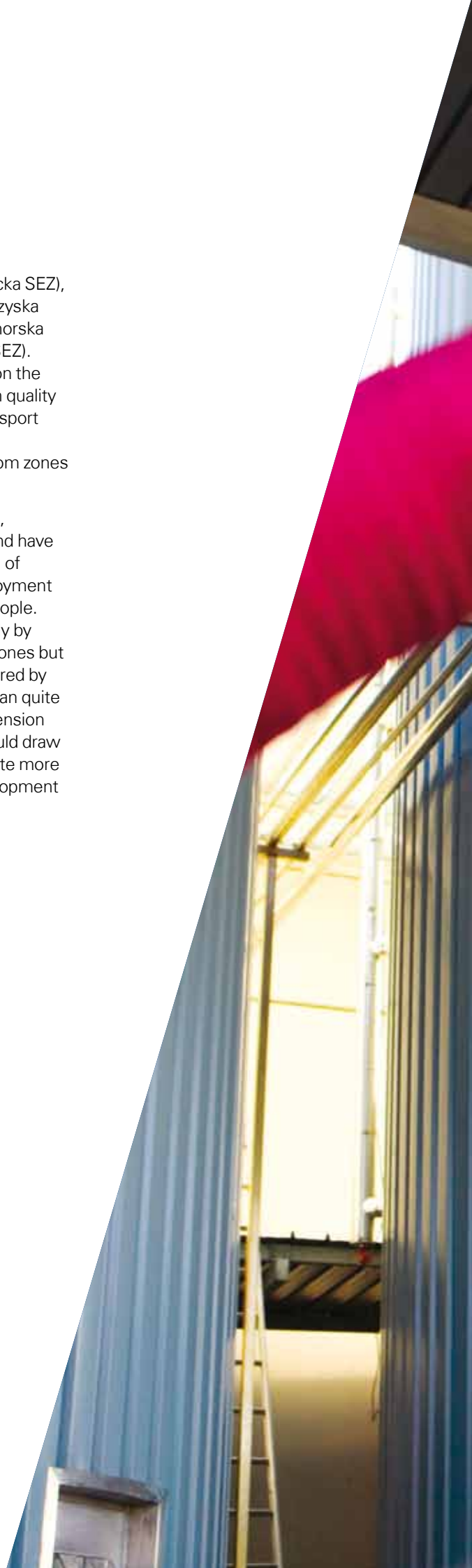
the exemption. It might well be the case that within the next 3–4 years tax exemptions will no longer be considered as an attractive element for those who choose a location for their investments. If special economic zones are to fulfil their role as areas that attract top investments to Poland, it is essential for the legislators to define a new, extended period of operation for special economic zones and to do so as soon as possible.

An alternative solution would be to introduce an unlimited exemption, with the management boards of each SEZ being vested with the competence to set the deadline for the exemption, depending on the size of the investment or the number of people employed.

The FDI Global Free Zones of the Future 2012/2013 report, published in late June 2012 and containing a ranking of the best 50 special economic zones, mentions as many as five Polish SEZs,

ranked as follows: 11th (Katowicka SEZ), 18th (Łódzka SEZ), 22nd (Wałbrzyska SEZ 'INVEST-PARK'), 35th (Pomorska SEZ) and 37th (Starachowicka SEZ). Authors of and commentators on the report have pointed out the high quality of infrastructure and dense transport networks: these characteristics distinguish the SEZ in Poland from zones in other regions.

Over their 15 years of existence, special economic zones in Poland have attracted billions of zlotys worth of investments, and offered employment to several hundred thousand people. The SEZ are appreciated not only by investors operating within the zones but also by authors of reports prepared by independent institutions. One can quite confidently assume that an extension of the SEZ operation period would draw more investors who would create more jobs and contribute to the development of the respective regions.











## 5

## Special economic zones in 2012

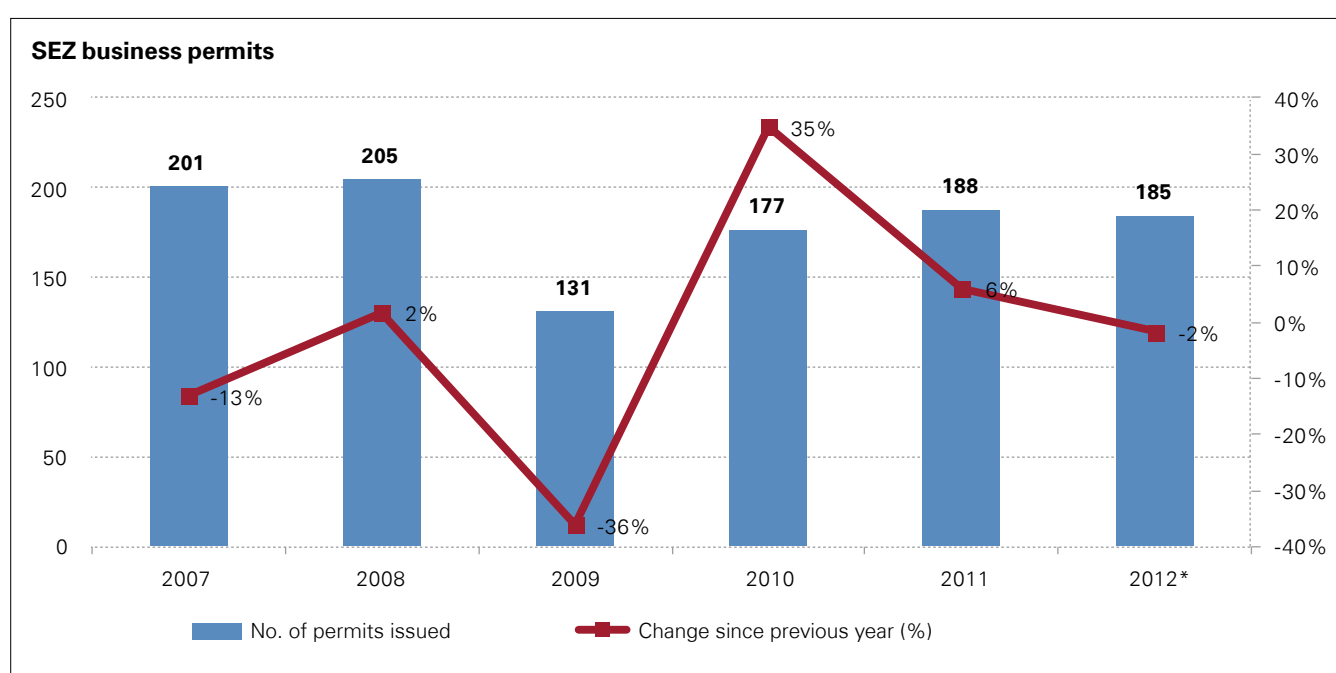
This section presents forecasts concerning the development of special economic zones in 2012. The openness of SEZ management boards in Poland who participated in our survey enabled us to analyse the number of business permits, the number of jobs and the size of capital expenditures in the zones.

### 5.1. Number of business permits

In 2011, a total of 188 permits were issued for business operations in special economic zones, which marked a 6% growth versus the preceding year. After a significant increase in the number of permits in 2010 versus 2009, which largely stemmed from a low base (for 2009) caused by the economic crisis, we are now witnessing a slowdown in the growth of the number of permits. If

management boards' declarations are correct, approximately 185 new permits will have been issued throughout 2012. This would be a slight decline (by two per cent) versus 2011. Presumably, the 2012 figure will not cross the threshold of the 200 new business permits which were issued in 2007–08.

In 2011, the largest number of new permits (22) was issued in Kostrzyńsko-Słubicka SEZ and Łódzka SEZ.



Source: KPMG in Poland based on Ministry of the Economy data and SEZ self-assessments

\* estimates

More than 20 permits were also issued in the Wałbrzyska SEZ. The year 2011 brought a lower number of permits issued versus 2010 for as many as a half of the zones. The smallest number of new permits was recorded for the Legnicka SEZ.

According to declarations made by management boards of SEZ, 2012 will close with the largest number of new permits being issued in the Katowicka (22), Krakowska and Wałbrzyska SEZs (20 in each). A decline in the number of permits issued is anticipated for the following zones: Łódzka, Słupska, Starachowicka, Tarnobrzyska, Wałbrzyska and Kostrzyńsko-Słubicka. The predicted decline is most marked in the latter SEZ (by nearly 60%). Responses regarding the Mielecka and Suwalska zones show that the number of permits issued in 2012 will remain nearly unchanged since 2011. The highest increase in the number of permits (by as much as 150%) is forecasted in the

Legnicka SEZ. Such a significant increase in the number of new business permits is closely connected, primarily, with the duration of the decision-making period. Many projects completed this year were actually initiated in the preceding year. Moreover, a few permits were issued for entities which are already operating within the Legnicka SEZ, and the new investments helped to boost production capacities of the existing facilities. Another issue is that investors were attracted to subzones which are not yet completely developed, i.e. Głogów and Okmiany. And, finally, the systematic outlays on technical infrastructure made by management boards are beginning to bear fruit.

## 5.2. Capital expenditures

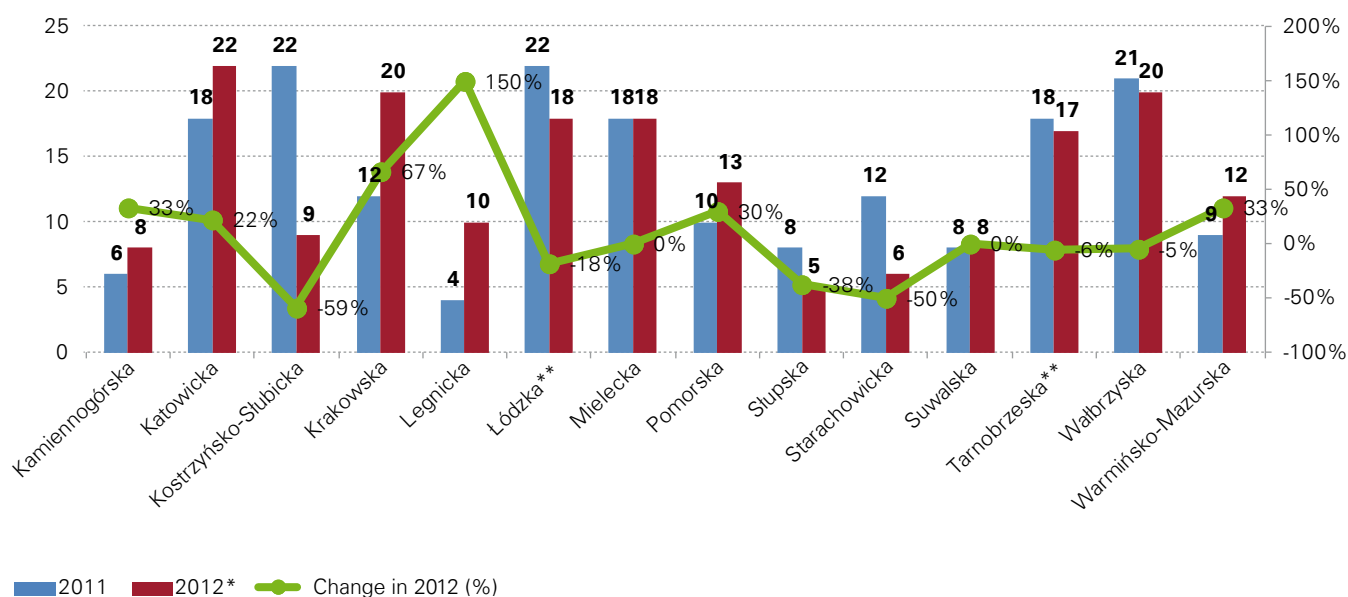
The total capital expenditures made in all the special economic zones in Poland

dropped by 3% in 2011 versus 2010.

One year earlier, there was a much more marked decline, by as much as 33%, so some stabilisation may now be apparent. Throughout 2011, capital expenditures totalled PLN 6.449 billion and SEZ management boards quite precisely predicted a decrease in those expenditures. The error rate in their forecasts was merely one percentage point, which demonstrates that the methodology adopted by KPMG was accurate. Therefore, we hope that our forecasts will prove equally accurate for 2012 as well.

According to the responses of SEZ management boards, capital expenditures should increase by approximately 13% in 2012, reaching PLN 7.3 billion. Analysis of the first half of the year shows that such growth is plausible.

