



cutting through complexity

KPMG IN POLAND

Special Economic Zones

2011 Edition

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Contents

1. Introduction	3
2. Methodology	5
3. Key Findings	9
4. What are SEZ?	11
5. 2011 growth forecast for SEZ	14
5.1. Number of business permits	14
5.2. Capital expenditures	15
5.3. Number of jobs	18
6. Assessment of SEZ performance	21
7. SEZ as seen by the businesses operating within them	27
7.1. Perception of SEZ	27
7.2. Human resources in the SEZ	30
7.3. Benefits and drawbacks of operating in a SEZ	33
7.4. Taxation issues	37
7.5. Economic aspects of the extension of SEZ operations until 2026	40
7.6. Period required to obtain return from a SEZ investment	42
8. Plans for the future	45

1

Introduction

As in previous years, KPMG has analysed the operation of Special Economic Zones (SEZ) in Poland and collected investors' opinions about the current situation and prospects for the coming years. Our report summarises the 2010 developments and brings forecasts for 2011.

This year's findings confirm our recent forecasts. New investors continue to express interest in SEZ, which is why the number of business permits issued and jobs created has been rising. 2010 marked a return to growth trajectory after the global downturn. In comparison with 2009, the number of business permits issued grew by as much as 35%, whereas the total number of jobs increased by 8%. On the other hand, there was a sharp decline in the capital expenditures, which confirms our last year's observations about the delayed impact of the downturn.

The management boards of all the 14 SEZ kindly shared their 2011 forecasts which, according to their concerted opinion, should represent a continuation of the trends observed to date. According to our estimates, the number of permits issued this year will go up by 10%, with the number of jobs increasing by 9%.

The effective period of the Polish SEZ Act comes to an end in 2020. While this might be a distant prospect for many, we already hear some voices about the need to extend it. Our study has shown that the period needed to get return on investment is very long, which means that 9 years might not be enough to reach the break-even point. Our report shows how the future of SEZ is perceived by the SEZ management boards and by investors.

Nearly 200 investors took part in our survey, which means we have studied nearly one in seven companies that received a permit to run business in a special economic zone in Poland. We hereby extend our thanks to all participating companies, the boards of all the 14 zones and the Polish Ministry of Economy for their assistance in drafting this report.

We hope this report will be of interest to its Readers.



Paweł Barański
Director
Tax Advisory



2

Methodology

This survey was based on a methodology that was similar to the one used in the previous editions of our survey, allowing us to compare various phenomena over time. Primary data collection took place in August-September 2011 and consisted of two stages, fielded in parallel. At the first stage, KPMG experts collected data from SEZ boards using a questionnaire. The 2011 questionnaire had a broader coverage, with topics related to the operation of SEZ after 2020 added. The second stage was conducted by Norstat, a research firm which was commissioned by KPMG to interview nearly 200 investors using the CATI methodology (*Computer Assisted Telephone Interview*).

Our study also relied on numerous publications being part of desk research. In particular, we analysed the data contained in the Ministry of Economy report entitled Information on the implementation of the SEZ Act (original Polish title: Informacja o realizacji ustawy o specjalnych strefach ekonomicznych).

SEZ research and forecasts

Using a questionnaire, KPMG experts collected 2010 data and forecasts for 2011. Questionnaires were completed by top management of all 14 Special Economic Zones (presidents and board members, specialists dealing with investors or growth). Their predictions focused on key categories reported to the Ministry of Economy: the number of business permits issued, the size of capital expenditures and total

employment. The managements of the SEZ were asked to provide forecasts in various categories based on historical data and current trends.

A survey among SEZ investors

This survey, conducted using the CATI methodology, collected opinions from 194 investors. The sampling and data collection was performed by Norstat. The sample was designed to allow for the diversity of the SEZ in order to make sure that the findings were representative for the total population of companies and for each of the 14 SEZ. Companies were subdivided according to the following three criteria:

- time of operation within a SEZ,
- employment,
- business sector.



KPMG questionnaires were completed by top management of all the 14 Special Economic Zones.



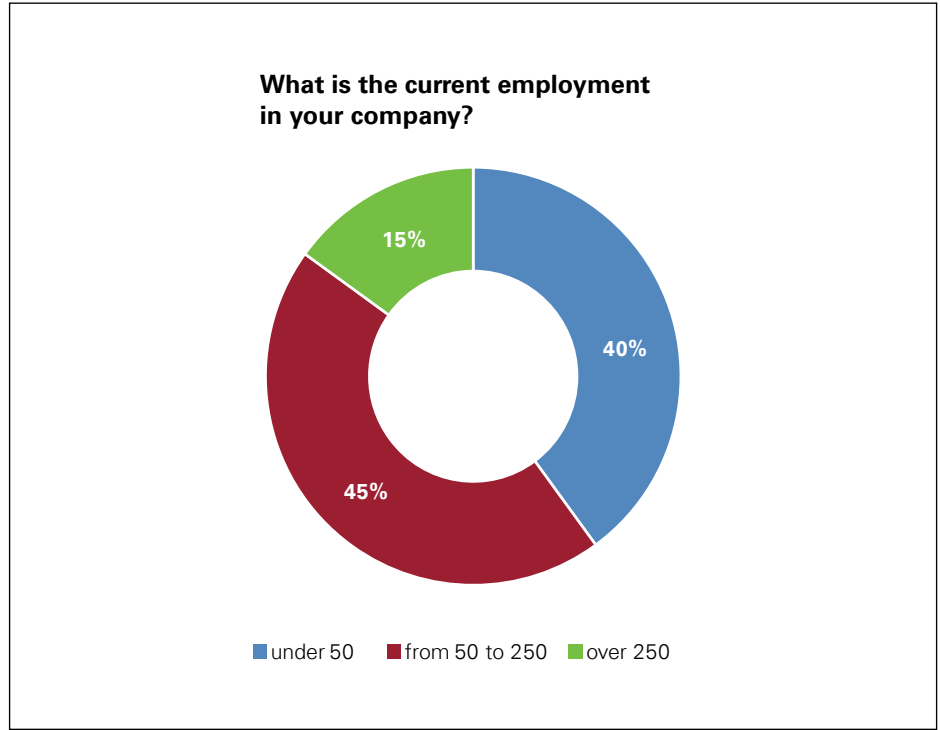
Nearly 200 investors took part in the CATI survey.

Companies were sampled to ensure that we could juxtapose the responses provided by those who recently started their operations in a SEZ with those given by companies which had started over ten years earlier. One in two companies have operated within a zone for a period of 3 to 7 years. Other respondents represented, in nearly equal proportions, companies with most experience (over 7 years) and the fairly recent SEZ entrants (under 3 years).

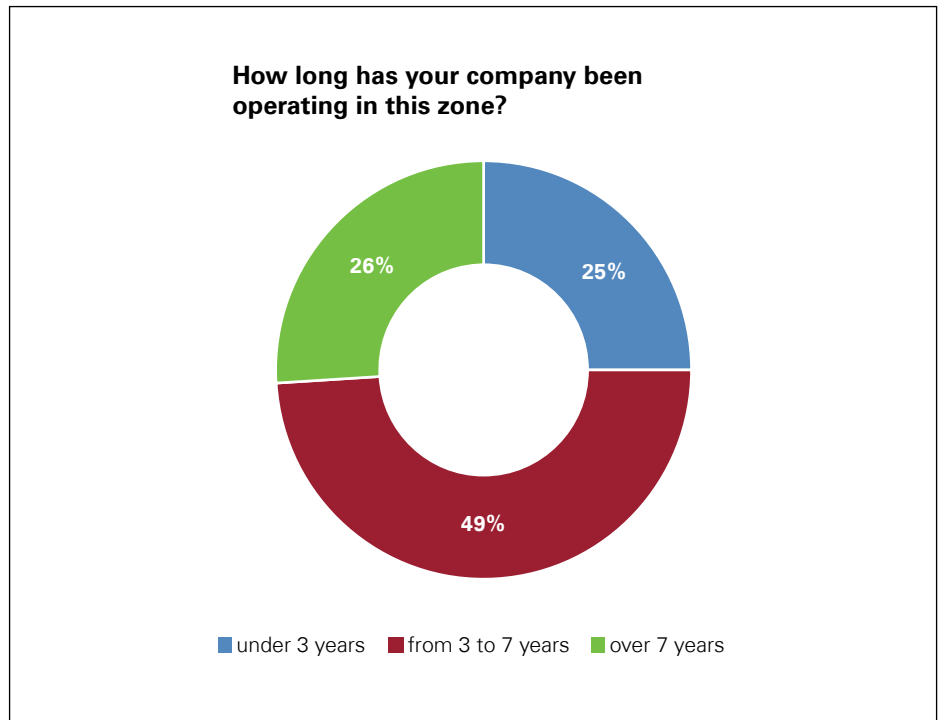
The study covered small, medium and large companies. The medium-sized companies, employing 50-249 people, representing the largest proportion (45%). Our survey also covered companies classified as large (15%), employing over 250 people. The remaining respondents were classified as small companies (40%).

Based on readers' suggestions, this year's edition also brings a sectoral breakdown. In our analyses, we made sure to cover all sectors which are most commonly represented in terms of capital expenditures and employment in SEZ. The largest proportions of the respondents represented the following sectors: metal industry (17%), construction (15%), services and trade (14%), machinery(12%) and auto-motive industry (10%).

Our study covered at least 10% investors from each SEZ. In total, we surveyed 194 businesses, which means that nearly one in seven SEZ investors took part in our survey. In the Kamiennogórska and Pomorska SEZ we surveyed nearly a quarter of their companies.