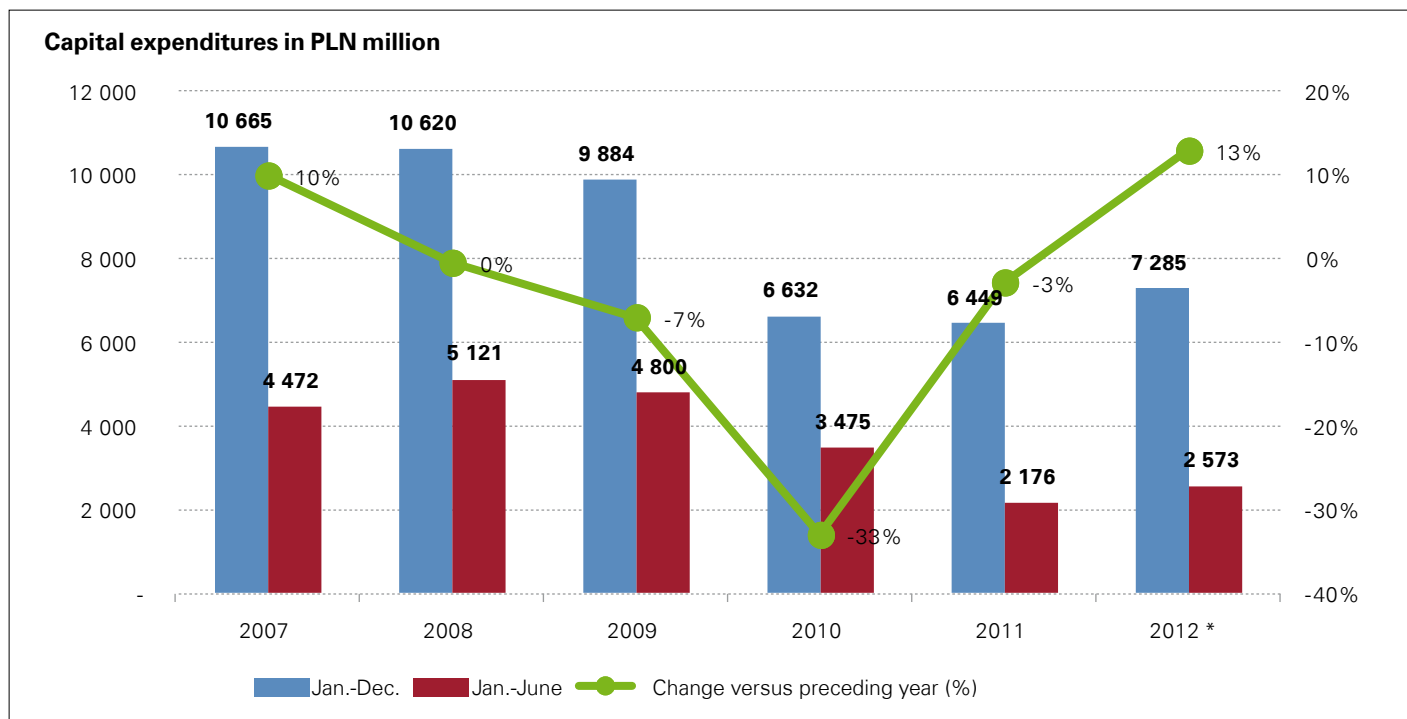
**No. of business permits issued in each SEZ**



Source: KPMG in Poland based on Ministry of the Economy data and SEZ self-assessments

\* Estimates

\*\* Values are an arithmetic mean of the minimum and the maximum value reported by SEZs.



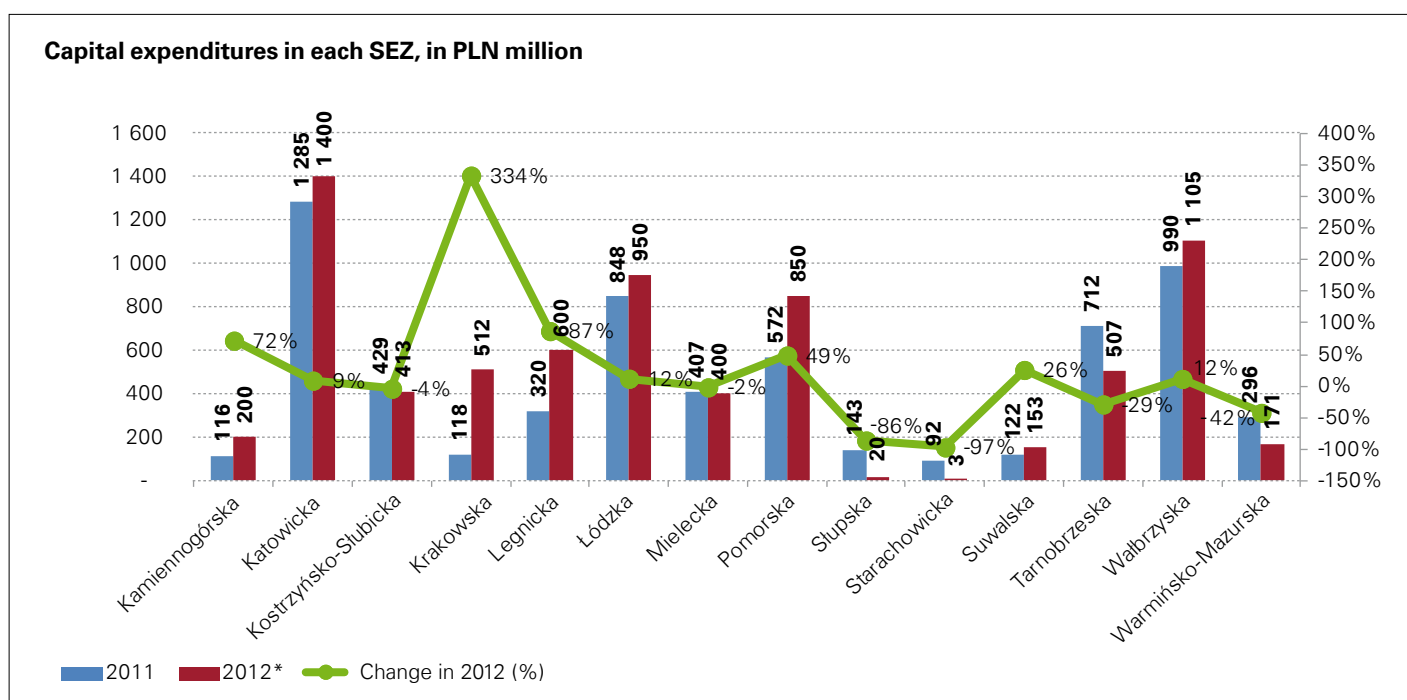
Source: KPMG in Poland based on Ministry of the Economy data and SEZ self-assessments

\* Estimates

In 2011, the Katowicka SEZ was the only one where capital expenditures exceeded PLN 1 billion (PLN 1.28 billion). The zones which approached this threshold included Wałbrzyska SEZ,

which reached capital expenditures of PLN 990 million, and Łódzka SEZ with PLN 848 million. The lowest capital expenditures in 2011 were reported by Starachowicka SEZ (PLN 92 million).

The size of special economic zones and their profiles have a considerable impact on the value of capital expenditures.



Source: KPMG in Poland based on Ministry of the Economy data and SEZ self-assessments

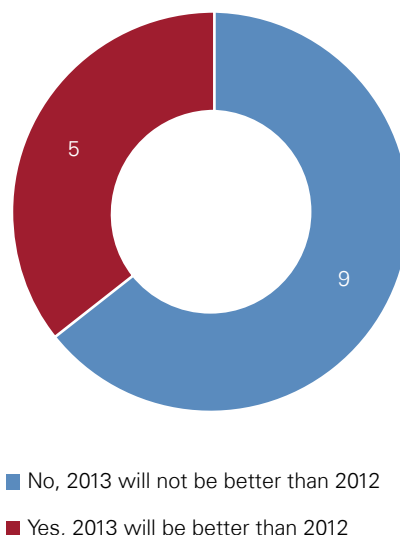
\* Estimates

Forecasts related to the size of capital expenditures for 2012 are generally positive, yet serious fluctuations are possible in some zones, from 97% to +334% versus the preceding year (among other factors, such high increases may result from a low base).

If management boards' predictions come true, the highest increase will be recorded in the Krakowska SEZ (+334%). According to management boards' estimations, at least PLN 1 billion may be invested in two zones: Katowicka and Wałbrzyska. The highest value of capital expenditures may be recorded in Katowicka SEZ (approximately PLN 1.4 billion). Six SEZs anticipate declines, with the most significant one likely to take place in the Starachowicka SEZ (down by as much as 97%).

Management boards of special economic zones were also asked if 2013 would be better than 2012 in terms of attracting new investors. Nine of them believed that 2013 would not be better than the preceding year. Only five zones held a different view.

**Will 2013 be better than 2012 in terms of capital expenditures?  
(according to SEZ management boards)**



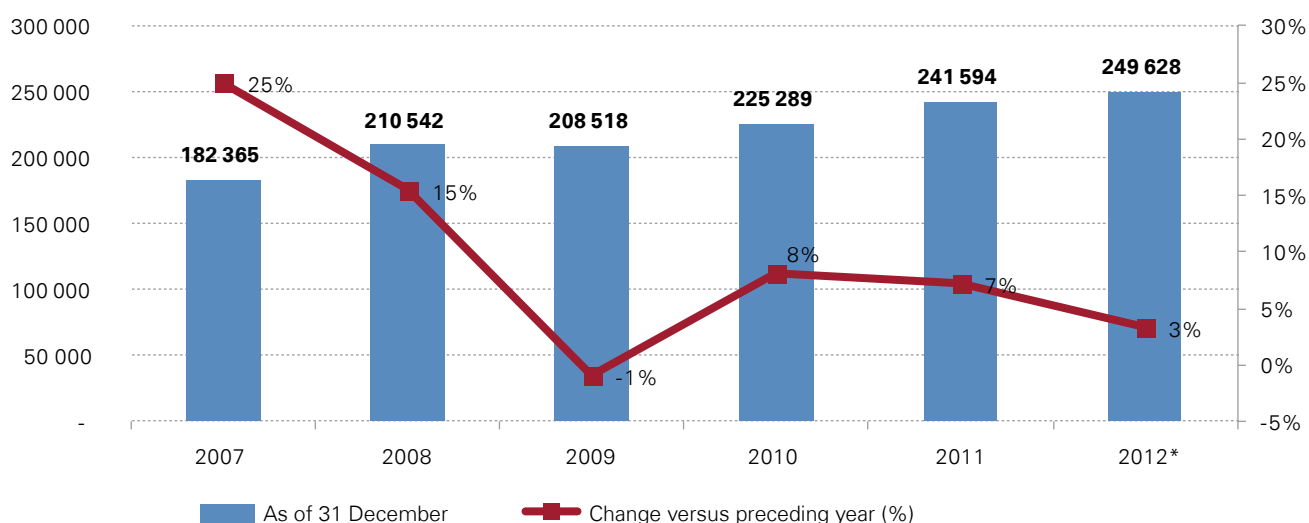
Source: KPMG in Poland

### 5.3. Number of jobs

In 2011, the number of people employed in special economic zones exceeded 240,000 and rose by 7% versus 2010.

The growth rate in new jobs within SEZs may gradually dwindle, mostly because of the approaching end of the effective period of the Polish SEZ Act. According to forecasts, the number of people employed in SEZs will increase by

**Employment in SEZs**



Source: KPMG in Poland based on Ministry of the Economy data and SEZ self-assessments

\* Estimates



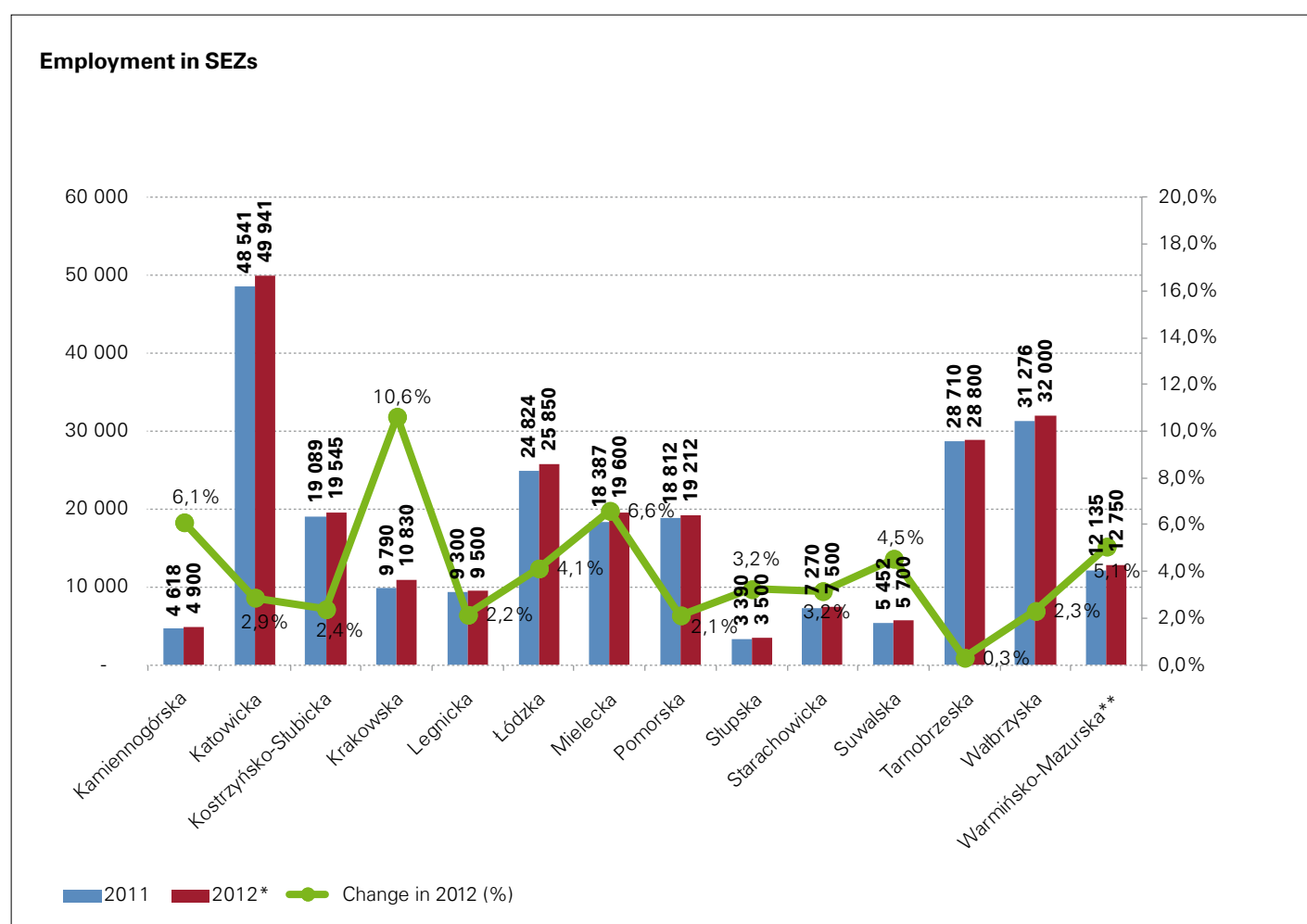
approximately 3% in 2012. We estimate that employment in SEZs may reach nearly 250,000 in 2012, which would be the highest figure since the launch of the zones.

In 2011, virtually all SEZs (except Pomorska and Suwalska) recorded an increase in the number of people employed within their territories. In absolute terms, the highest employment figures are recorded

for the Katowicka, Wałbrzyska, Tarnobrzaska and Łódzka SEZs. This results mostly from the number of investing enterprises and the size of those zones. In turn, the lowest employment was recorded for Słupska and Kamiennogórska SEZs.

The highest growth in new jobs for 2012 is anticipated for the Krakowska SEZ: by as much as 10.6%. No zone should experience a decline in employment

figures, according to those surveyed. However, the lowest growth rate, by about 0.3%, is anticipated in the Tarnobrzaska SEZ. According to forecasts, the highest employment, nearly 50,000 people, could be reached in the Katowicka SEZ.



Source: KPMG in Poland based on Ministry of the Economy data and SEZ self-assessments

\* Estimates

\*\* Values are an arithmetic mean of the minimum and the maximum value reported by SEZs.



## Key plans made by SEZs for the next 12–18 months<sup>2</sup>

During the next 12–18 months our company will be taking steps to maintain its current and previous rates of growth. All our measures will be aimed, among others, at encouraging our current investors to undertake reinvestments and at attracting new investors to our zone, based on the criterion of innovativeness. We also plan to include private areas into the zone, which means that investors are required to fulfil additional requirements in terms of employment, thus creating more jobs in the region. According to our estimates, we will soon finalise projects that our company has been working on for a few months. Among them is the planned completion of a strategic investor placement in the Zgorzelec subzone.

Considering our performance to date, especially in terms of new jobs and capital expenditures declared by investors, 2012 will be much better for us than 2011. Parameters concerning declared employment and capital expenditures will significantly exceed the ones achieved in 2011. In order to attract new areas to address entrepreneurs' future expectations, we have applied to the Ministry of the Economy for inclusion of new areas in Jawor, Bolków and Mirsk into the Kamiennogórska SEZ.

**Iwona Krawczyk**  
President of Management Board  
Kamiennogórska SEZ

We plan to complete the preparation of land for the industrial park in Ujazd, commence the preparatory works for the industrial park in Tucznawa, establish an industrial park next to the Pyrzowice airport and to continue

developing the Silesia automotive cluster.

**Piotr Wojaczek**,  
Prezes,  
Katowicka SSE

As regards our company's plans for the coming months, we will just continue our efforts to attract new investments. We plan even more active participation in conferences and investment seminars organised by Polish diplomatic posts and institutions responsible for promoting investments abroad, and we seriously hope for the involvement of WPHI (Section of Trade and Investment Promotion for Polish Embassies and Consulates). We plan to work with the collaborating COIE (Investor and Exporter Support Centres) and co organise promotional conferences in Poland and abroad. Of course, we will consistently expand real property for investment purposes which is under our management.

**Andrzej Kail**  
Marketing Director  
Kostrzyńsko-Słubicka SEZ

We are in the middle of expanding the area of the Krakowska SEZ. We want to enlarge the zone by 91.802 hectares in the near future. Adjustments will be made in the following subzones: Kraków-Podgórze, Zabierzów, Tarnów, Nowy Sącz, Zator and Skawina, and new subzones will be established in Trzebinia, Dąbrowa Tarnowska, Chrzanów and Czorsztyn. The expansion of our SEZ will enable us to attract major

investments and, consequently, to create many new jobs. If the expansion is successful, the companies we are negotiating with will hopefully invest another PLN 390 million and employ 900 more people. We should also remember that there are approximately 30 companies in the KPT Incubator. However, being small companies and/or start-ups, they operate without an SEZ permit. Next year, when the Małopolski Park of Information Technologies opens within our zone, 100 more ICT companies will establish themselves there.

**Krzysztof Krzysztofiak**  
Vice-President of KPT  
Krakowska SEZ

Our company's plans will focus on enhancing the appeal of the Legnicka SEZ as an investment destination, including steps such as adding more land plots, and improving the infrastructural facilities.

**Łukasz Maciejewski**  
Project Manager  
Legnicka SEZ

We hope that the expansion of the borders of our zone will be completed in early 2013. The procedure commenced in mid-2012 and the expected outcome would be to attract nine new investment projects. Moreover, in the first half of 2013 we will complete the revitalisation and expansion of a historic site in a former factory in Księży Młyn. This Łódź facility will offer office facilities and, most importantly, will house a new head office for our SEZ. The new building will also accommodate office space and conference venues which can be rented to BPO investors. We will continue our efforts to enhance our technical

<sup>2</sup>Comments from SEZ representatives. KPMG did not interfere with the content and only provided some editing and corrections.



infrastructure within the subzones and, more specifically the subzones in Łódź, Zgierz, Radomsko, Kutno and Zduńska Wola in 2013. Those efforts will be underpinned by the EU funding (over PLN 5 million) granted to our zone to upgrade the infrastructure of two investment sites: at Telefoniczna street in Łódź (13 hectares) and in Lućmierz near Zgierz (11.5 hectares).

**Tomasz Sadzyński**

President of Management Board  
Łódzka SEZ

*To expand our proposal for investors at the EURO-PARK Mielec SEZ: to incorporate other locations into our zone, to develop projects in new subzones, to continue developing vacant investment areas in the zone.*

*To enhance the availability of 'built-to-suit' as an alternative investment solution, i.e. to build manufacturing facilities at the expense of the zone management and to make them available to attract projects in our zone.*

*To intensify our marketing efforts in order to attract foreign direct investments (FDI).*

**Mariusz Błędowski**

Director of Industrial Development  
Agency in Mielec  
Mielecka SEZ

*One of the most important tasks for the coming year and beyond will be to continue the largest investment in the history of the Pomorska SEZ, i.e. the revitalisation of sites formerly occupied by the Gdynia shipyard and the construction of the Baltic Port of New Technologies. At the end of this year we will officially launch a modern office building with catering*

*and conference facilities for investors already operating in the former shipyard area and for all those who would like to invest there. We also plan to complete the upgrade and construction of the ex-shipyard infrastructure, i.e. the sewage and water supply system and rain gutter pipes, together with an essential reorganisation of the road network. The aim of this effort is to create a functionally new park of new technologies within the site of the former Gdynia shipyard as this would immediately boost growth in the entire region.*

*We want that state-of-the-art, nicely developed site to become a showpiece and the pride of Gdynia. Another new project undertaken by our company is the 3rd stage of the Gdańsk Science and Technology Park. In the coming months, we plan an official opening of this site, which is among the most cutting-edge biotechnology labs in Europe. When extended, the Park will provide business facilities for over 30 companies of various sizes, operating in various industries. We have targeted that project at institutions that support the development of our region. Importantly, while pursuing its development strategy, our company has endeavoured to incorporate new areas in the Pomorskie and Kujawsko-Pomorskie voivodships into our SEZ and to ensure further development of areas already included in the Pomorska SEZ. This will undoubtedly boost the appeal of investment areas offered to prospective investors. Moreover, for many years, our SEZ has been initiating and executing measures to enhance collaboration between vocational education institutions and investors from northern Poland located around our zone. Those activities are intended to improve the vocational education system through measures such as adapting curricula to the needs of the labour market, developing updated curricula, improving the quality of vocational education*

*and raising the profile of vocational education in the eyes of the public.*

**Teresa Kamińska**

President of Management Board  
Pomorska SEZ

*We have started implementing the last guidelines from our cluster policy.*

*The newly opened Słupsk Technology Incubator will provide fundamental support for many of our efforts.*

*We are establishing direct relations with municipalities in subzones aiming to adapt the investment areas, and, in particular, to ensure a complete set of utilities in those areas.*

**Leonard Ferkaluk**

Head of Investments  
Słupska SEZ

*Acquiring new, attractive and well-prepared investment areas. Improving the infrastructure in areas incorporated in the zone, in collaboration with local authorities.*

**Zarząd,**

Starachowicka SEZ

*The most important plans of the Suwalska SEZ for the coming months include our intention to achieve a positive financial result for 2012, to reinstate our capacity to intensify promotion and expenditures on the essential business infrastructure. Another important factor for our company would be to continue the existing system whereby local authorities take over the technical*



infrastructure, and to execute our application for the expansion of our zone. Our SEZ hopes to see the first effects of the Eastern Poland Promotion Programme and, therefore, an increased interest in direct investments in North-Eastern Poland. With all shareholders being involved, 2013 should bring a number of new investors, including a strategic investor. This will be possible after the zone has achieved a competitive advantage such as an extension of its period of operation, or a more favourable validity period for business permits. Our company intends to maintain its good performance with regard to employment and the size of capital expenditures per 1 hectare and to issue about the same number of permits as in 2012.

**Wojciech Kierwajtys**

Vice-President of Management Board  
Suwalska SEZ

Our positive experience and performance to date gives us a reason to build more industrial facilities within our SEZ, including manufacturing halls and warehouses. Based on the intentions of the zone manager, this will lead to the launch of minimum three projects of this kind within the Mazowsze and Podkarpacie regions. One of them will be associated with a large investment undertaking concerning science & technology parks.

**Marek Indyk**

ARP Director in Tarnobrzeg,  
Tarnobrzaska SEZ

Measures aimed at improving the appeal of the investment areas, such as construction, or participation in the construction, of a much needed technical infrastructure which is essential to implement investment projects under the relevant permits. Collaboration with local authorities, aimed to bring joint promotional efforts, and expansion of the areas incorporated into the zone (only land with full infrastructure). Expanding our investment proposal through new land development activities (industrial construction). Transforming our SEZ into an efficient and sought-after intermediary in dealing with real property for investment purposes. Continuing and enhancing the collaboration with the Kaliningrad Province, with a focus on Russian entrepreneurs who are interested in running a business in Poland, in particular within the Warmińsko-Mazurska SEZ.

**Marcin Kuchciński**

New Investors Department  
Warmińsko-Mazurska SEZ



## 6

## Perceived performance of SEZs

This section presents a summary of the operational and financial performance of special economic zones in Poland. Since our analysis has been conducted over the course of several years, we can compare zones' achievements over a longer period of time.

The summary table presented here is not ranking of SEZs, nor does it aim to place the zones in order of performance, from best to worst. Since each zone operates under varying conditions, some parameters are impossible to compare. We recommend that these results should be analysed for each SEZ separately since, for instance, the largest zones may achieve better results in absolute terms whereas smaller ones might attain higher growth rates.

The summary table covers the 19 most important operational and financial indices. Each zone was given one of the following scores:

- higher than average – when the result exceeded the average by more than 25%;
- lower than average – when the result fell under the average by more than 25%.

One exception was the index concerning the area utilised, where the threshold was set as +/- 10% of deviation from the mean. A different methodology was adopted for indices labelled as 'change in the number of jobs in 2010–2011' and 'change in financial performance in 2010–2011'. An increase was considered a positive phenomenon in itself, and a decline was viewed as a negative one (regardless of its scale).