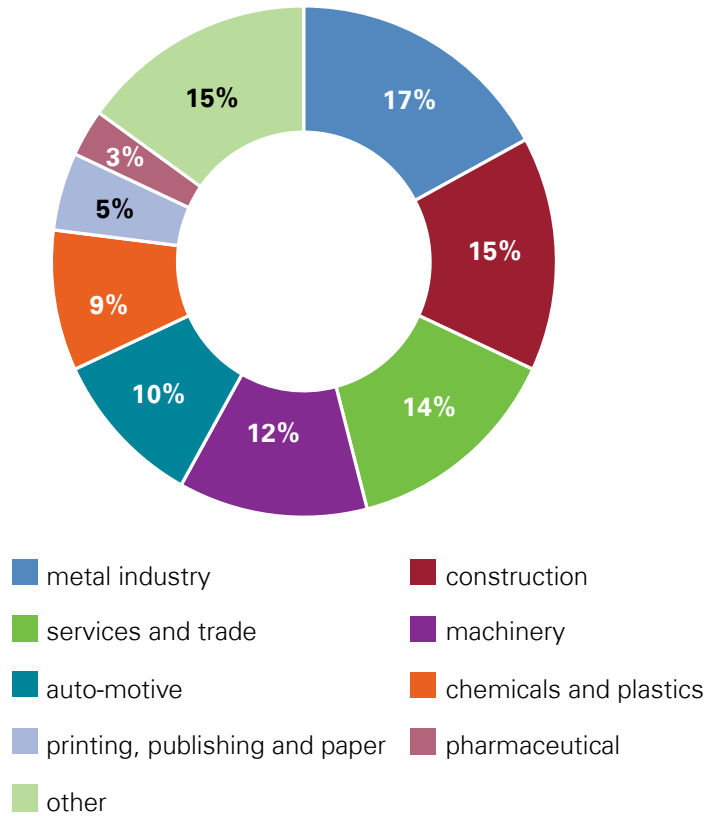


N=194
Source: KPMG in Poland



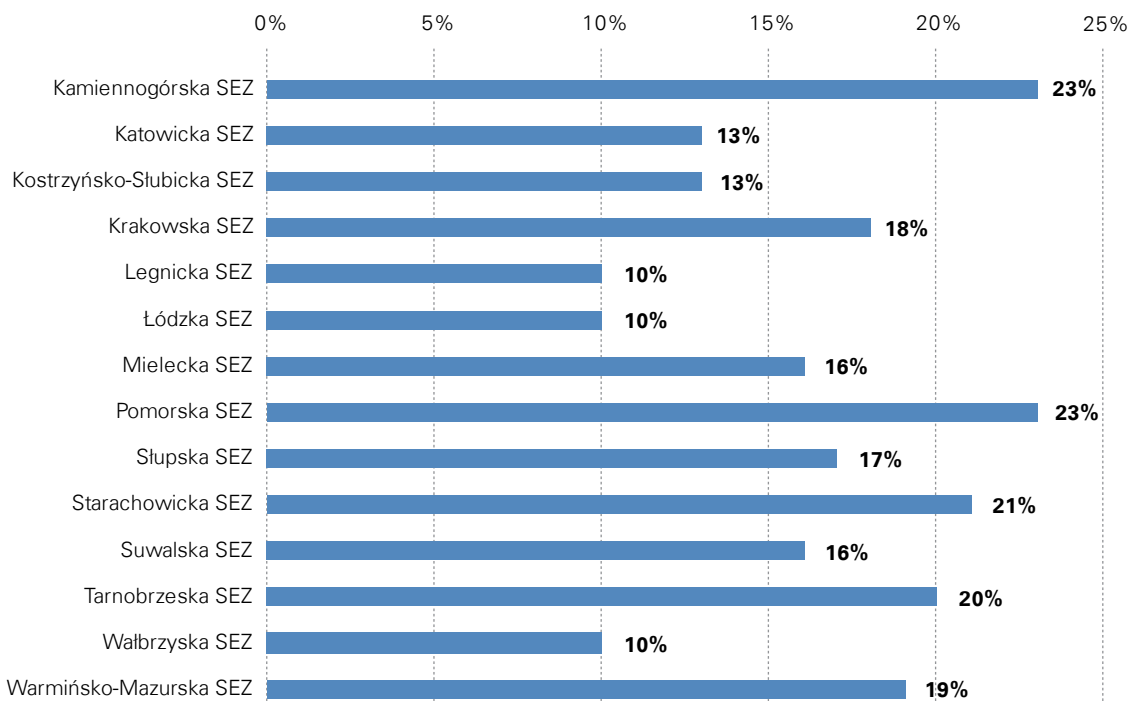
N=194
Source: KPMG in Poland

What is your company's sector of operation?



N=194
Source: KPMG in Poland

Percentages of investors in different zones which took part in the survey



N=194
Source: KPMG in Poland



3

Key Findings

An optimistic outlook for 2011

2011 will be among the best years in the last half-decade in terms of the number of permits issued. If investors' declarations are confirmed, nearly 200 new permits (195) will have been issued throughout 2011, which will mark a 10% growth versus 2010. According to statements made by SEZ management boards, the number of jobs in SEZ is likely to climb by nearly 20,000 in 2011 (reaching 244,630), which will signify a 9% growth. Based on those statements, capital expenditures will be comparable to those recorded in 2010, totalling approx. PLN 6.5 billion. This figure is realistic as entrepreneurs expended PLN 3.3 billion on capital expenditures in the first half of 2011.

2010 – Back to growth trajectory

The number of business permits issued for all the 14 Special Economic Zones in Poland in 2010 was 177, as much as 35% higher in comparison with 2009. Moreover, the number of jobs in SEZ exceeded 225,000, which was up by 8%. On the other hand, the value of capital expenditures incurred in all SEZ dropped by as much as 33% in comparison with the preceding year, totalling PLN 6.632 billion. Notably, capital expenditures respond to economic crisis more slowly than any other category.

A change in investor profile

The low capital expenditures in SEZ, persisting for two years, entailed a change in investor profile. Given the economic sentiment (the global financial crisis dampened the propensity to invest) and the nearing end of the SEZ

Act effective period, new permits are being issued to smaller enterprises with majority stakes owned by Polish capital.

Distinguishing taxed and tax-exempt costs and revenues is a major challenge

In previous editions of this survey investors most commonly mentioned interpretation of tax regulations as a problem in the context of tax exemptions. In this year's edition, this problem finally ranked second, mentioned by 54% of the respondents, and was outpaced by the need to distinguish between taxed and tax-exempt costs and revenues (57%).

Investors make the most of tax exemptions in the Krakowska, Starachowicka and Tarnobrzaska SEZ

Investors' opinions regarding the utilisation of tax exemptions have forked into two threads: nearly 40% of the respondents claim they want to use the available exemption fully or almost fully (90%–100%), and further 34% believe their exemption will be used in less than 50%. One in two respondents in the Krakowska, Starachowicka and Tarnobrzaska SEZ plan to make the most of the tax exemption.

Extension of the effective period for the SEZ Act until 2026 will boost propensity to invest

Entrepreneurs continue to be optimistic about investing within the same or another SEZ. Over 50% of the surveyed companies intend to make new investments within the nearest 2–3 years. In the investors' view, an extension of SEZ operations by 6 years would drive the

percentage of companies declaring new investments by as much as 16 percentage points (to 71%). According to KPMG estimates, a 6-year extension of SEZ may lead to an increase in capital expenditures by even as much as PLN 40 billion.

Long time to break even

As many as 62% of the investors think they have not reached the break-even point after incurring the costs of investments in their respective SEZ. A relatively short period of return, 2 to 4 years (13%), was the second most popular answer. An extension of business operations is essential to break even for the most capital-intensive investments.

Continued business of SEZ after 2020 as the best solution for investors and SEZ management boards

One in two investors decided that the best solution after 2020 would be to keep the operation of SEZ unchanged. Another favoured solution,

supported by 25% of the respondents, was to transform the zones into technology parks or industrial parks. Transformation into clusters was selected by merely 5% of those surveyed. One in ten respondents was unable to identify an optimal solution in view of the distant time perspective in this question. In turn, the vast majority of SEZ boards (86%) were convinced that the operation of the zones should continue unchanged after 2020.

End of zones does not put an end to businesses

Importantly, the legal framework surrounding the Polish SEZ will not change until 2020. In that case only 3% of the investors would consider moving their business elsewhere in Poland and 2% think of taking it abroad. In turn, only 2% of those polled considered discontinuing their business under such circumstances.



4

What are SEZ?

Special Economic Zones (SEZ) in Poland were established primarily in order to:

- accelerate economic growth of the country's regions,
- make use of post-industrial property and infrastructure,
- create new jobs,
- attract foreign investors.

The first SEZ in Poland was the one in Mielec, founded in 1995. All other SEZ operating in Poland were established in 1990s. Initially, the Council of Ministers established 17 SEZ, out of which 15 actually began operations. Currently 14 SEZ are still in operation in Poland.

Preferential terms of business within the zones mean that investors can take advantage of state aid. Such aid is granted in the form of income tax exemptions and property tax exemptions.

An income tax exemption means that businesses pay no tax on their income earned from operations within the SEZ between the date of permit and either the end of regional aid or the termination of the SEZ.

The amount of aid granted under income tax exemptions has a limit defined as the eligible expenses and the maximum state aid intensity allocated for each respective zone.

Eligible expenses are established on the basis of the costs of a new investment or the two years' worth of labour costs for newly employed staff.

State aid intensity is computed as the percentage of eligible expenses. Maximum thresholds of state aid intensity are defined in the Council of Ministers' ordinance of 13 October 2006. In Poland, those figures are higher than elsewhere in the EU given the lower GDP levels in our country.

Regional aid for a SEZ business may be also granted in the form of a real property tax exemption. This exemption is granted by the municipal authorities which adopts a relevant resolution. In that case, entrepreneurs wishing to get established in a SEZ should notify the competent tax authority of their intent to use this aid and should do so before commencing any investments. The rules of this exemption are defined in the Council of Ministers' ordinance of 5 August 2008 on conditions of granting tax exemptions on real property tax and means of transport tax, representing regional investment aid (Dz.U. – Polish Official Journal of 2008, No. 146 item 927). The real property tax exemption is also granted under the so-called *de minimis* aid.

Initially, SEZ were established for a period of 20 years. The existence of most zones was supposed to end in either 2016 or in 2017. The amended SEZ Act of 30 May 2008, which introduced significant modifications to zone regulations, extended the operation of SEZ until the end of 2020. Originally, it was assumed that the extended operation of SEZ would apply to all entrepreneurs who were conducting their business within the zones. However, the amendment covered only those who obtained their permits after 31 December 2008, i.e. after the effective date of that Act. The remaining entrepreneurs may apply to the Minister of Economy for an extension of the period specified in their respective

permits until 2020 but not beyond that date. All such applications are to be individually reviewed by the Minister.

By the end of June 2011, nearly 1,400 permits had been issued for all SEZ in Poland. Entrepreneurs operating in the zones had invested over PLN 75 billion and employed over 230,000 people. Since the very start, the zones showed a sustained upward trend in terms of the number of permits issued, expenditures incurred or the number of people employed. In recent years, this upward trend was distorted as a result of the global economic crisis. Some companies completely abandoned new investments whereas others suspended their decision about undertaking new investments for a few months or even a year or so.

The first economic crisis seems to be over but many voices are heard that that another slump is very likely to occur. A question arises, therefore, how the SEZ would cope with it and which factors are likely to sustain further growth of SEZ in Poland.

KPMG research in previous years showed that investors are attracted to special economic zones primarily by their excellent infrastructure, access to skilled workforce as well as state aid in the form of tax exemptions.