As in the previous editions of our report, absolute values (e.g. the number of permits, the number of jobs) were included in the final score with a weight of 0.5, whereas the values which reflect a growth rate or efficiency (e.g. a rate of new job creation) were given a weight of 1.0. The summary table does not cover indices related to promotional expenses made by each zone.

| As of 31 Dec. 2011   | Business permits issued, total | Business permits issued, per 1 ha | Growth rate of permits, 2010–2011 | Number of permits issued in 2011 | Number of permits issued in 2011, per 1 ha (%) | Capital expenditures, total (PLN million) | Change in capital expenditures, 2010–2011 | Number of jobs, total | Change in number of jobs, 2010–2011* | Total area of the SEZ (ha) | Area utilised (in %)** | Capital expenditures in PLN million per 1 ha of area utilised | Number of jobs per 1 ha of area utilised | Capital expenditures per 1 job (PLN million) | Expenditures on infrastructure (accrued, PLN million) | Expenditures on infrastructure in 2011 (PLN million) | Expenditures on infrastructure (accrued, per 1 ha of total area) (PLN million) | Financial result in 2011 (PLN '000)*** | Change of financial result, 2010–2011* | A. Total of higher-than-average scores | B. Total of lower-than-average scores |
|----------------------|--------------------------------|-----------------------------------|-----------------------------------|----------------------------------|--|---|---|-----------------------|--------------------------------------|----------------------------|------------------------|---|--|--|---|--|--|--|--|--|---------------------------------------|
| Waga:                | 0,5                            | 1,0                               | 1,0                               | 0,5                              | 1,0  | 0,5                                       | 1,0                                       | 0,5                   | 1,0                                  | 0,5                        | 1,0                    | 1,0   | 1,0                                      | 1,0  | 0,5   | 0,5  | 1,0  | 0,5                                    | 1,0                                    |  |                                       |
| Kamiennogórska       | 50                             | 0,136                             | 8,70%                             | 6                                | 1,63%  | 1 667,20                                  | 7,50%                                     | 4 618                 | 6,20%                                | 367,14                     | 51,74%                 | 10,12   | 28                                       | 0,36   | 20,10   | 0,60   | 0,05   | 492,10                                 | 63,92%                                 | 3,5                                    | 5,5                                   |
| Katowicka            | 211                            | 0,109                             | 4,98%                             | 18                               | 0,93%  | 18 154,60                                 | 7,60%                                     | 48 541                | 11,70%                               | 1 929,15                   | 54,45%                 | 20,21   | 54                                       | 0,37   | 371,20  | 24,30  | 0,19   | 6 018,10                               | 14,42%                                 | 8,5                                    | 3,0                                   |
| Kostrzyńsko-Słubicka | 124                            | 0,085                             | 10,71%                            | 22                               | 1,51%  | 4 215,50                                  | 11,30%                                    | 19 089                | 10,60%                               | 1 454,47                   | 59,86%                 | 7,62  | 34                                       | 0,22   | 189,40  | 50,30  | 0,13   | 6 483,00                               | 205,97%                                | 5,0                                    | 2,5                                   |
| Krakowska            | 66                             | 0,118                             | 13,79%                            | 12                               | 2,15%  | 1 773,80                                  | 7,10%                                     | 9 790                 | 9,60%                                | 558,72                     | 60,40%                 | 6,65  | 37                                       | 0,18   | 153,20  | 103,80   | 0,27   | 488,30                                 | 8,10%                                  | 6,0                                    | 4,0                                   |
| Legnicka             | 49                             | 0,047                             | -7,55%                            | 4                                | 0,38%  | 4 889,00                                  | 7,00%                                     | 9 300                 | 5,60%                                | 1 041,84                   | 27,05%                 | 23,71   | 45                                       | 0,53   | 53,60   | 2,20   | 0,05   | 2 897,80                               | 104,42%                                | 5,5                                    | 7,5                                   |
| Łódzka               | 154                            | 0,121                             | 8,45%                             | 22                               | 1,72%  | 9 033,10                                  | 10,40%                                    | 24 824                | 6,80%                                | 1 276,63                   | 67,68%                 | 11,77   | 32                                       | 0,36   | 281,30  | 30,70  | 0,22   | 6 234,80                               | -2,67%                                 | 6,5                                    | 1,0                                   |
| Miejska              | 162                            | 0,130                             | 8,00%                             | 18                               | 1,44%  | 5 097,00                                  | 8,70%                                     | 18 387                | 11,30%                               | 1 246,00                   | 68,03%                 | 11,86   | 43                                       | 0,28   | 302,00  | 34,20  | 0,24   | 7 623,80                               | 20,15%                                 | 6,5                                    | 0,0                                   |
| Pomorska             | 85                             | 0,065                             | 13,33%                            | 10                               | 0,76%  | 7 298,90                                  | 8,50%                                     | 18 812                | -2,40%                               | 1 314,63                   | 74,32%                 | 8,76  | 23                                       | 0,39   | 301,10  | 12,50  | 0,23   | 1 708,60                               | -92,53%                                | 4,5                                    | 6,0                                   |
| Śląska               | 52                             | 0,130                             | 15,56%                            | 8                                | 1,99%  | 1 106,50                                  | 14,80%                                    | 3 390                 | 26,40%                               | 401,09                     | 60,64%                 | 7,04  | 22                                       | 0,33   | 70,90   | 31,80  | 0,18   | 3 130,50                               | 102,36%                                | 6,0                                    | 5,0                                   |
| Sarachowicka         | 73                             | 0,119                             | 4,29%                             | 12                               | 1,96%  | 1 621,00                                  | 6,00%                                     | 7 270                 | 14,50%                               | 612,91                     | 62,78%                 | 6,91  | 31                                       | 0,22   | 9,70  | 2,10   | 0,02   | 438,00                                 | 229,82%                                | 3,5                                    | 8,0                                   |
| Suwałska             | 60                             | 0,175                             | 7,14%                             | 8                                | 2,33%  | 1 596,70                                  | 8,30%                                     | 5 452                 | -0,30%                               | 342,77                     | 71,16%                 | 11,73   | 40                                       | 0,29   | 22,70   | 0,00   | 0,07   | -1 295,50                              | 29,88%                                 | 4,0                                    | 6,0                                   |
| Tarnobrzęska         | 135                            | 0,085                             | 11,57%                            | 18                               | 1,13%  | 6 792,90                                  | 11,70%                                    | 28 710                | 3,20%                                | 1 587,78                   | 64,64%                 | 9,95  | 42                                       | 0,24   | 249,70  | 35,40  | 0,16   | 8 852,70                               | 84,35%                                 | 7,5                                    | 1,0                                   |
| Wałbrzyska           | 174                            | 0,084                             | 9,43%                             | 21                               | 1,01%  | 13 095,00                                 | 8,20%                                     | 31 276                | 4,10%                                | 2 073,72                   | 60,98%                 | 11,74   | 28                                       | 0,42   | 361,80  | 10,80  | 0,17   | 8 575,50                               | -62,24%                                | 5,5                                    | 2,5                                   |
| Warmińsko-Mazurska   | 71                             | 0,085                             | 7,58%                             | 9                                | 1,07%  | 3 328,90                                  | 9,70%                                     | 12 135                | 14,90%                               | 838,94                     | 71,75%                 | 6,65  | 24                                       | 0,27   | 129,50  | 4,70   | 0,15   | 219,80                                 | -10,32%                                | 2,5                                    | 7,0                                   |
| średnia              | 105                            | 0,106                             | 8,28%                             | 13                               | 1,43%  | 5 690,72                                  | 9,06%                                     | 17 257                | -                                    | 1 074,70                   | 61,11%                 | 11,05   | 35                                       | 0,32   | 179,73  | 24,53  | 0,15   | -                                      | -                                      | 5,4                                    | 4,2                                   |

Source: Analysis by KPMG in Poland based on report from the Polish Ministry of Economy entitled 'Information on progress in implementing special economic zones, as of 31 December 2011' (Original Polish title: Informacje o realizacji ustawy o specjalnych strefach ekonomicznych. Stan na 31 grudnia 2011 r.), Ministry of the Economy, Warsaw, May 2012, and information sourced from the website of the Polish Ministry of the Economy.

■ score by more than 25% below the mean for all SEZ (exceptions described below)

■ score by more than 25% above the mean for all SEZ (exceptions described below)

□ +/- +/-25% versus the mean for all SEZ (exceptions described below)

■ Increase – positive value (pale blue); Decline – negative value (dark blue).

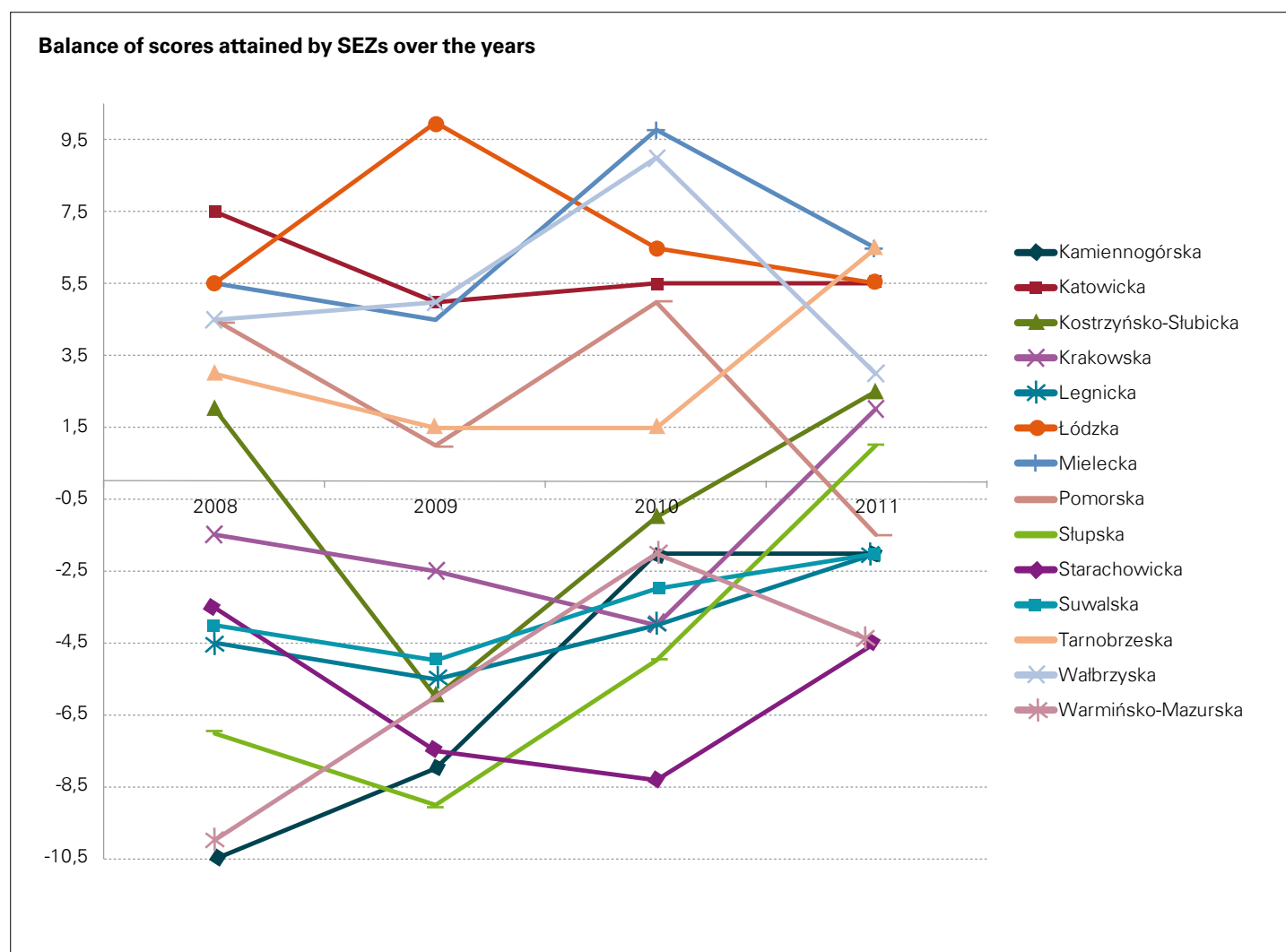
\*\* Area utilised (%): by more than 10% above the mean for all SEZ (pale blue); by more than 10% below the mean for all SEZ (dark blue).

\*\*\* Financial result: positive value – pale blue; negative value – dark blue.

Based on the summary table we can say that 2011 was another year of growth for most SEZ. This can be seen primarily from the growth in the mean values of indices analysed for all the SEZ. The mean of higher-than-average scores rose by 0.1 point in comparison with 2010. Meanwhile, the mean of lower-than-average scores fell from 4.7 to 4.2.

When analysing the balance of results (equal to the total of higher-than-average scores minus the total of lower-than-average scores) attained by SEZs in the past years we can identify three groups of zones. The first group consists of those where the balance of scores had always been above zero (i.e. in 2008–2011), i.e. positive. This group includes the Łódzka, Mielecka, Katowicka, Wałbrzyska and Tarnobrzaska SEZs. The second group

comprises zones which have improved their scores and advanced to the group of zones with a positive balance in 2011, i.e. Kostrzyńsko-Słubicka, Krakowska and Słupska. The latter demonstrated especially impressive performance (from 9 in 2009 to +1 in 2011). The remaining zones attained a negative balance in terms of their performance.



Source: KPMG in Poland based on data from the Ministry of the Economy

In terms of financials, 2011 ended as an impressive success. As many as ten special economic zones recorded a positive growth rate in their financial

result versus 2010. The highest leap in financial performance took place in the Kostrzyńsko-Słubicka SEZ. Only one

special economic zone closed the year with a negative figure (Suwalska SEZ).



## Comments from SEZ managers on the economic and financial situation in their respective zones<sup>3</sup>:

*It is important to emphasise that the Kamiennogórska SEZ has a relatively limited area, which is why our profits, outlays on infrastructure and the number of permits issued are strictly related to the relatively small area we operate in. For this reason, if we look at the aggregate results and totals in the summary tables, or conduct any analysis without considering the characteristics of each zone and its location, we will not get a true picture of the situation. For the same reason, any comparisons between small zones and those operating on much larger areas or in large urban centres might bring all SEZs to a common denominator, which would not reflect the real situation of smaller zones, operating in more challenging locations. Despite running our activities on such a small area, our investors noticed some improvements in 2011. Our company managed to retain the dynamics of the ongoing projects (six permits were issued), which translated positively into employment and capital expenditures parameters and into our financial result. At the end of 2011, employment in our SEZ was 6.05% higher than in 2010, whereas the actual capital expenditures incurred by entrepreneurs rose by 749%. Also, the financial result achieved by our company in 2011 rose by 64% vis-à-vis 2010.*

**Iwona Krawczyk,**  
President of Management Board  
Kamiennogórska SEZ

*Our company has seen exceptionally high sales thanks to a large number of transactions involving our own real property, and achieved a two-digit profitability rate something that was typically achieved by our company in the past. The revenues*

*generated in 2011 reached nearly PLN 48 million and profits exceeded PLN 6 million.*

**Piotr Wojacek,**  
President of Management Board  
Katowicka SEZ

*The 2011 economic performance reflects our consciously adopted strategic guidelines. Since our zone is located in north-western Poland we need to be patient while waiting for entrepreneurs' decisions. The negotiations we have conducted span over a few years and the preparation of a project currently bears a high business risk. The global crisis has by no means facilitated investment decisions. In this market situation, our company decided to develop new areas, spend funds to enhance our technical infrastructure and focus on taking subsequent marketing steps aimed at bringing the current negotiations to a close and initiating new ones. The profile of our business, however, does not leave us very optimistic. Realistically speaking, 2012 may turn out to be much worse than 2011 and 2013.*

**Andrzej Kail,**  
Marketing Director  
Kostrzyńsko-Słubicka SEZ

*Ever since its early days, the KPT has effectively combined the role of a technology park with that of a special economic zone. As such, the Krakowska SEZ has attracted investment companies with a very particular profile. The prevailing group of investors operate within the IT industry and outsourced services, and they do not generate huge capital expenditures nor do they occupy much space, unlike major industrial operations.*

*Our strategy is evolving towards developing infrastructure for a technology park. This entails investments, including the ongoing construction of the Małopolski Park of Information Technologies. It should be stressed that tasks executed by the KPT are largely EU-funded, and this directly translates into our company's financial results. It is also important to bear in mind that the Krakowski Technology Park does not own the areas which have the status of a special economic zone. Consequently, we cannot bear costs associated with the development of infrastructure. The related costs are borne by the municipalities. However, our KPT does not leave them without support. We help the municipal authorities in raising EU funding available for such purposes within regional operational programmes. It is also worth adding that towards the end of 2011 we issued 100 business permits for the Krakowska SEZ. By doing this, we fulfilled our strategic guidelines for 2009–2013.*

**Krzysztof Krzysztofiak,**  
Vice-President of KPT  
Krakowska SEZ

*In many ways, 2011 turned out to be better than the previous year. Our company's financial performance improved considerably, despite significant expenditures on the construction and maintenance of technical infrastructure. The deterioration of the economic situation across Europe did not affect investors' interest in the Legnicka SEZ, which was reflected in the increasing number of permits issued in 2012. We will continue to focus on improving the quality of our investment land, especially within the Komorniki-Miękinia subzone, which is Poland's largest homogenous investment area (nearly 500 hectares),*

<sup>3</sup> KPMG did not interfere with the content and only provided some editing and corrections.

attracting the attention of major foreign corporations.

**Adam Grabowiecki, PhD**

President of Management Board  
Legnicka SEZ

Admittedly, 2011 was another successful year for the Łódzka SEZ. As regards our statutory activities, our zone attracted 22 investment projects, with capital expenditures and employment parameters not being worse than those in the previous periods. It is worth noting that a large share of those projects were implemented by companies associated with the Łódzka SEZ, among them Indesit Company Polska, Gillette Poland, BSH Sprzęt Gospodarstwa Domowego, Ceramika Paradyż or Correct. Importantly, we succeeded in attracting two projects from state-of-the-art IT services and they will be conducted in Łódź by AMG. lab and Ericpol Telecom. As regards our company's financial performance, we are glad that it has remained at a level close to that of 2010, given our capital-intensive infrastructural investments.

**Tomasz Sadzyński,**

President of Management Board  
Łódzka SEZ

We can say that the Mielecka SEZ maintained its stable upward trend in 2011. Some projects will involve new permits to businesses which are already operating within our zone (approximately 30% of all permits granted in 2011). Less satisfactory is the number of foreign direct investments (FDI) attracted, i.e. the number of permits issued to foreign entrepreneurs. Last year we did not issue any permits for large projects. From the perspective of the zone and the region, the change in the number of jobs (11.3%) is a very positive development, despite

the crisis which is still affecting some manufacturing sectors. In our view, the economic and financial performance of our SEZ has been affected by the overall uncertainty and the resulting caution exercised by many investors. This prevents them from making any serious commitments – all this is due to the fact that no decision has been made as to the possible extension of the SEZ period of operation. This affects, above all, major projects which could be launched by foreign investors.

**Mariusz Błędowski,**

Director of Industrial Development Agency  
in Mielec  
Mielecka SEZ

The Pomorska SEZ offers attractive terms for investment despite the crisis. This is reflected, among others, in the fact that in 2011 we were approached by ten new entrepreneurs who intend to undertake investments worth over PLN 337 million. It is important to stress that capital expenditures incurred by our investors in 2011 exceeded PLN 7 million. When analysing the investment efficiency of our zone, it is important to emphasise that the Pomorska SEZ is mostly based on major manufacturing investments. This is reflected in the relatively small number of permits issued per 1 hectare of area and the number of jobs per 1 hectare of area utilised. As regards the change in the financial result, worth stressing is that 2011 did not differ much from the regular situation. On the other hand, the 2010 financial result was higher than normal. As managers of the Pomorska SEZ, we do our best to improve the appeal of our areas as investment destinations. In previous years, we adopted decisions regarding an innovative business project i.e. the establishment of the Baltic Port of New Technologies within sites of the former Gdynia shipyard. We expect this to boost the entrepreneurial spirit in the Pomerania region. In 2011

we launched another building of the Gdańsk Science & Technology Park which offers modern office facilities and technology space, furnished with ICT infrastructure.

**Teresa Kamińska,**

President of Management Board  
Pomorska SEZ

The growth in the number of permits issued in 2010–2011 is not too high but the number of permits issued in 2011 is an average of what we achieved in recent years. We believe that the growth in the number of jobs is reasonable and proportionate with that observed in previous years. We have made endeavours to expand the area of our zone. The rate at which the zone area is being developed is not satisfactory, but the foundations to enlarge the zone are already there.

**Leonard Ferkaluk**

Head of Investments  
Ślupska SEZ

We welcome the improvement of our company's financial standing in the past year and the increased number of jobs within the zone despite the ever more perceptible signs of crisis. In 2011, the Starachowicka SEZ changed its boundaries and, consequently, the degree of its development changed as well. In that situation, we cannot reliably compare the level of development between 2010 and 2011. With regard to expenditure on infrastructure, let me emphasise that our zone is well equipped (cf. KPMG reports of 2008, 2009 and 2010). Therefore, it does not require high expenditures from either zone managers or entrepreneurs. As managers, we try to incorporate the areas which were prepared for investments by their owners (such as municipal authorities). This radically

*shortens the time needed to establish an investment and makes real property more attractive. We would like to point out that the municipality of Kielce made multi-million PLN outlays on the construction of the Kielecki Technology Park in a newly established subzone.*

**Management Board,**  
Starachowicka SEZ

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*In the course of 2011 our Company halted a downward trend and recorded an improvement of approximately 30%. A result which is fully satisfactory for the shareholders will be attained towards the end of 2012. The year 2011 saw an increase in all significant indices determining the mission of our company. We issued more permits, and there were increases in the number of jobs and investments. In this respect, the company produces a social dividend for the local communities, reducing unemployment and providing economic stimuli for those regions that need them most. This is why I would assess the year as good, considering the challenging conditions that have affected our operations.*

**Wojciech Kierwajtyś,**  
Vice-President of Management Board  
Suwalska SEZ

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*In my view, the performance achieved by our zone has been very positive: as many as 11 indices are more than 25% higher than the mean and only one parameter, i.e. capital expenditures per one job, is lower than the mean value for the zones. The Tarnobrzaska SEZ continues to maintain a relatively high growth rate in the number of permits and a capital expenditures, yet we are still observing a trend involving projects which have relatively low employment ratios. The managing company of our*

*SEZ have also attained good financial results from its operations, which gives us an optimistic outlook on the development plans for the Tarnobrzaska SEZ in the coming years.*

**Marek Indyk,**  
Director of Industrial Development Agency  
Tarnobrzaska SEZ

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*In comparison with 2010, the year 2011 brought a reduced rate of capital expenditures in parallel with a strong increase in the employment rate. This can be explained by referring to the lack of new investments from major companies (one reason may lie in the poorer road infrastructure of our region). Most investments are executed by local companies which might not put significant sums of money in investments yet do create new jobs.*

*There has been a significant increase in capital expenditures on infrastructure and this figure is much higher than the country's average. This demonstrates the efforts undertaken by our zone and by the local authorities to enhance the appeal of investment areas.*

**Marcin Kuchciński,**  
New Investors Department  
Warmińsko-Mazurska SEZ

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## 7

## SEZs as seen by businesses operating within them

Our study conducted with SEZ investors provides a subjective assessment of the zones from the perspective of enterprises operating within them.

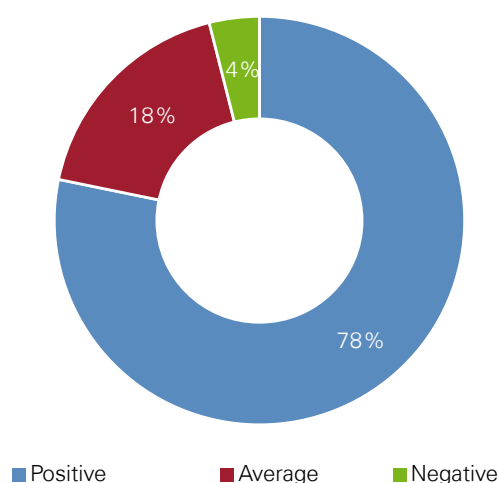
### 7.1. Perception of SEZ operations and investors' current standing

As in previous years, we asked enterprises operating within Polish special economic zones to provide a subjective assessment of the operation of their respective zones on a five-point rating scale ('very good', 'good', 'average', 'poor', 'very poor'). The

top two answers were aggregated into 'positive', while the bottom two into the 'negative' category.

This year, the number of respondents who rated their SEZ positively dropped by four percentage points (78%). Also, there was a decrease in the share of companies negatively assessing the operation of their SEZ. Only 4% of those surveyed expressed a negative view, whereas the respective percentage in the previous year's study was 7%.

**Investors' subjective perception of SEZ performance**



N=190

Source: KPMG in Poland

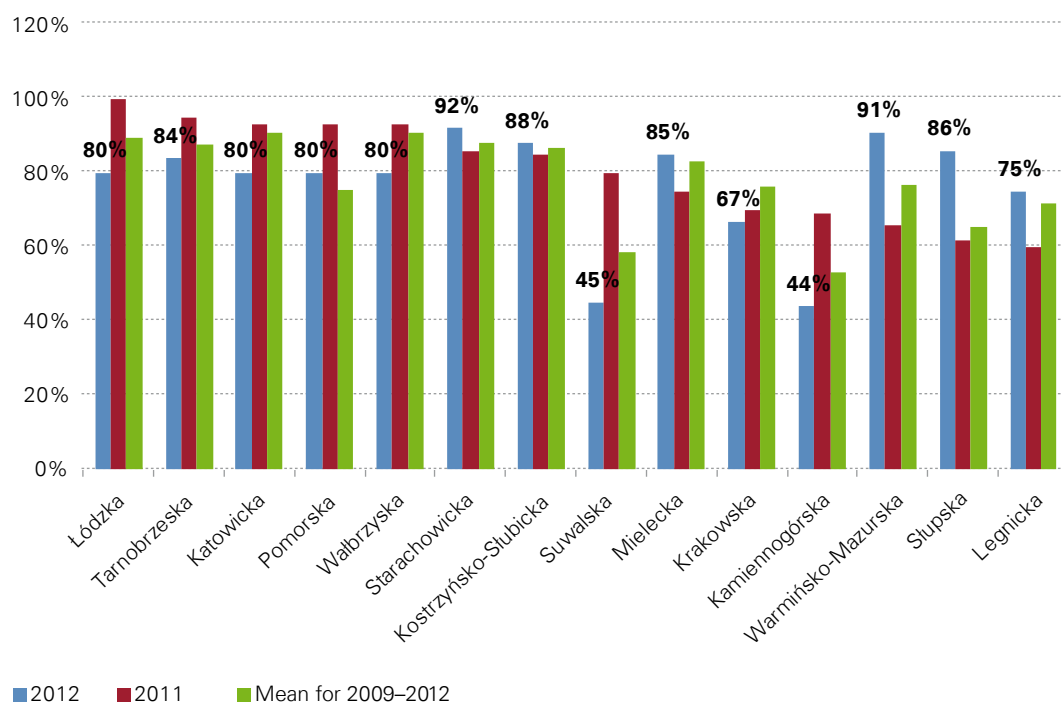


Reviewing investors' opinions on the zones, we can see that the results differ from those recorded last year. None of the zones was rated positively by all the investors surveyed this year whereas the Łódzka SEZ managed to achieve this result last year. In 2012, the

highest numbers of positive mentions were recorded for: Starachowicka (92%) and Warmińsko-Mazurska SEZ (91%). The lowest numbers of positive ratings were given to Kamiennogórska (44%) and Suwalska SEZ (45%).