One might assume that the infrastructure in and around SEZ will continue to grow at a fast pace in subsequent years, undoubtedly becoming a factor which will significantly influence investors' decisions on the location of their investments. The picture might look somewhat different on the labour market. Information sourced from investors indicates that while they have no problems finding managers and workers (yet even that deteriorated during the past year), they struggle to find qualified engineers. This certainly stems from the shrinking numbers of students in technological universities. At present, this situation is not yet problematic for entrepreneurs but without a visible change in that respect

might become a negative factor affecting decisions on investment destinations.

And, finally, while all investors put high hopes on tax exemptions, nearly a half claim that they will use up merely approx. 60% of the exemption they are entitled to. When analysing why investors might have no opportunities to use up their tax exemption, two factors seem crucial. Firstly, most companies operating within SEZ have a manufacturing profile. The capital intensity of investments made by manufacturing companies is very high whereas the profitability is, in principle, much lower than is the case with trading companies. As a result, businesses which invest considerable capital in SEZ have, on the one hand, high state aid caps to use but, on the other hand, they generally earn proportionally lower income and this factor determines the state aid used. Most likely, this situation will continue into the future. The second most important factor is the time limit for the tax exemption: it ends upon when the zones cease to operate and, for the time being, this date has been set as the end of 2020. Income from SEZ operations which entitles companies to tax exemption is usually generated within 18-24 months after the permit was obtained. This means that investors who obtain a SEZ permit in 2015 will generate their first tax-exempt income in 2017 and will only have three years to enjoy the exemption.

The combined effect of these two factors may lead to a situation where, in 3-4 years' time, investors will no longer consider tax exemptions when choosing SEZ as an investment destination. Solid infrastructure and availability of skilled workforce might not be sufficient to attract new large investors. As a result, steps are needed now to extend the operating period of SEZ in Poland by further 5-7 years. Otherwise we might expect that new investments will go to countries located to the south and east of Poland or, worse still, we might see an outflow of investments already located in Poland.



5

2011 growth forecast for SEZ

According to statements obtained from SEZ boards, the number of business permits will grow for the second year in a row. Nevertheless, as in the preceding year, the size of capital expenditures is likely to shrink (yet only very slightly this time). A total of nine years are still ahead of SEZ until the end of their statutory period of operation. For many major investments this period may turn out to be too short to break even. As a result, new permits should be issued to smaller companies with a majority stake held by local capital.

5.1. Number of business permits

In 2010 the number of permits issued in all Polish SEZ totalled 177, up by as much as 35% versus 2009. Such high growth results from a low base: in 2009 the economic crisis was most felt by businesses located within SEZ. During that period only 131 new permits were issued, which was a record decline (36%) in comparison with the preceding year.

The largest number of new permits (28) were issued in 2010 in the Wałbrzyska SEZ. More than 20 permits were also issued in the following zones: Łódzka (25), Katowicka (23) and Mielecka (22). 2010 saw a smaller number of permits issued versus 2009 only in three zones (Krakowska, Mielecka and Słupska). However, the situation in each of those three SEZ was dramatically different. Mielecka SEZ was able to issue more than 20 permits for another year in a row. On the other hand, Słupska SEZ issued only 3 new permits (fewer than in any of all the 14 zones in 2010).

If investors' declarations are confirmed, nearly 200 new permits (195) will be issued throughout 2011, which will represent a 10% growth versus

2010, coming close to the 2007–2008 levels. Our observations indicate that all forecasts made by entrepreneurs are usually prudent and turn out to be underestimated. Presumably, after a two-year break, 2011 will reach the threshold of 200 for new business permits again. According to statements made by SEZ, the largest number of new permits will be issued in Katowicka and Łódzka SEZ (22 in each). A decline is expected by the management of Wałbrzyska SEZ, which, after the record-breaking year of 2010, expects to issue 20 new permits. A minimum decline is also forecast by Mielecka SEZ, which plans to issue 18 new permits this time. The total increase in the number of permits is forecast mostly on the basis of statements made by the zones which issued relatively fewer permits in 2010. Considerable growth is expected in Słupska, Starachowicka and Suwalska SEZ. Therefore, only two zones, i.e. Kamiennogórska and Legnicka, expect to grant under 10 business permits (8 and 6 respectively).

Interestingly, the sharpest decline (nearly 30%) is expected in the Wałbrzyska SEZ which took perhaps the most conservative estimates. The decline may partly stem from a high reference level.

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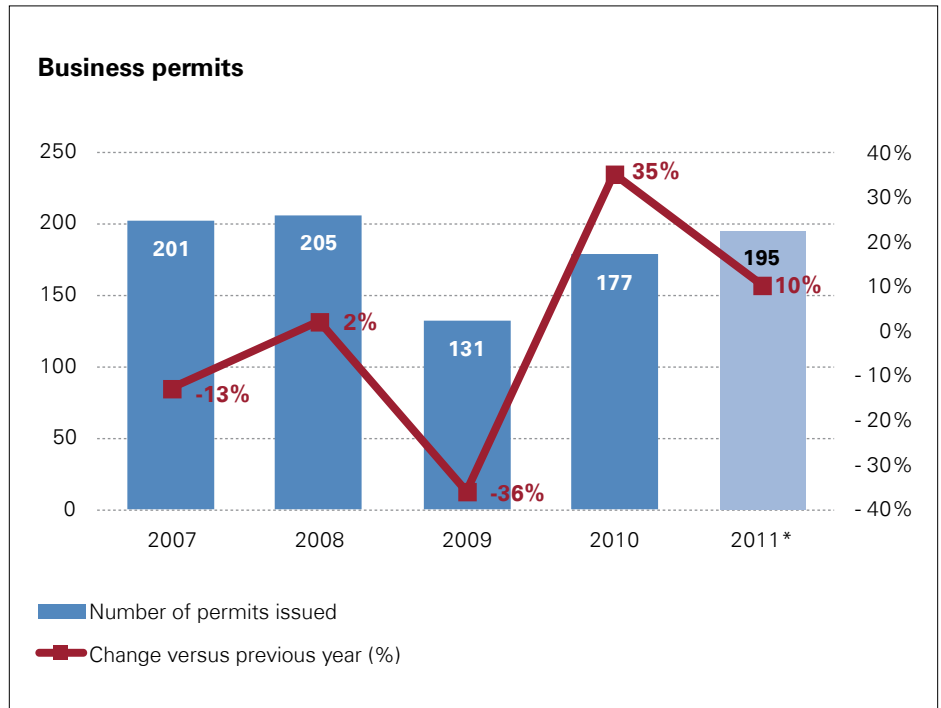
In 2010 the number of business permits issued in all SEZ totalled 177, up by as much as 35% versus 2009.



**In 2011
the capital
expenditures
figure will be
close to that
of 2010.**

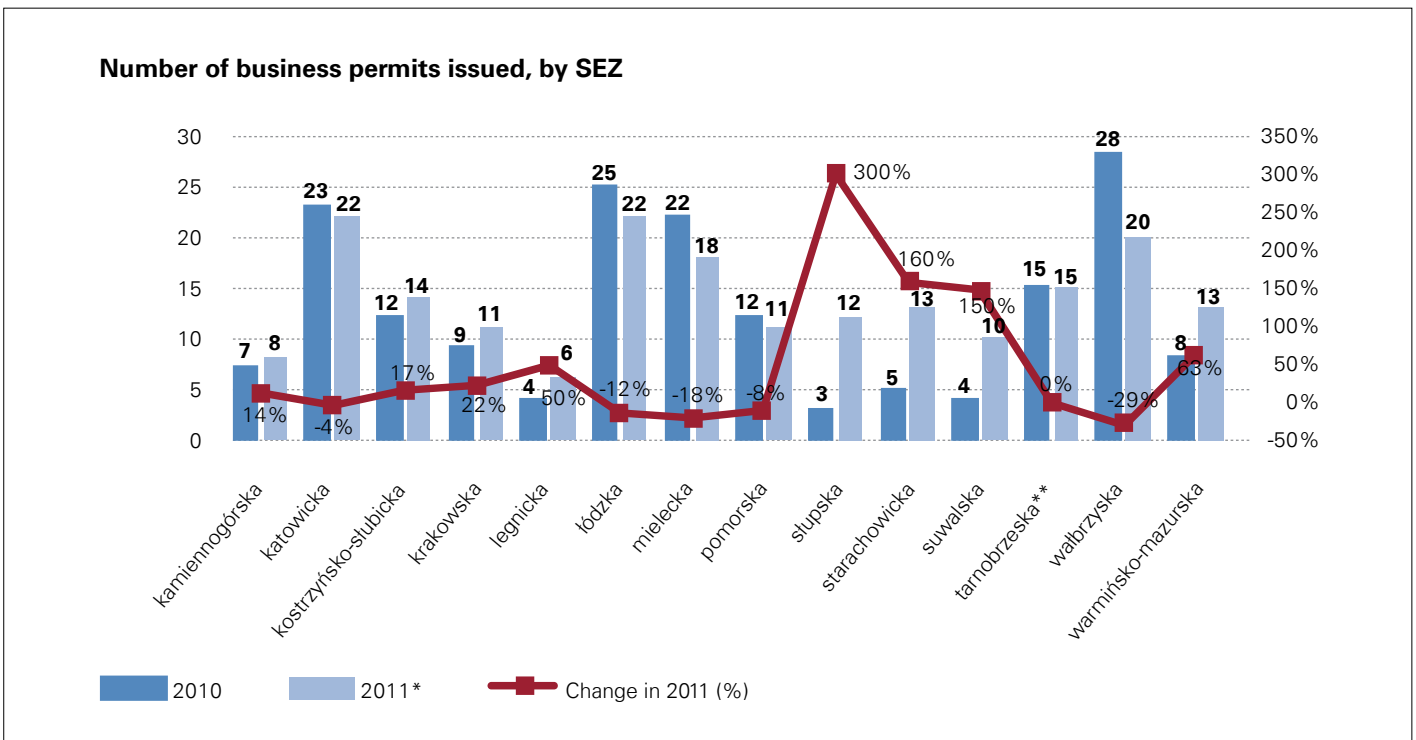
5.2. Capital expenditures

In 2010 the value of capital expenditures made in all SEZ dropped by as much as 33% in comparison with 2009. Capital expenditures



Source: KPMG in Poland based on Ministry of Economy data and statements made by SEZ.

*Forecast



Source: KPMG in Poland based on Ministry of Economy data and statements made by SEZ.