Eight of the surveyed zones performed worse than last year, while six improved their position. Considering the mean scores assigned by investors in recent years (2009–2012), the Łódzka, Wałbrzyska and Katowicka SEZs are the top performers.

#### Investors' positive ratings of the performance of their respective SEZ



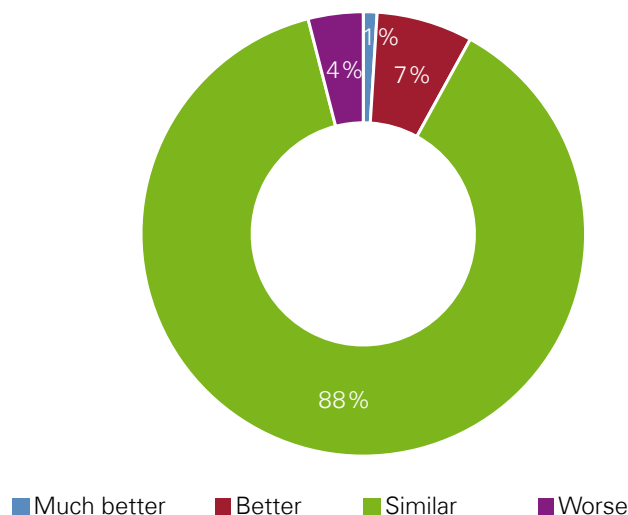
N=190

Source: KPMG in Poland

As many as 88% of the surveyed companies (the same ones as in 2011) said that their rating was similar to that given one year earlier. In turn, 8% rated their zone better or much better. The percentage of the respondents giving such responses shrank by two percentage points compared with responses from 2011.

Only 4% of the respondents decided that their SEZ was performing less satisfactorily than a year earlier, but none of the surveyed companies felt their SEZ operated 'much worse'.

#### In comparison with last year, how would you currently assess the SEZ you operate in?



N=190

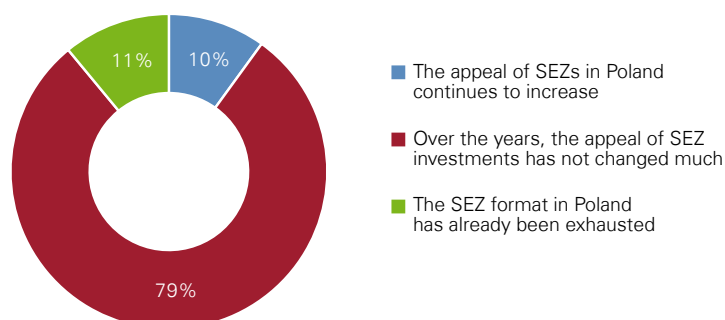
Source: KPMG in Poland

In most cases, the surveyed investors unanimously claim that the attractiveness of SEZ investments has not changed significantly over the years. One in ten investors believes that the appeal of SEZs in Poland is continuing to rise. A slightly larger group of the respondents (11%) believe that the SEZ format in Poland has already 'exhausted itself'. This may reflect enterprises' strong attachment to their business being supported within a SEZ.

Investors operating within an SEZ were asked for an overall assessment of their business standing. A very good rating was given by 13% of the respondents and more than a half of the participating enterprises assessed their situation as good. In turn, 22% of those surveyed in 2012 feel their standing is average, 8% see it as bad and 2% as very bad. This indicates that the standing of enterprises operating within special economic zones seems to be good. Based on their experience and reflections regarding SEZs, investors were asked about a hypothetical situation where they would consider bringing their investment to the current SEZ if that SEZ were not there. The largest group of respondents (42%) would probably not decide to choose their current location if the area was not part of a special economic zone.

On the other hand, 15% of those surveyed claimed they would certainly not decide to do so whereas 40% feel they would be willing to make an investment within the SEZ, and as many as 7% of investors are sure they would make such a decision.

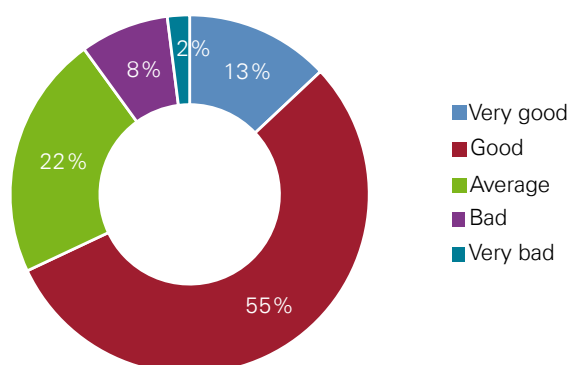
#### In your opinion, how has the appeal of investing in an SEZ in Poland changed over the last decade?



N= 190

Source: KPMG in Poland

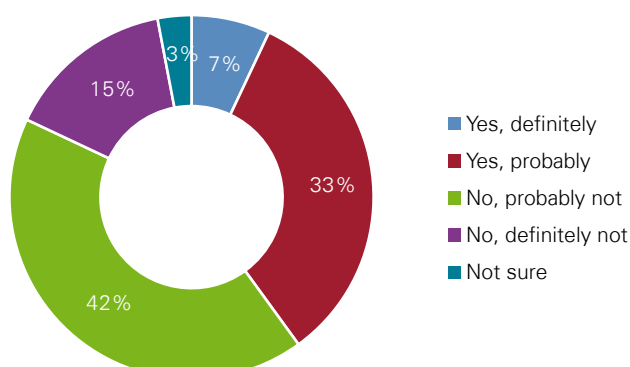
#### How would you rate the current standing of your business?



N= 190

Source: KPMG in Poland

#### Imagine there is no special economic zone in the current location of your business. Would you decide to make an investment in this place?



N= 190

Source: KPMG in Poland

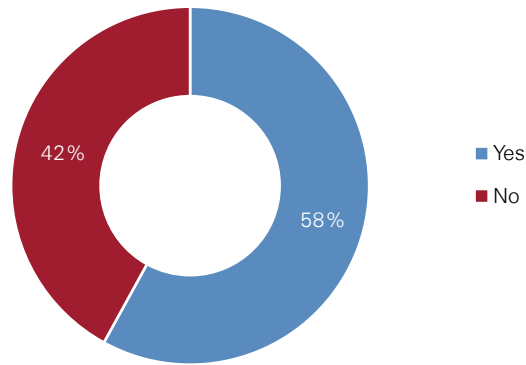
## 7.2 The future of SEZs

The Polish SEZ Act is to remain in force until the end of 2020. Recently, a lot of attention has been devoted to the need to extend this period. Analysis conducted by KPMG indicates that the time needed to generate a return on an investment exceeds nine years in many cases. For this reason, many potential investors who are aware of those market realities decide against bringing their investments to special economic zones.

Nevertheless, the entrepreneurs surveyed remain optimistic about potential investments within an SEZ in the next 2–3 years. More than a half (58%) are considering new investments in the SEZ. This number of firms is by three percentage points higher than in 2011.

When asked about their propensity to invest, assuming that SEZ would exist until 2026, the respondents demonstrated even greater interest. If the period of SEZ operation is extended by six years, the percentage of companies which plan any investments goes up to 73%. KPMG analysis indicates that the extension of the SEZ period of operation by six years could drive capital expenditures by even as much as PLN 40 billion.

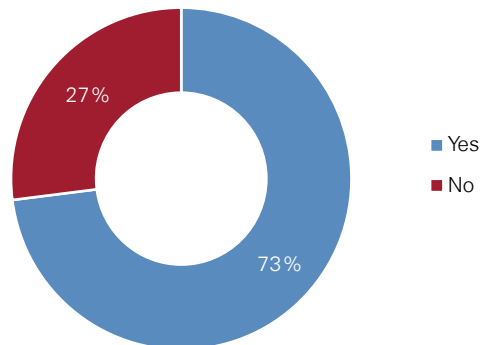
**Are you planning any new investments within this or other special economic zone within the next 2–3 years?**



N=190

Source: KPMG in Poland

**If you knew today that special economic zones would operate until 2026 would you plan any new investments?**

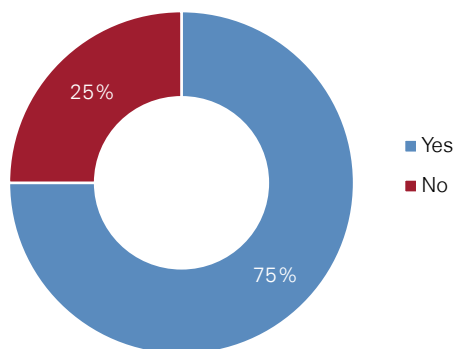


N=190

Source: KPMG in Poland

This year, we took things one step further and asked investors about their investment plans in a hypothetical situation if special economic zones were to operate without an end date. It turned out that three out of four enterprises would make investments in such a scenario. This is merely two percentage points higher than the percentage of responses in case SEZs were extended by 2026. Such results indicate that investors plan a specific time horizon for their investments and whatever occurs afterwards does not make any difference for their investment plans.

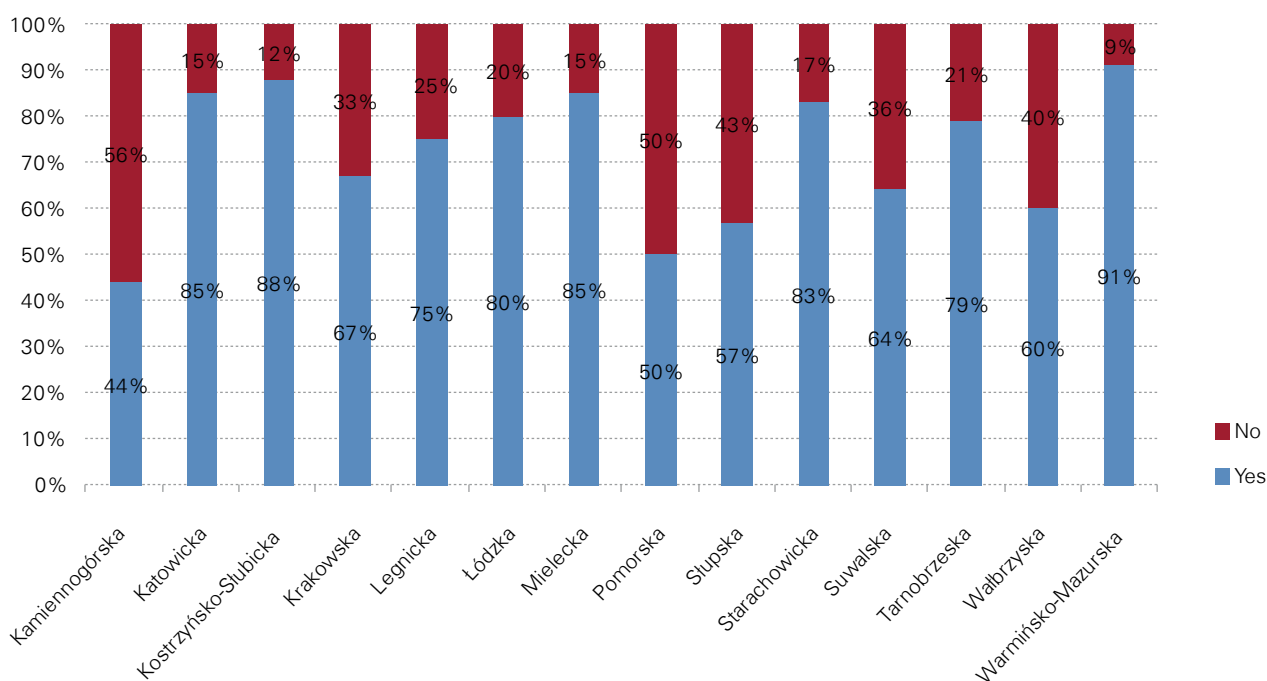
**If you knew today that special economic zones would operate without any time limits, would you plan any new investments?**



N=190

Source: KPMG in Poland

**If you knew today that special economic zones would operate without any time limits, would you plan any new investments?**



N=190

Source: KPMG in Poland

Enterprises which are most willing to make new investments if SEZs had no end date are those from the Warmińsko-Mazurska SEZ. As many as 91% of them expressed such intent. The percentage of those

who would invest in that situation is higher than 80% in the Katowicka, Kostrzyńsko-Słubicka, Łódzka, Mielecka and Starachowicka SEZ.