*Forecast

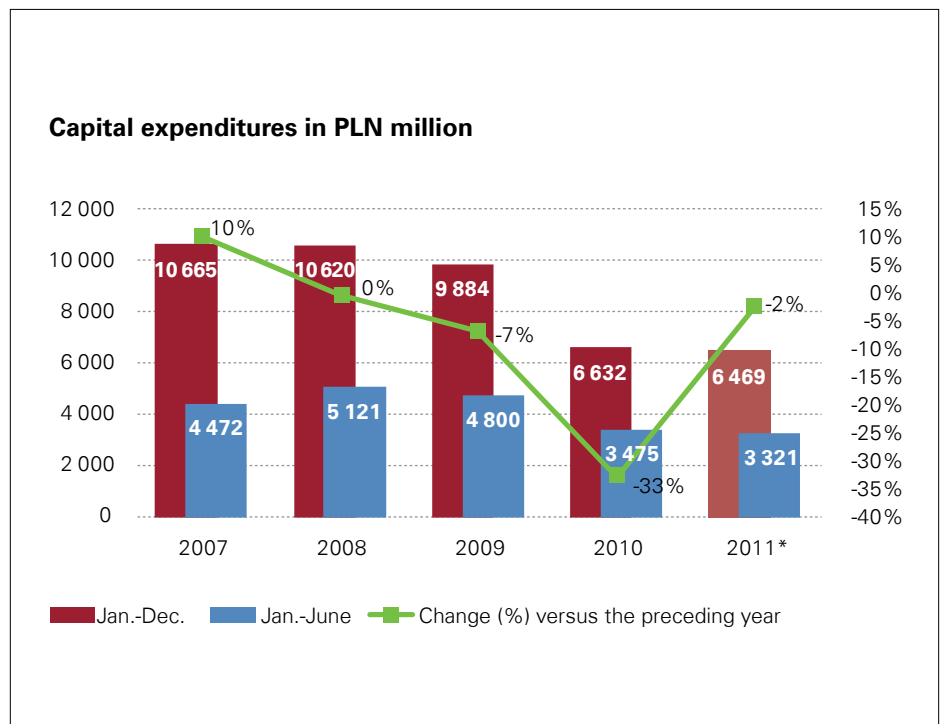
**Values are the arithmetic means of the maximum and minimum figures given by the SEZ



If investors' declarations are confirmed, nearly 200 new business permits (195) will have been issued throughout 2011.

are a category which responds to economic crisis later than any other factor. Such a dramatic decline stems from the very poor 2009 figures when the rock bottom of the crisis was recorded. Throughout 2010 capital expenditures totalled PLN 6,632 billion, resulting not only from a low number of new business permits issued for SEZ but also investment restrictions imposed on businesses already operating in the zones. Last year the management boards of SEZ very thoroughly predicted a decline in capital expenditures. Ultimately, the forecasting error amounted only to 2 points, which shows that the methodology we adopted was accurate. Declarations made by SEZ boards indicate that capital expenditures in 2011 should remain

at a similar level in comparison with 2010 and might reach approx. PLN 6.5 billion. This figure is realistic since entrepreneurs incurred capital expenditures of PLN 3.3 billion in the first half of the year. Analysis of previous years' data shows that H2 of the year was usually similar to H1 in terms of capital expenditures, which is why the forecast of PLN 6.5 billion seems attainable by the end of the year. In 2010 only the Łódzka SEZ recorded capital expenditures over PLN 1 billion (PLN 1.02 billion). This figure was close to those achieved by the Wałbrzyska, Katowicka and Pomorska SEZ (over PLN 800 million). At the other end we saw the Krakowska and Suwalska SEZ, where capital expenditures did not cross the mark of PLN 100 million. Apart from the general



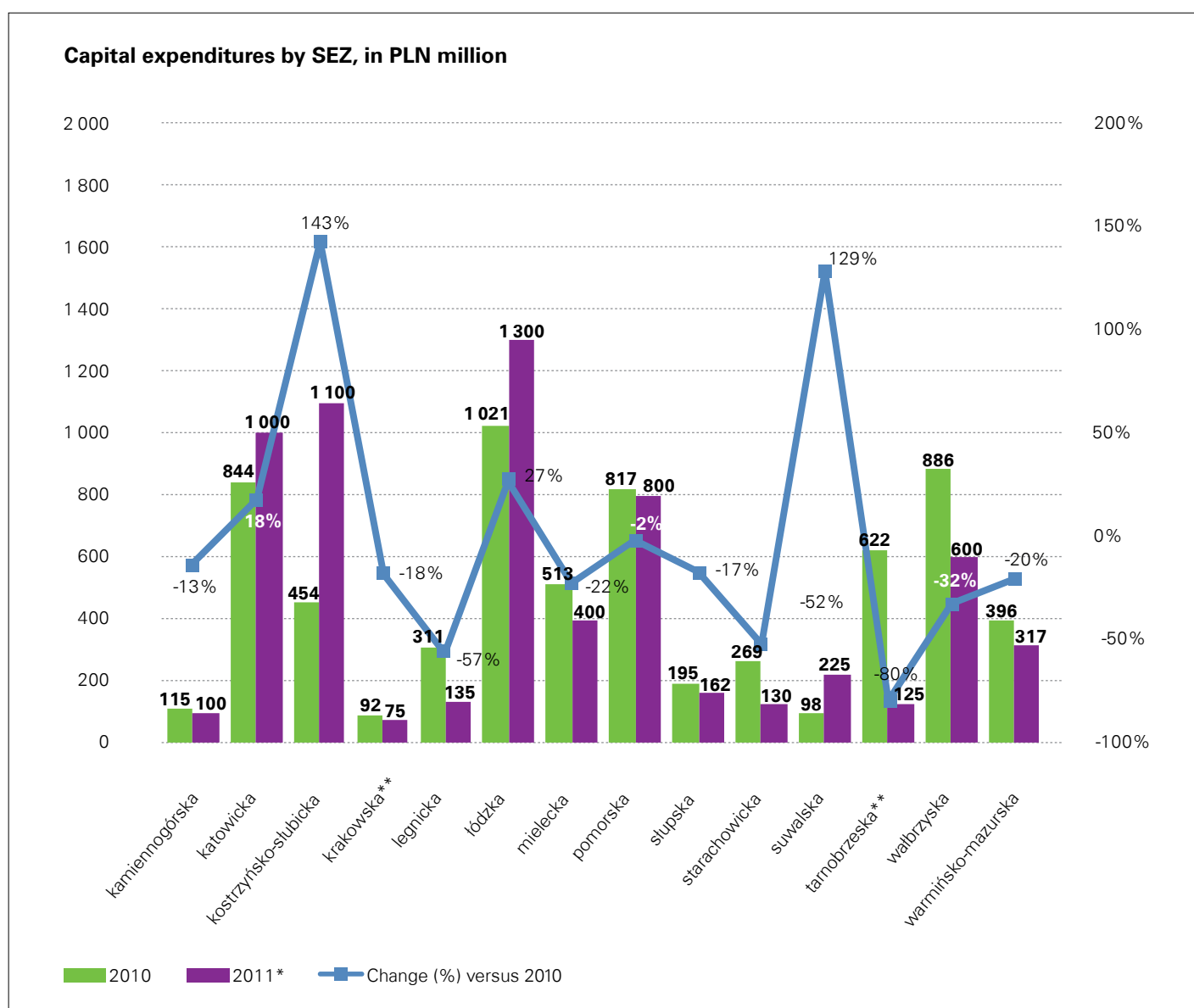
Source: KPMG in Poland based on Ministry of Economy data and statements made by SEZ.

*Forecast

economic conditions, the amount of capital expenditures may also depend on the size of the zone and its special characteristics.

The 2011 forecasts vary from zone to zone, ranging from -80% to even +143%. Based on statements made by SEZ boards, at least PLN 1 billion may be invested in three zones in 2011. Again, the highest figure should be recorded in the Łódzka SEZ (PLN 1.3 billion). Interestingly,

the Kostrzyńsko-Słubicka is likely to come second, with an expected investment of approx. PLN 1.1 billion, up by as much as 143% versus 2010. If managements' expectations come true, the growth in capital expenditures for the Kostrzyńsko-Słubicka SEZ will be higher than in any other zone, as a result of business permits issued for a few major investors. The third zone with capital expenditures expected to reach PLN 1 billion is the Katowicka SEZ (up by 18% versus 2010).



Source: KPMG in Poland based on Ministry of Economy data and statements made by SEZ.

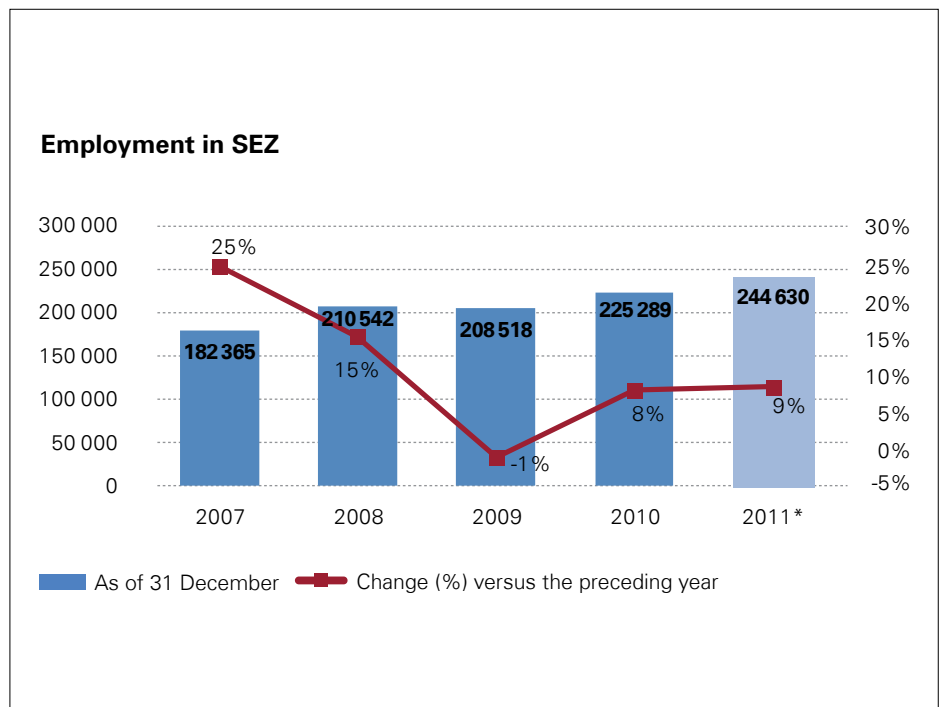
*Forecast

**Values are the arithmetic means of the maximum and minimum figures given by the SEZ

5.3. Number of jobs

In 2010 the number of jobs in SEZ exceeded 225,000 and went up by 8% in comparison with the difficult year of 2009. The increase in the number of jobs was so significant that it allowed to exceed the figures recorded before the economic downturn. Interestingly, our last year's forecasts were fully confirmed in this case. The respondents from SEZ boards made an error amounting to only over 200 jobs in total (i.e. slightly over 0.1%).

According to the declarations of SEZ boards in 2011 the number of jobs may increase by nearly 20,000 in comparison with 2010, which will be equivalent to a 9% increase. Again, the highest number of jobs since the beginning of SEZ in Poland will be reached. One may predict that transitory unrest on global markets should not have a major impact on the long-term increase in the number of jobs in the zones. The dynamics, however, may get lower and lower given the nearing end of the validity period of



Source: KPMG in Poland based on Ministry of Economy data and statements made by SEZ.

*Forecast



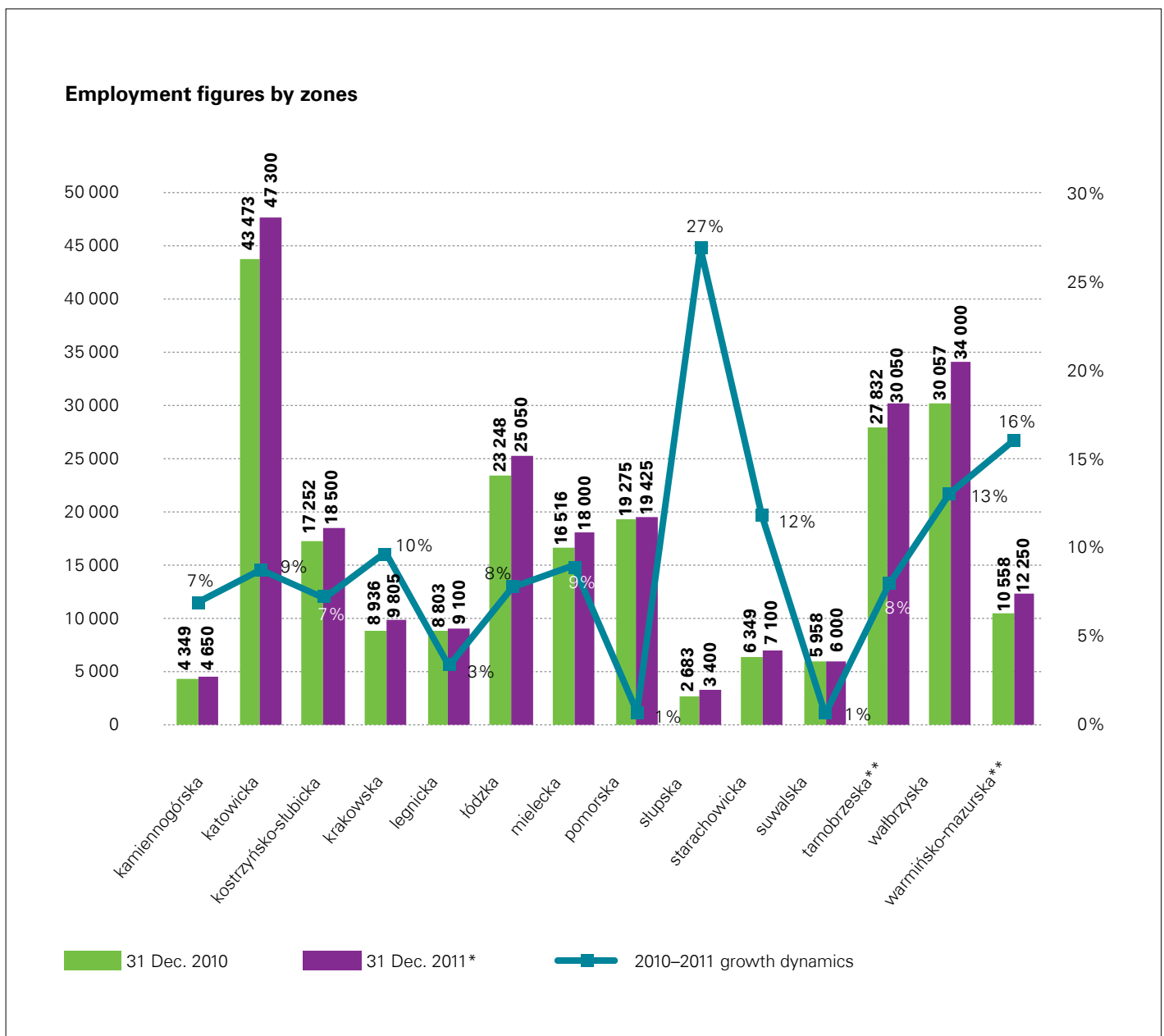
According to statements made by SEZ boards, the number of jobs in 2011 is likely to grow by nearly 20,000 in comparison with 2010, which will mean an increase by 9%.

the SEZ Act and the related uncertainty among investors.

For a few years now, the number of jobs has been rising steadily in all SEZ (except 2009). In absolute terms, the highest employment figure was recorded in the zones which have the largest area and highest number of investors: Katowicka, Wałbrzyska,

Tarnobrzaska and Łódzka. Based on respondents' statements, 2011 should see the highest increase in the number of new jobs in the Słupska SEZ where it might even exceed 25%. Growth of more than ten percent is also expected in the Warmińsko-Mazurska SEZ where the employment at the end of 2011 should go beyond 12,000. None of the zones expects layoffs. Minimal growth

in the number of new jobs, merely 1%, is expected in the Pomorska and Suwalska SEZ.



Source: KPMG in Poland based on Ministry of Economy data and statements made by SEZ.

*Forecast

** Values are the arithmetic means of the maximum and minimum figures given by the SEZ



6

Assessment of SEZ performance

For a few years now we have published a summary of the economic and financial data of Special Economic Zones and we bring such data in this report as well. With minor modifications in our methodology, we were able to compare the performance of various zones in subsequent years of their operation.

Yet again, we need to emphasize that our summary table does not represent a ranking of the SEZ and is not intended to identify the best performing or the worst performing zones. We do realise that each of the 14 SEZ operates under its specific conditions which do not always guarantee comparability of findings across the zones. Based on the summary table below, we cannot tell whether one zone is performing better than another. Instead, we recommend that Readers compare the figures for each individual zone over time as each SEZ is a unique entity operating in its own environment. It seems natural that SEZ with a larger area may achieve better absolute results. On the other hand, smaller SEZ are theoretically in a position to achieve higher growth dynamics.

In our summary table, we have retained the 19 operational and financial ratios. For each of those ratios, each zone could reach a higher-than-average score when its result exceeded the mean by over 25%, or a lower-than-average score when its results deviated from the mean

by more than 25%. One exception was the utilised area where we took a deviation by +/-10% from the mean. A different methodology was adopted for two ratios (a change in the number of jobs in 2009–2010 and a change in the financial result in 2009–2010). In those cases, growth was considered to be positive whereas a decline was considered negative (regardless of their scale).

As in last year, 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 reflecting dynamics or efficiency (e.g. the rate at which new jobs are created) were included with a weight of 1.0. As was the case last year, this summary table does not cover indicators related to expenses incurred on SEZ promotion.

As of 31 Dec. 2010		Weight																			
Kamienogórska SEZ	46	0.125	12.20%	7	1.91%	1,551.10	8.00%	4,349	6.41%	367.14	49.76%	9.79	27	0.36	19.50	0.30	0.05	300.20	105.34%	4.5	6.5
Katowicka SEZ	201	0.105	4.69%	23	1.20%	16,869.60	5.27%	43,473	6.75%	1,917.68	53.10%	19.34	50	0.39	346.90	26.00	0.18	5,259.50	30.19%	8.5	3.0
Kostrzyńsko-Słubicka SEZ	112	0.088	5.66%	12	0.95%	3,786.30	13.61%	17,252	10.58%	1,267.49	62.12%	7.76	35	0.22	139.10	15.80	0.11	300.70	-84.15%	2.0	3.0
Krakowska SEZ	58	0.111	7.41%	9	1.72%	1,655.70	5.86%	8,936	3.98%	523.4	61.55%	6.32	34	0.19	49.40	8.80	0.09	451.70	145.49%	3.5	7.5
Legnicka SEZ	53	0.051	0.00%	4	0.38%	4,568.80	7.31%	8,803	8.96%	1,041.84	27.04%	19.24	37	0.52	51.40	2.10	0.05	1,830.00	33.20%	4.5	8.5
Łódzka SEZ	142	0.118	17.36%	25	2.09%	8,184.80	14.25%	23,248	11.53%	1,198.70	67.19%	10.65	30	0.35	250.60	55.10	0.21	6,405.80	-13.34%	7.5	1.0
Mielecka SEZ	150	0.132	17.19%	22	1.94%	4,690.30	12.29%	16,516	6.16%	1134.96	70.30%	11.27	40	0.28	267.80	38.50	0.24	6,345.10	21.88%	9.5	0.0
Pomorska SEZ	75	0.060	10.29%	12	0.97%	6,727.40	13.83%	19,275	1.38%	1,239.96	76.71%	8.43	24	0.35	288.60	81.10	0.23	22,863.00	1,611.17%	7.0	2.0
Ślupska SEZ	45	0.112	-4.26%	3	0.75%	963.6	25.29%	2,683	12.59%	401.09	60.89%	6.31	18	0.36	39.10	16.10	0.10	1,547.00	72.52%	3.5	8.5
Starachowicka SEZ	70	0.117	-4.11%	5	0.84%	1,528.90	21.32%	6,349	-2.50%	595.81	62.17%	7.1	29	0.24	7.60	0.40	0.01	132.80	-46.73%	1.5	9.5
Suwalska SEZ	56	0.163	5.66%	4	1.17%	1,474.90	7.15%	5,958	18.54%	342.77	68.73%	11.28	46	0.25	22.70	0.00	0.07	-1,947.60	-46.48%	4.0	7.0
Tarnobrzęska SEZ	121	0.078	5.22%	15	0.97%	6,081.40	11.39%	27,832	19.27%	1,551.91	67.70%	8.82	40	0.22	214.30	33.30	0.14	4,802.10	-1.95%	4.5	3.0
Wałbrzyska SEZ	159	0.094	12.77%	28	1.66%	12,105.40	7.89%	30,057	5.56%	1,685.13	67.94%	12.07	30	0.40	351.00	33.30	0.21	22,708.40	282.25%	10.0	1.0
Warmińsko-Mazurska SEZ	66	0.079	8.20%	8	0.95%	3,033.40	15.00%	10,558	7.75%	838.94	71.06%	6.04	21	0.29	124.80	41.20	0.15	245.10	-90.72%	3.0	5.0
Mean	97	0.103	7.02%	13	1.25%	5,230.11	12.03%	16,092	-	1008	61.9%	10.32	33	0.31	155.20	25.14	0.13	-	-	5.3	4.7

KPMG in Poland based on Information on the implementation of the SEZ Act. As of 31 December 2010. (original Polish title: Informacja o realizacji ustawy o specjalnych strefach ekonomicznych. Stan na 31.12.2010 r.), Ministry of Economy, Warsaw, May 2011, and information sourced from the Ministry of Economy website.