Respondents from the following zones turned out to be least enthusiastic about

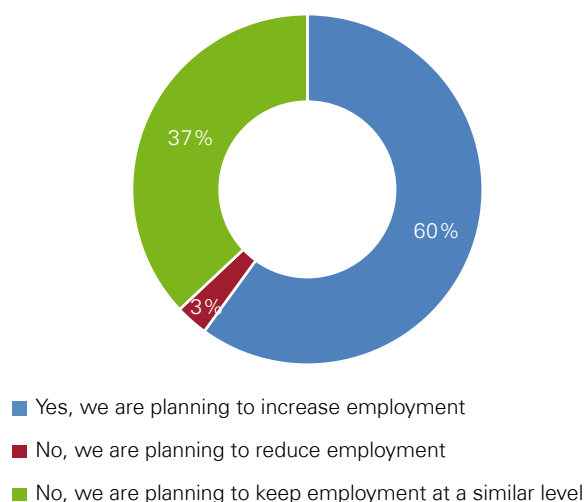
the idea suggested: Kamiennogórska (44%), Pomorska (50%) and Słupska (57%). Notably, Kamiennogórska SEZ is the only one where negative responses prevailed.



In this year's edition we decided to ask investors about their plans concerning a change in the number of people employed in their respective zones. As many as 60% of the respondents plan to increase employment within the next 2–3 years. In turn, 37% do not plan to change the level of employment, whereas 3% plan to reduce the number of people working for them within the SEZ.

The greatest increase in employment within the next 2–3 years is planned in the Krakowska, Kamiennogórska and Legnicka SEZs. On the other hand, the most considerable reductions are considered in the Suwalska SEZ. In the latter zone, as many as 19% of participating companies declared they would reduce employment within the next 2–3 years.

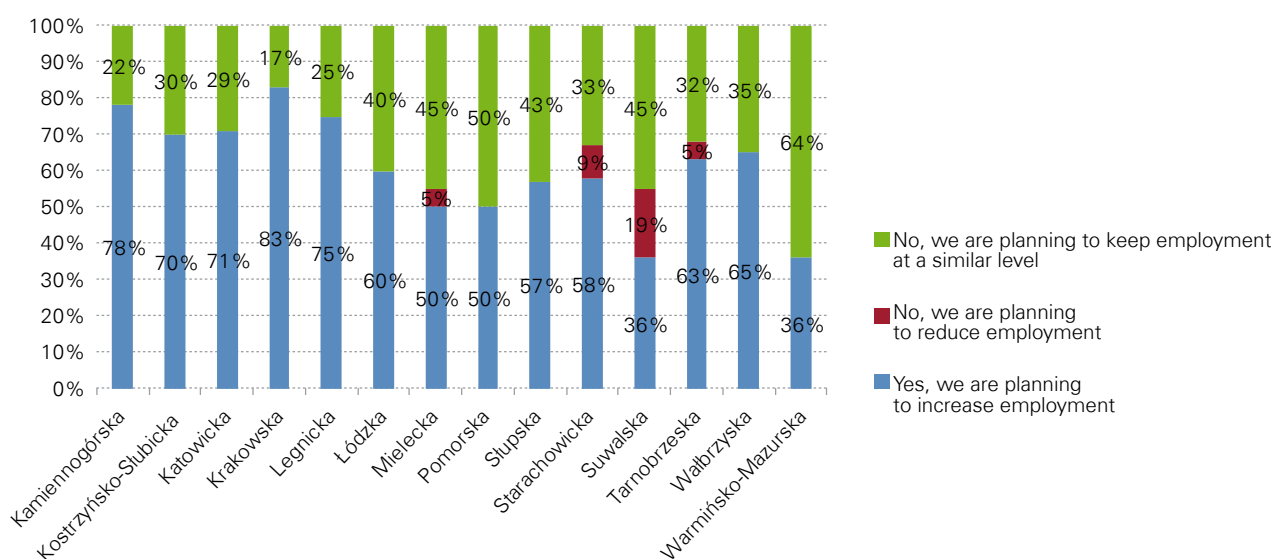
**Are you planning to increase employment within the next 2–3 years in the special economic zone where your company operates?**



N=190

Source: KPMG in Poland

**Proposed changes in employment in SEZs in the next 2–3 years**



N=190

Source: KPMG in Poland





## 8

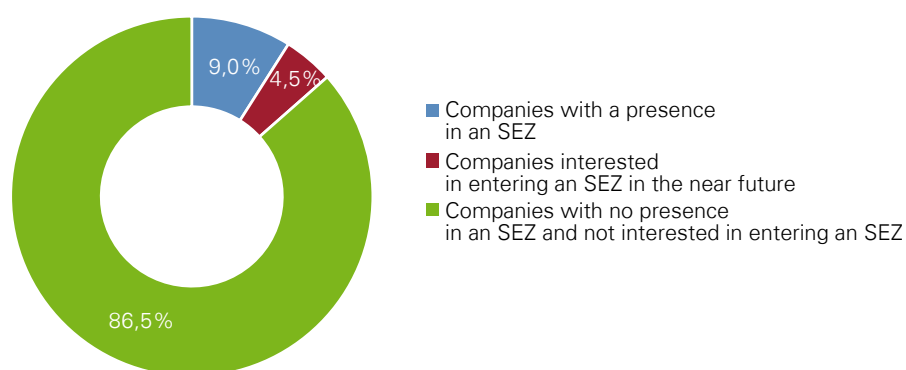
## SEZs as seen by Polish industrial processing companies

In parallel with our study of investors operating in SEZs we conducted a survey to explore Polish manufacturers' investment plans. The survey covered a representative sample of 308 industrial processing companies employing over 49 people.

Nearly one in ten of the surveyed companies (9%) is already present in a special economic zone and 4.5% are considering the idea to enter an SEZ in the near future. Those data should be interpreted with caution, as a token of interest in special economic zones

and a way to support investments rather than as actual plans to set up a business within an SEZ. More than 86% of the surveyed manufacturers do not operate in an SEZ and are not interested in entering one.

**Declared presence of manufacturing companies in SEZs, total**



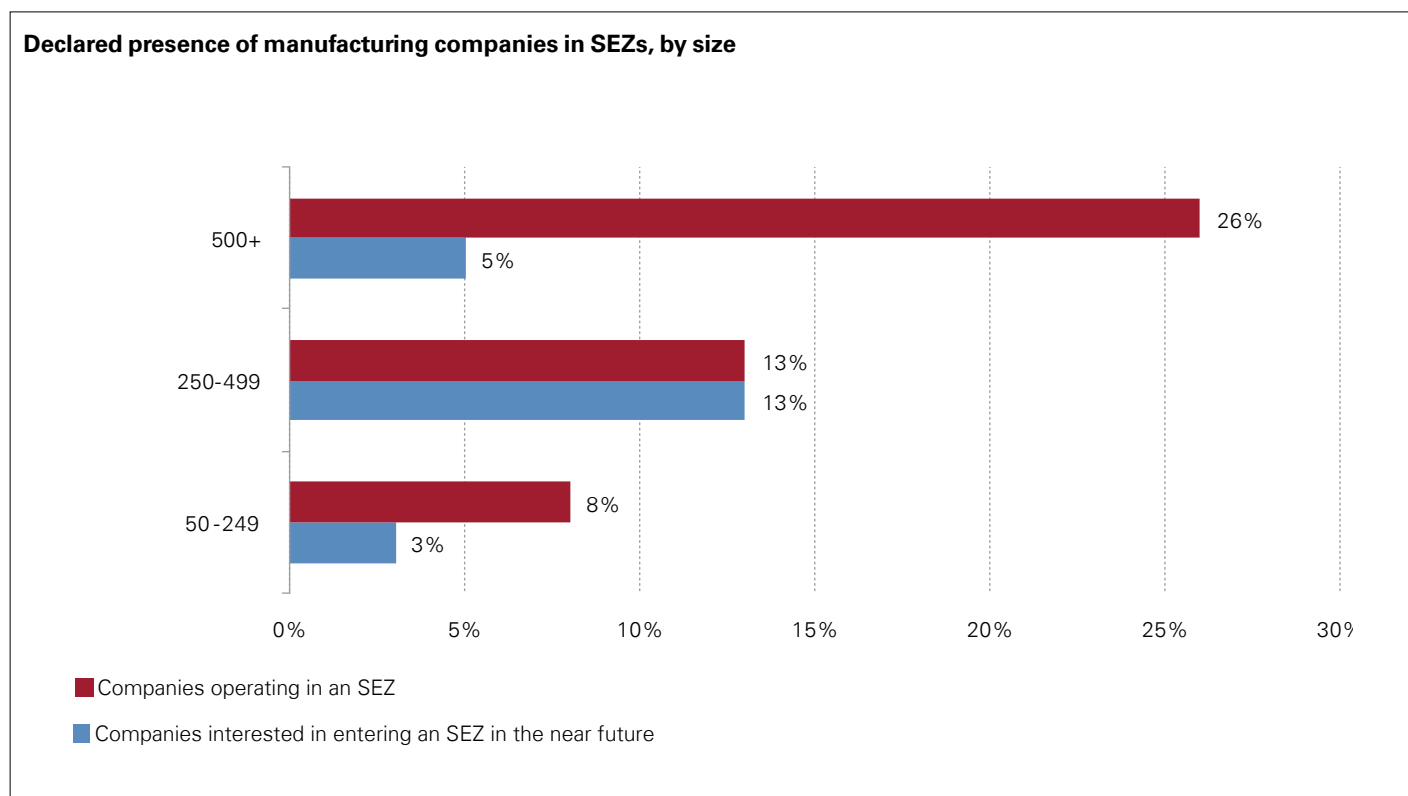
N=308

Source: KPMG in Poland

The survey has revealed that larger companies are more likely to have a presence in a special economic zone. As many as one in four companies employing over 500 people (26%) operate within a special economic zone. In the case of companies employing 250–499, the respective percentage is only 13%. Among those with employment of 50–249 only 8% think of doing so. Medium-sized

companies (50–249 people employed) and the largest manufacturers (500+) are interested in entering an SEZ (3% and 5% respectively). The situation is different with regard to large companies (employing 250–499 people): the survey has shown that as many as 13% of them are interested in entering an SEZ in the near future.





N=308

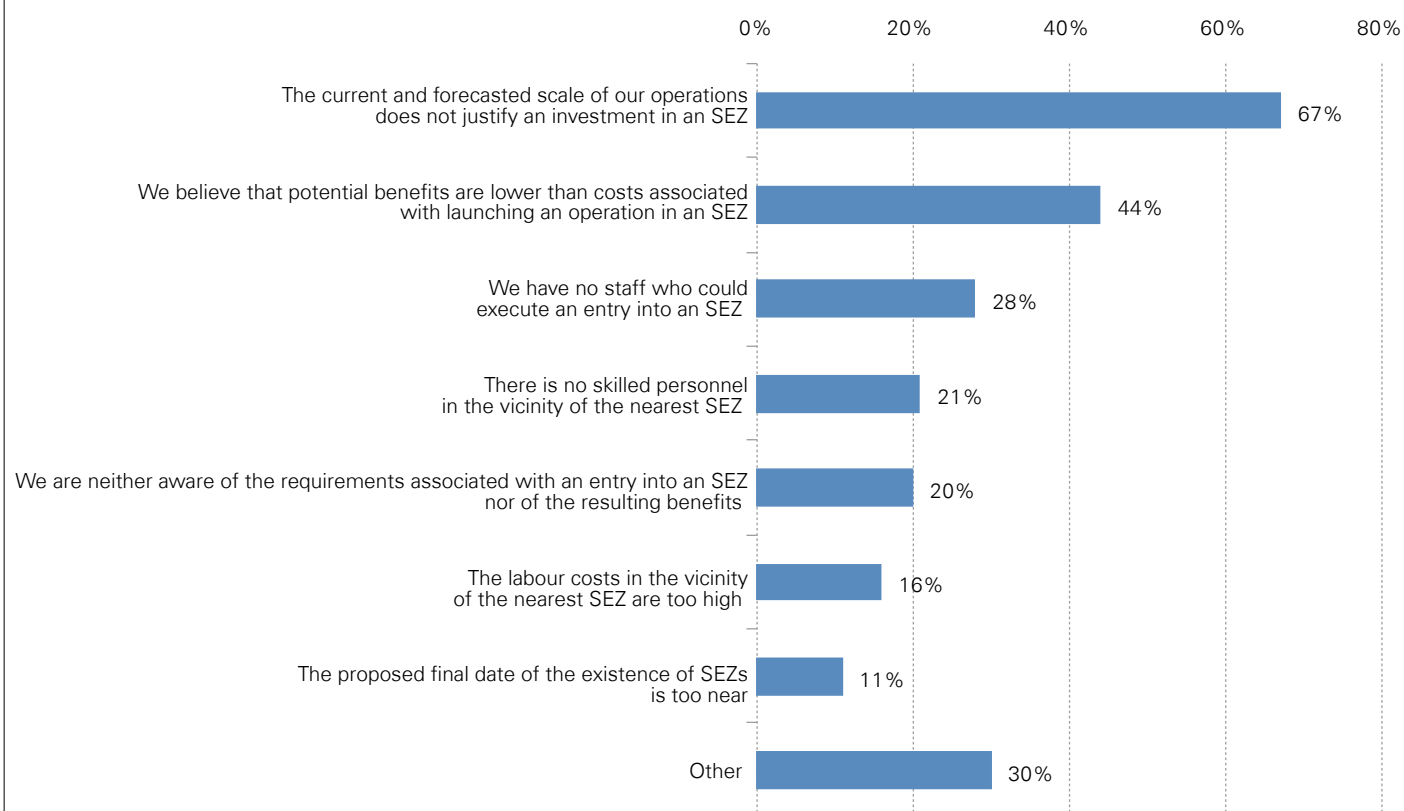
Source: KPMG in Poland

Companies which are neither present in an SEZ nor interested in entering such a zone in the near future were asked about the reasons behind this decision. The largest group (as many as 2/3) mentioned the scale of their operations, which does make such presence reasonable. Another commonly

mentioned response (44%) was the belief that the costs associated with entering an SEZ outweigh the benefits. Answers which were not pre defined in the KPMG survey concerned the location of the zone, reluctance about changing the company's headquarters and absence of a special economic

zone in the vicinity of the respondents' current location. Interestingly enough, the proposed final date of SEZ operation in Poland was mentioned only by one in ten respondents as a reason for absence/lack of interest.