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

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

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

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

** Area utilised (%): by more than 10% higher than the mean for all SEZ (dark blue); by more than 10% lower than the mean for all SEZ (pale blue)

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

When analysing the summary table presented in the preceding page, we can conclude that 2010 was much better than 2009 for all the SEZ. This is reflected primarily in the marked increase in the mean for most of the analysed ratios in all the 14 zones. The mean of the higher-than-average scores went up by as much as 1.1 points in comparison with 2009 and reached 5.3 points in 2010. In parallel, the mean of lower-than-average scores dropped from 5.8 to 4.7. This means that the vast majority of zones recorded growth

in economic and financial ratios versus 2009.

As regards financials, the 2010 performance was clearly better than that of 2009. In the last year's edition of our survey only three SEZ performed better in terms of growth dynamics of their financial result. Those trends reversed in 2010 and only 6 SEZ reported negative growth in their financial result. The highest growth was observed for the Pomorska SEZ (due to a few very large investments).

As in 2009, only one zone, i.e. Suwalska SEZ, ended the year with a negative financial result.

The best ratio between higher-than-average and lower-than-average scores was observed for the following zones: Mielecka, Wałbrzyska and Łódzka.

Comments from SEZ managers regarding economic and financial situation¹:

When analysing the table with financial and economic data I should emphasise that the Kamiennogórska SEZ has a relatively small area, and our profits and layouts on infrastructure as well as the number of business permits issued stem from this fact. Our area is a few times smaller than those operated by larger SEZ.

Whenever data are provided in summary tables, analyses take no account of the business profile and location of smaller zones, and when comparisons are drawn against SEZ operating in much larger areas or in major urban centres, thus bringing all zones to a common denominator, we cannot get a true picture of smaller SEZ, operating in more challenging locations. As the managing company running the Kamiennogórska SEZ of Small Business, we believe it is more important and more illustrative to look at growth rates and ratios per 1 ha, where we perform above the SEZ average and are continuously improving.

Iwona Krawczyk
President
Kamiennogórska SEZ

2010 can be viewed as much better than 2009 for our managing company in terms of the results achieved within the Kostrzyńsko-Słubicka SEZ.

As a result of our efforts:

- 12 permits were issued (8 in 2009) for businesses operating within our SEZ; based on those permits entrepreneurs expect to create 2,456 new jobs (330 in 2009) and spend approx PLN 539.5 million on investments (PLN 144 million last year);
- new areas, totalling 64.3580 ha, have been incorporated into our zone;
- technical infrastructure within our SEZ has been expanded at the cost of PLN 2,630,857.96.

However, the measures taken to issue 12 permits were not reflected in our financial profits, which reached PLN 300,600 in 2009.

Our low financial result is caused primarily by low revenues from sale of land to entrepreneurs. After the global

crisis, investors are still very cautious about new investment decisions: the decision-making process is lengthy and entrepreneurs oftentimes withdraw from earlier plans.

The main reason behind the shrinking capex figures, affecting the creation of new jobs and construction of technical infrastructure, were the re-investments made by investors on property they already occupy. Consequently, the SEZ managing company generated lower revenues. Also, expenditures on technical infrastructure were not needed under the circumstances.

On the other hand, our marketing efforts in 2011 brought investments in new areas and, consequently, capital expenditures related to new job creation will go dramatically up, with the costs of technical infrastructure for new areas being tangibly higher to satisfy the needs of companies which bring their investment projects here.

Roman Dziduch
Vice-President
Kostrzyńsko-Słubicka SEZ

¹ KPMG did not interfere with the content of the original statements

In 2010 the management board of the Krakow Technology Park issued 9 business permits for companies seeking to establish themselves in the Krakowska SEZ. Two of those permits went to companies which had previously invested in SEZ, which undoubtedly proves that companies understand the significant benefits of investing their capital within the Krakowska SEZ.

In 2010, capital expenditures in our SEZ exceeded PLN 113 million, and 124 new jobs were created. The same year brought the first steps in the construction of the Małopolski IT Park, the largest investment within the Krakow Technology Park. It is now being constructed in Pychowice, under a project entitled 'Małopolski Information Technology Park – Innovation Centre of the Krakow Technology Park'. The Centre is expected to intensify the growth of our region and the country as a whole. It will serve as a key tool to build modern economy in Poland. The MITP is primarily focused on information technologies and is expected to become a leading meeting place for industry, academia and public administration, working together to develop ICT solutions for an 'intelligent city'. The Centre will offer extensive office facilities, state-of-the-art laboratories and a broad range of advisory and training services.

Wiesława Kornas

President
Krakow Technology Park

2010 was another successful year for the Łódzka SEZ. Our company finalised the purchases of two attractive plots within the Łódź agglomeration, with a total area of 25 ha. At present the required infrastructure is being developed on those areas to address the anticipated needs of prospective investors. Moreover, our SEZ conducted many costly infrastructural investments in its subzones within the Łódzkie

voivodship. All those activities drove costs of the remaining operating activities, reducing the financial result by 14% versus 2009. As regards statutory activities, in 2010 our SEZ solicited the largest number of investment projects ever (25 permits). Notably, a large proportion of those were highly innovative projects and undertakings from the R&D and BPO sectors.

Tomasz Sadzyński

President
Łódzka SEZ

The economic and financial summary table for 2010 positions the EURO-PARK MIELEC SEZ among above-the-average performers with scores exceeding the total average by more than 25% in as many as 13 out of 19 items (68%). The remaining 6 items (32%) represent approx. 25% versus the total average for all the SEZ. This confirms the strong position of the Mielecka SEZ among the top special economic zones in Poland. Our strong performance stems from our continued strategy to attract new investment projects by creating a highly conducive environment for potential investors.

Mariusz Błędowski

Head of Industrial
Development Agency branch in Mielec
Mielecka SEZ

The prevalent share of investments in the Pomorska SEZ is made up by major projects which usually involve the use of land for warehousing and manufacturing purposes. Consequently, despite the highest utilisation of the zone's area (as a percentage), the Pomorska SEZ has a relatively low number of jobs per 1 ha of utilised area and a small number of permits issued per 1 ha.

Notably, the growth rate related to the number of permits issued by the Pomorska SEZ is higher than the SEZ

average. The same holds true for capital expenditures incurred by investors and for expenditures made by the Pomorska SEZ to build its infrastructure. 2010 was a year of robust growth for our zone, with more major investment projects, such as the 3rd stage of the Gdańsk S&T Park or the purchase of land formerly used by the Gdynia Shipyard, where the Baltic Industrial Park will be constructed. It is important to emphasise that we generated a higher-than-average financial result for 2010, more than ten times higher than the 2009 figure.

Teresa Kamińska

President
Pomorska SEZ

The Słupska SEZ is among the smallest special economic zones in Poland. Our conditions of operation are markedly different from those enjoyed by SEZ in central Poland. For this reason, it is not valid to compare the performance of our zone with major SEZ located in the vicinity of motorways, airports or major academic centres. Nevertheless, we believe that the Słupska SEZ, as a support instrument, is making its contribution by stimulating economic growth in central Pomerania. Apart from tax incentives available from SEZ, entrepreneurs appreciate the supportive attitude of local authorities, competence of Investor Service Department staff and the natural beauty of our region (proximity of sea, lakes and forests). The Pomeranian Regional Development Agency (PRDA) works together with local governments to build an atmosphere of partnership and collaboration, thus supporting the growth of business. As the managers of the Słupska SEZ, we spare no effort to encourage local governments to contribute towards preparing and developing infrastructure for investment areas.

The PRDA is involved in the construction of the Słupsk Technology Incubator, a project totalling nearly PLN 41,000,000

gross. The project is co-financed by the European Union from the European Regional Development Fund under the 2007-2013 Regional Operational Programme for the Pomeranian Voivodship. Moreover, we also conduct EU-funded projects aimed at promoting our region in Scandinavia, attracting new investors and establishing business-to-business relations. Our projects help to promote and develop our region, support the creation of new businesses and the growth of existing ones. Despite the economic challenges in Poland and worldwide, the PRDA has undertaken a number of measures to stimulate the economy in our region, helping our company to achieve fairly satisfactory financial performance.

Leonard Ferkaluk

Head of Investments
Słupska SEZ

Looking at the data presented in the attached summary table, I need to comment on the column showing a change in the number of jobs in 2010/2009. The declining employment resulted from the persisting economic crisis, which affected particularly the auto-motive, metal, wood and construction materials industries. Optimism may derive from the fact that the decline in employment was lower than that in 2009/2008 and that the capital expenditures in our SEZ continued to grow. As regards data on profitability of investments in our SEZ, including outlays on infrastructure, we reiterate that our zone has solid infrastructural facilities (cf. KPMG reports of 2008 and 2009) and, consequently, does not require high expenditures from either the managing company or the investors. The high appeal and economic profitability of investments located in our SEZ is best proven by the fact that we made it to the TOP TEN in terms of investment efficiency in the Financial Times – fDi Magazine

Report 'Global Free Zones of the Future 2010/2011'. In this category, our SEZ outperformed all other SEZ in Poland and took the 10th position worldwide. As in previous years, we point out that a summary table which compares such highly varied entities (e.g. in terms of region and the related infrastructure) does not do justice to the singularities and conditions of their operation. The successes of Starachowicka SEZ should be viewed in the context of its specific external and internal conditions and the available infrastructure.

Marek Bogumił

President
Starachowicka SEZ

Despite ending 2010 with a negative result, the Suwalska SEZ nevertheless came 2nd in terms of the number of new jobs (18.5% growth) and 2nd in terms of the number of jobs per 1 ha (46). It also achieved a high position (4th) in the degree of area utilisation (68.73%) and also the 4th position in terms of capital expenditures per 1 ha (PLN 11.28 million). These data prove that despite problems with attracting investors to its region, often labelled as 'lagging behind in growth', the Suwalska SEZ nevertheless achieves results indicating that its investors make a good use of the land purchased. The SEZ effectively pays out a 'social dividend' to its shareholders in the form of nearly 6,000 jobs and nearly PLN 1.5 billion in capital expenditures. This is hugely important in a region where unemployment in many places is twice as high as the country's average. In order to compete on equitable terms with other zones, the Suwalska SEZ must gain a competitive advantage such as an extended period of operation and preferential terms for receiving budgetary grants. Those efforts, combined with more intensive promotion of Eastern Poland and a

focus on attracting investors to this region (measures undertaken by the PAIiZ, Polish Information and Foreign Investment Agency) may open new opportunities for the region to attract the much wanted investments. 2011 started with 7 new permits being issued, which may promise a much better year than the preceding one.

Wojciech Kierwajtyś

Vice-President
Suwalska SEZ

When assessing the parameters reflecting the economic and financial performance of all SEZ in Poland, we see that the Tarnobrzaska SEZ again holds a very good position among other special economic zones our country. In 9 out of 21 ratios our zone scored well beyond the country's average, and in further 8 it performed close to the average, with 4 ratios exceeding the mean scores. From the SEZ managers' perspective, aspects of particular importance include the high employment in our SEZ, high total capital expenditures and high expenditures on infrastructure in the zone. The number of business permits issued is also higher than the country's average, which shows that we have been pursuing an efficient policy in managing the areas at the disposal of the TSEZ EURO-PARK WISŁOSAN.

Marek Indyk

Director, Industrial Development
Agency in Tarnobrzeg
Tarnobrzaska SEZ

The situation on global and European markets has not left our area of operation unaffected. However, in comparison with 2008–2009, we can see an upward trend. While the number of permits issued has not gone up (8), yet the value of declared capital expenditures and new jobs has climbed considerably.

Sizeable improvements have been recorded in the rate of investments pursued by investors. An increase in capital expenditures incurred in 2008–2009 represented approx. 8.0%, whereas the respective figure for 2009–2010 leapt to approx. 15.0% (a nearly two-fold increase).

The employment dynamics has dropped slightly from 9.7% (866 people) in 2008–2009 to approx. 7.75% (730) in 2009–2010.

In comparison with 2008–2009 (83.6% below the average) there has been a considerable improvement in the infrastructural outlays (currently: 41.2% above the average). This indicates that our land is ever better prepared for new investors.

Krzysztof Gąsior

Dyrektor Departamentu Infrastruktury
Warmińsko-Mazurska Specjalna Strefa
Ekonomiczna



7

SEZ as seen by the businesses operating within them



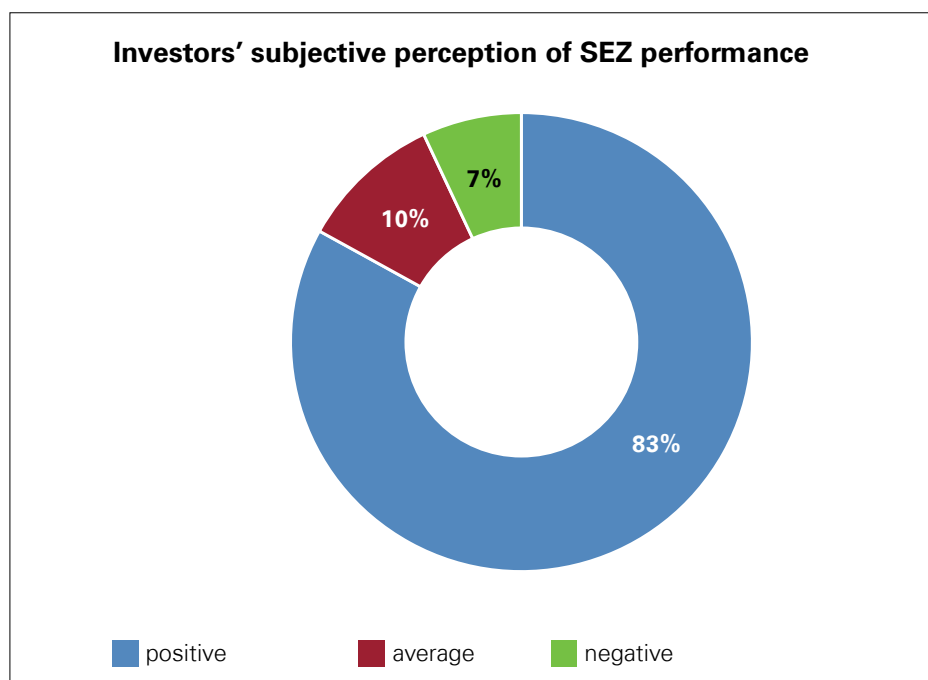
As last year, 83% of the respondents gave their SEZ a positive rating. This year, investors awarded the highest marks to the Łódzka SEZ.

A study into the moods of investors operating in SEZ allows us to provide a realistic picture of the SEZ from the entrepreneurs' perspective.

7.1. Perception of SEZ

This year once again we asked investors to provide their subjective evaluation of the SEZ they operated in. The respondents were answering our questions using 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.

As in last year, 83% of the respondents gave their respective SEZ a positive rating. We noted a minimal increase in the number of entrepreneurs who assigned negative marks (up by 3 percentage points to 7%). In comparison with the previous edition of our study we recorded an identical decrease in the number of those giving their SEZ an 'average' mark. One might conclude that despite all the turmoil on internal markets investors have been generally satisfied with the performance of their respective SEZ over the last few years.



N=194

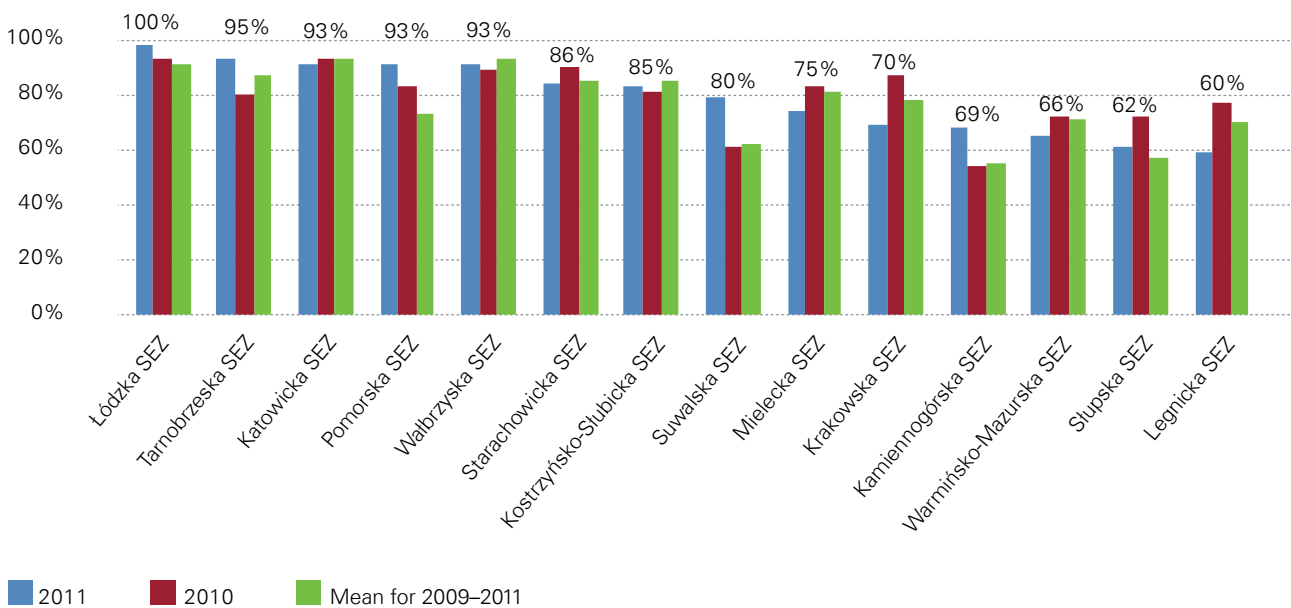
Source: KPMG in Poland

When looking at answers for individual SEZ we see that the breakdowns are largely in line with last year's results. This year the list is topped by the Łódzka SEZ, positively rated by all the respondents. The greatest jump upwards versus the previous edition was recorded for the Tarnobrzaska SEZ, now second, with a gain of as much as 13 percentage points (up to 95%). On an optimistic note, most of the SEZ which had the lowest percentages of positive marks nevertheless saw an improvement versus a year ago.

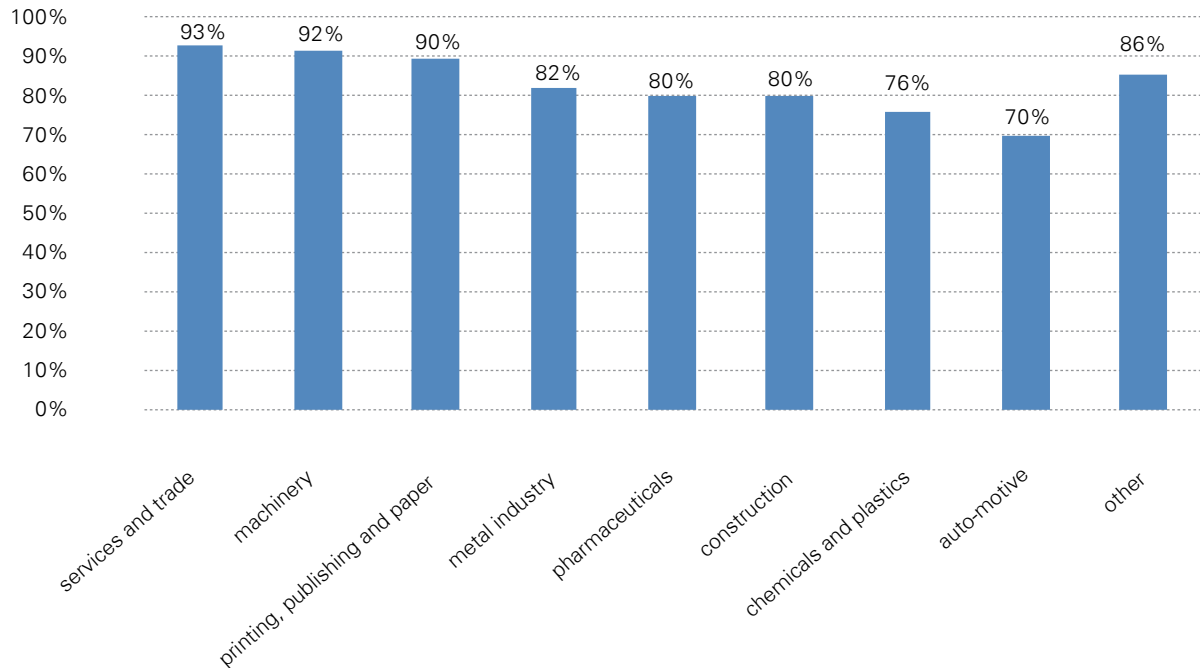
The lowest share of satisfied investors was observed in the automotive sector (70%), the strategic industry of several SEZ. At the other end of the scale, highest satisfaction was reported by trade and services firms (93%). These were closely followed (difference of one point) by the machinery and equipment sector. Perhaps the relatively low satisfaction among investors in the auto-motive sector is partly due to the economic downturn and general turmoil which has affected this sector in the last few years.