### Reasons behind companies' absence in special economic zones



N=308. More than one response was allowed.

Source: KPMG in Poland





## 9

# Analysis of the competitiveness of SEZs and other investor support facilities in Central and Eastern Europe

We decided to supplement this year's editions of our survey by analysing the competitiveness of SEZs and other investor support mechanisms in countries in Central and Eastern Europe. We asked investors from the Polish SEZs whether they had analysed similar opportunities outside Poland before deciding to bring their investment to a Polish SEZ. Representatives of management boards of Polish SEZs were also asked to comment on that topic.

## Investors and board of SEZs on SEZs in other European countries

Enterprises, which compete in an increasingly complex business reality, need to seek optimum locations for their businesses. In the era of globalisation, those choices are no longer limited to their country of origin. Also, other Central and Eastern European countries represent

enormous potential on the global investment map.

In this year's survey, investors were asked whether they had previously analysed investment opportunities in other European countries. Only one in four entrepreneurs claimed they had analysed the business framework of special economic zones in other countries before bringing their business to an SEZ in Poland.



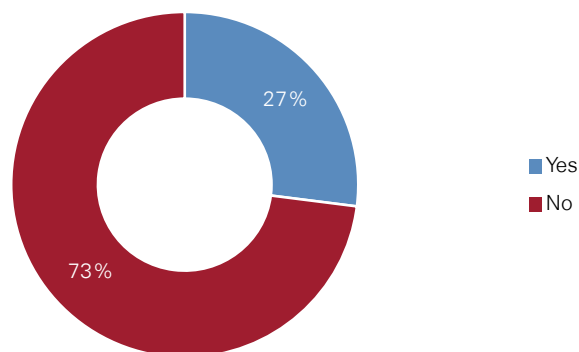
Investors were also asked about the competitiveness of special economic zones in other countries in comparison with the conditions offered in Poland. According to 11% of the surveyed enterprises, investment conditions offered outside Poland are more favourable. In the opinion of as many as 19% of the respondents, the opposite is true, i.e. Polish SEZs offer more conducive conditions. On the other hand, 70% were unable to provide an answer to this question, which largely stems from the fact that a very high proportion of enterprises had never considered such alternatives.

Similar questions were posed to the management boards of special economic zones in Poland. Nearly all boards – except one – had analysed the business framework for investors in special economic zones in other countries.

Boards of SEZs unanimously indicate that special economic zones in Poland have many characteristics which give them an advantage over similar zones elsewhere. Poland's location in the heart of Europe is a strong asset as it places the country in a strategic position and facilitates active trade in goods. Another advantage is the overall economic situation in Poland, which helps companies to operate in a stable socio-economic environment. One of the strengths of Poland's SEZs lies in access to skilled and experienced workforce and in the high quality of their work. Special economic zones in Poland provide investors, above all, with beneficial and more long-lasting tax incentives as well as a transparent legal framework. There is also an opportunity to combine public aid with EU funding and government grants.

Respondents from eight SEZs perceive the investment framework offered in Polish special economic zones as

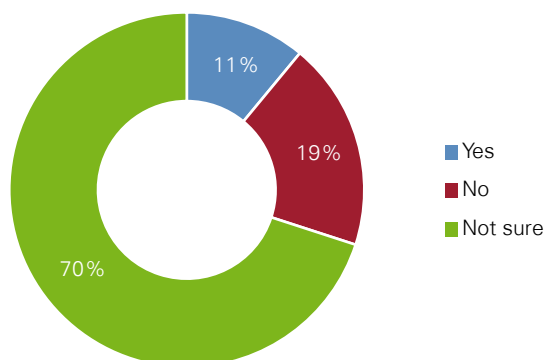
**Before deciding to invest in this SEZ, did you analyse the business framework in special economic zones in other countries?**



N=190

Source: KPMG in Poland

**From your perspective, are special economic zones in countries neighbouring Poland more attractive as investment destinations at present?**



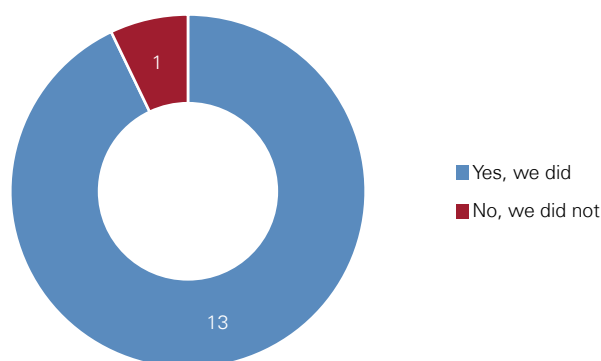
N=190

Source: KPMG in Poland

attractive in comparison with zones in other countries, while five held the opposite view. A representative of the remaining zone did not express an opinion as the issue had not been considered.

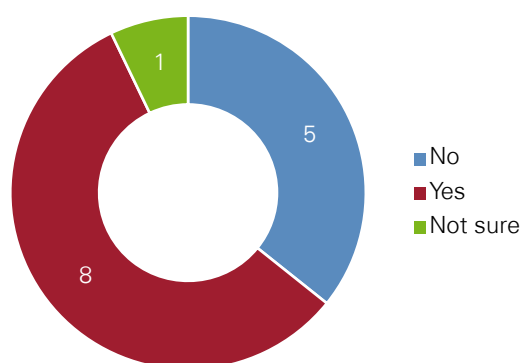
According to SEZ management boards, the following changes should be introduced as a priority to boost the competitiveness of the Polish SEZs versus special economic zones in other countries: cancellation of the end date for SEZs, the opportunity to issue fixed-term permits varying by territory, depending on the GDP of the region concerned. Another idea would be to streamline the expansion of SEZs and to adapt the existing investment incentives to the needs of BPO/ITO. Moreover, it is vital to streamline the collaboration between various regional institutions responsible for investor support and to develop a consistent policy for the neighbouring zones. Management boards of some SEZs also pointed out that it would be useful to make technology transfers between SEZ companies and businesses operating in the vicinity of the zones. With that solution in place, an SEZ company would incur the costs of buying new technologies and then could transfer them outside the zone and include them in the eligible costs for public aid. Some zones also mentioned the need to improve existing road infrastructure.

**Did you analyse the business framework for investors in special economic zones in other countries?  
(management boards of SEZs)**



Source: KPMG in Poland

**Do you believe that Polish special economic zones are attractive for investors in comparison with zones in other countries?  
(management boards of SEZs)**



Source: KPMG in Poland

## 9.2 Special economic zones in selected countries of Central and Eastern Europe

In order to provide a more comprehensive assessment of the scale and performance of special economic zones in Poland, we decided to compare Polish SEZ with their counterparts in selected countries of Central and Eastern Europe (CEE). For the purpose of this analysis, a survey was conducted with investor support institutions in respective countries and with local KPMG practices. The questions covered various aspects of the operation of special economic zones, and the latter were understood as a separate, uninhabited part of the country's territory, where business could be

conducted on preferential terms defined under the local law.

The respondents' answers clearly indicate that both the legal and operational profiles of the Polish SEZs as well as the scale of their operations are exceptional within the CEE. Special economic zones with a similar legal status can only be found in Lithuania and Latvia, but each of those countries only has two such zones in active operation. The remaining five zones in Lithuania have not commenced their work whereas the status of the remaining two zones in Latvia is close to 'free zones' as defined in EU law. Such 'free zones', with similar functions to those fulfilled by the Polish SEZ, also exist in Estonia (4) and Romania (6).

Other major countries of the region (Bulgaria, Hungary, Slovakia and the Czech Republic) have neither special economic zones nor areas of a similar kind. Of course, this does not mean

that they have no systemic solutions for regional investment support. One example is the Czech Republic, which offers extensive investor support instruments covering, in particular, region-specific income tax exemptions depending on the target region and the total capital expenditures incurred. Also Slovakia has an extensive public aid system intended for investors.

In comparison with countries which have SEZ or similar zones, Poland can boast by far the largest scale of investments. The number of investors, jobs created and the value of investments is several times as high as the figures recorded for any other country in the region. Areas where exemptions are available are much larger in terms of their geographic coverage, with a grid of zones and subzones covering a significant part of the country's territory.



| SEZs in Central and Eastern Europe                   |   |   |   |  |   |   |
|--|---|---|---|--|---|---|
| Poland   |   | Romania   |   | Lithuania  |   | Bulgaria,<br>Hungary, Slovakia,<br>Czech Republic   |
| <b>No. of SEZs</b>                                   | 14 special economic zones   | 6 (free areas in Giurgiu, zones)  | 7 (special zones: Klaipėda, Kaunas, Akmenė, Kėdainiai, Marijampolė, Panevėžys, Šiauliai), the latter five have not commenced operations yet                                   | 4 (free ports: Riga and Ventspils, special zones: Rēzeknes and Liepājas)   | 4 (free zones: Sillamäe, Muuga, Paldiski, Valga)  |   |
| <b>Area</b>  | 15,045 ha   | 801.8 ha  | 1,519 ha  | 13,693 ha  | ca. 750 ha  |   |
| <b>No. of permits</b>                                | 1,466   | 3712(3)   | 37(3)   | 60(3)  | no data   |   |
| <b>Investors – employment, end of 2011</b>           | 241,600   | 3,500(2)  | 1,900   | 3,600  | no data   |   |
| <b>Accumulated value of investments, end of 2011</b> | USD 23.3 bn(1)  | USD 6.2 bn(2)   | USD 0.6 bn  | USD 1.4 bn   | no data   |   |
| <b>Launch of the first SEZ</b>                       | 1995  | 1993 – Sulina   | 2002 – Klaipėda (established in 1996)   | 1997   | 1997  |   |
| <b>Proposed end of operation</b>                     | 2020  | not defined   | 49 years from the launch date   | 2017   | 2015/2025   |   |
| <b>Key investment incentives</b>                     | Tax exemptions (income tax and real property tax), infrastructure prepared for investments.                                     | Non-EU goods and services remaining in trade in the free zone are not subject to customs duty, excise tax or VAT. Investment support amounts to 50% of capital expenditures for large investors and 65% for small and medium-sized investors. | Tax exemptions: corporate income tax (complete exemption for 6 years, 50% exemption within the next 10 years), real property tax and, under certain conditions, dividend tax. | Tax exemptions: VAT, excise tax and customs duties (import and export to other free areas), import duties. CIT (80%), real property tax (80–100%), dividend tax (80%), management fees and intellectual property fees (80%). | Tax exemptions: VAT, deferred payment of and import duties.   | No SEZs or separated areas of similar character. This does not exclude the presence of other investor support mechanisms. |
| <b>Additional information</b>                        | The zones are managed by dedicated entities or the Industrial Development Agency and supervised by the Ministry of the Economy. | The zones are free zones in light of EU legislation. They are supervised by local authorities. The allocated public aid is monitored by the Ministry of Transport, Construction and Tourism.  | The zones are supervised by dedicated economic entities (for the time being, only Klaipėda and Kaunas zones).   | All four entities are free areas in light of EU legislation. They are supervised by dedicated economic entities.   | All four entities are free zones in the light of EU legislation. They are supervised by Maksu-ja Tolliameti (Estonian taxation and customs office). |   |
| <b>Comments</b>                                      | <sup>1</sup> Converted from PLN at the National Bank of Poland's exchange rate as of 30 December 2011                           | <sup>2</sup> Does not include Sulina and Constanta Sud si Basarabi zones, which did not respond to the survey   | <sup>3</sup> No. of investors   |  |   |   |

Source: KPMG in Poland, based on data from CZECHINVEST – Investment and Business Development Agency, SARIO – Slovak Investment and Trade Development Agency, Hungarian Investment and Trade Agency (HITA), Romania Trade & Invest Center, Estonian Investment Agency, Investment and Development Agency of Latvia, Invest Lithuania and information from local KPMG practices. The source of data for Poland was from the Polish Ministry of the Economy.



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