This year we decided to introduce sectoral analysis of responses for the first time.

Investors' positive ratings for the performance of SEZ, by SEZ



Investors' positive ratings for the performance of SEZ, by sector



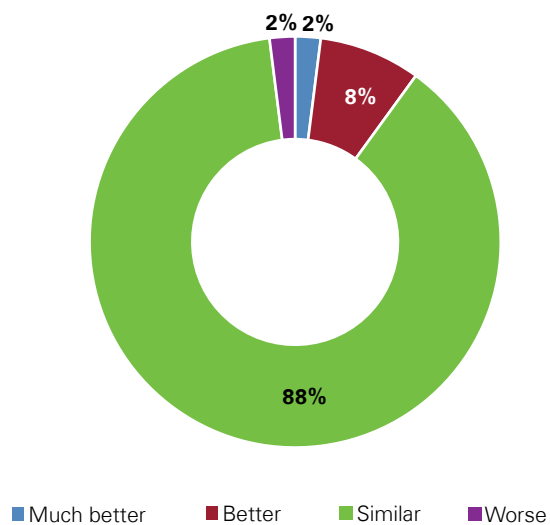
N=194
Source: KPMG in Poland

As many as 88% of those interviewed said they would rate their SEZ at the same level as last year. On the other hand, as many as 10% rated their zone 'better' or 'much better', and only 2% rated it 'worse'. None of the surveyed entrepreneurs thought their SEZ operated 'much worse' this year.

Once again we asked investors about the areas where they would like to see support being provided by the SEZ. Year by year we observe a diminishing demand from entrepreneurs for support from the SEZ managing companies. Businesses operating in the SEZ increasingly believe that the aspects covered in our survey are internal issues for each company.

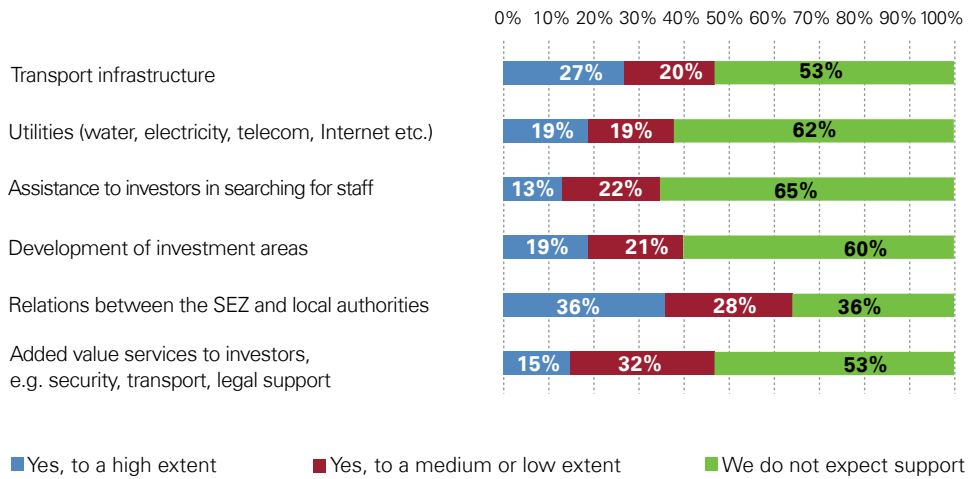
Relations with the local government continue to be mentioned most frequently as an area of expected support, with 36% of the respondents expecting high degree of support,

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



N=194
Source: KPMG in Poland

In which areas do you most expect support from the management of your SEZ?



N=194

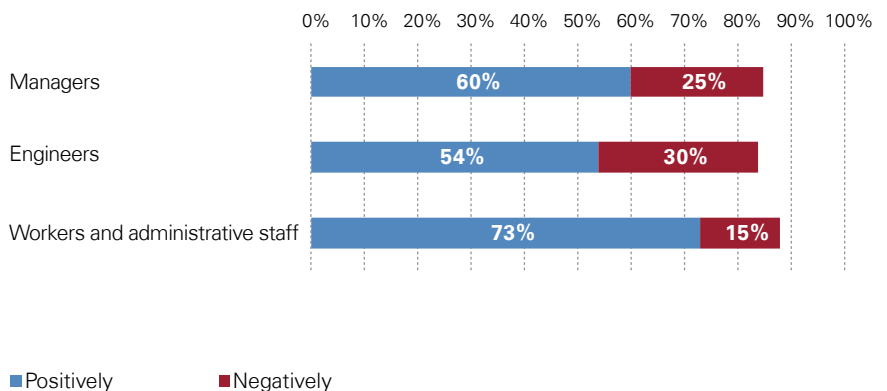
Source: KPMG in Poland

and 28% wanting a medium level of support (the total of 64% is almost 20 points lower than in the last year's edition). The prevalent view amongst investors is that the SEZ today is more an advisory and an administrative entity than an operational entity.

7.2. Human resources in the SEZ

As last year, we measured the perceived availability and general skills of SEZ workforce. The average results were not much different than those recorded in the preceding year. The vast majority of investors continue to hold a positive opinion as to the availability of workforce. We noted the largest swings in opinion with regard to workers and administrative staff. This time, there has been a marked increase in number of respondents negatively viewing this category of staff (up by 7 points: from 8% to 15%). Availability of managers and engineers was rated positively by over

How would you rate the availability of workforce in your SEZ?



a half of the respondents (respectively 60% and 54%).

N=194

Source: KPMG in Poland

Opinions on the availability of workforce varied from one SEZ to another. Two zones performed much worse in terms of availability of managers: only 30% of investors in the Suwalska SEZ expressed a positive view on the availability of this

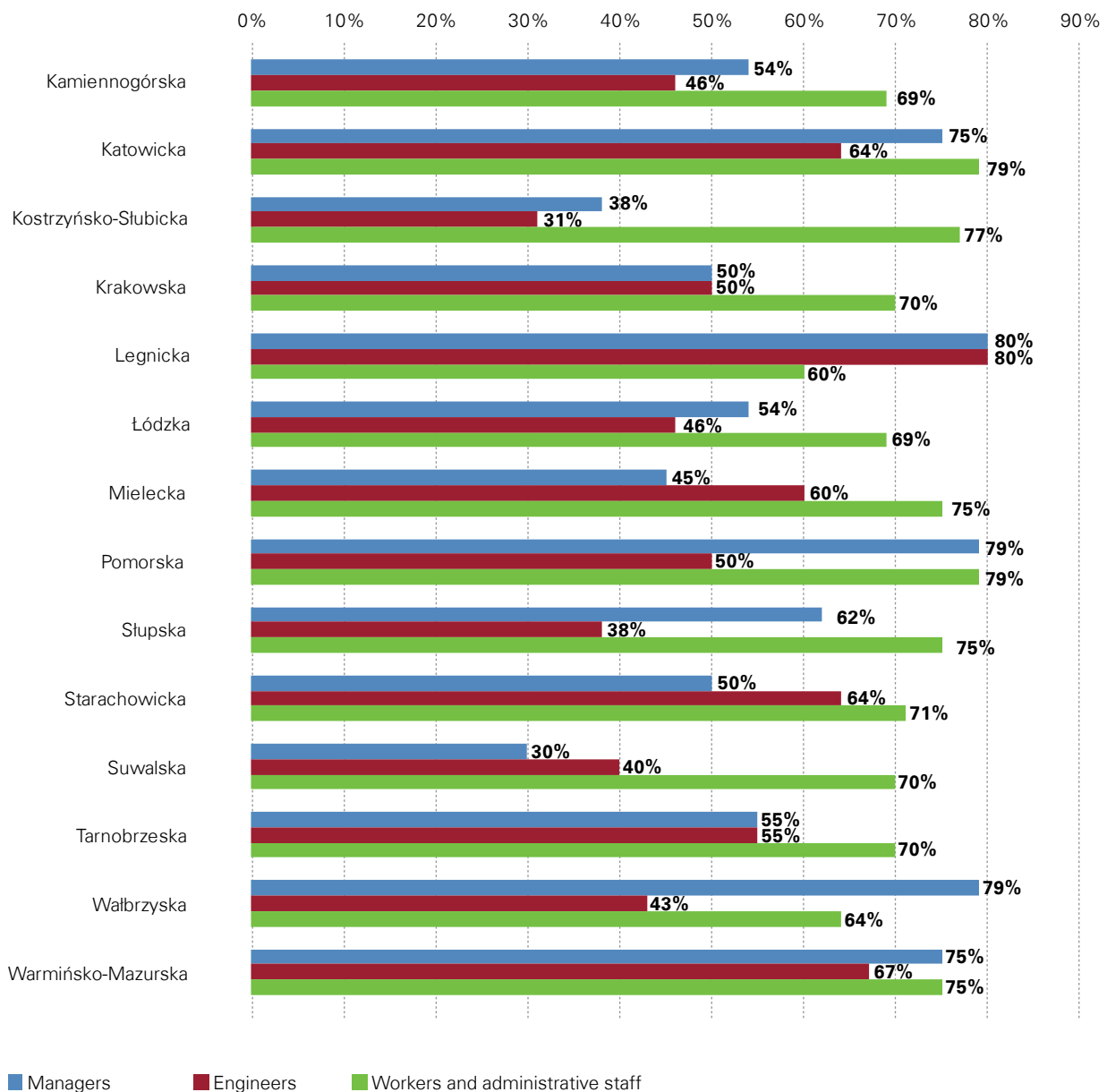
group, with the Kostrzyńsko-Słubicka SEZ not being much different (38%). Answers from those two SEZ greatly affected the general rating for the availability of managers, bringing it down considerably. At the other end of the spectrum, there seems to be no scarcity of managers in the

Legnicka (80%) or Pomorska and Wałbrzyska SEZ (79% each).

Availability of engineers is problematic for a somewhat larger group of SEZ. Again, the Kostrzyńsko-Słubicka and Suwalska SEZ have among the lowest percentages

of positive responses. A shortage of engineers was also reported by the Wałbrzyska and Słupska SEZ. A positive picture against this background was recorded again for the Legnicka SEZ (80% of positive ratings for availability) and the Warmińsko-Mazurska SEZ (67%).

Positive opinions on availability of workforce in the SEZ

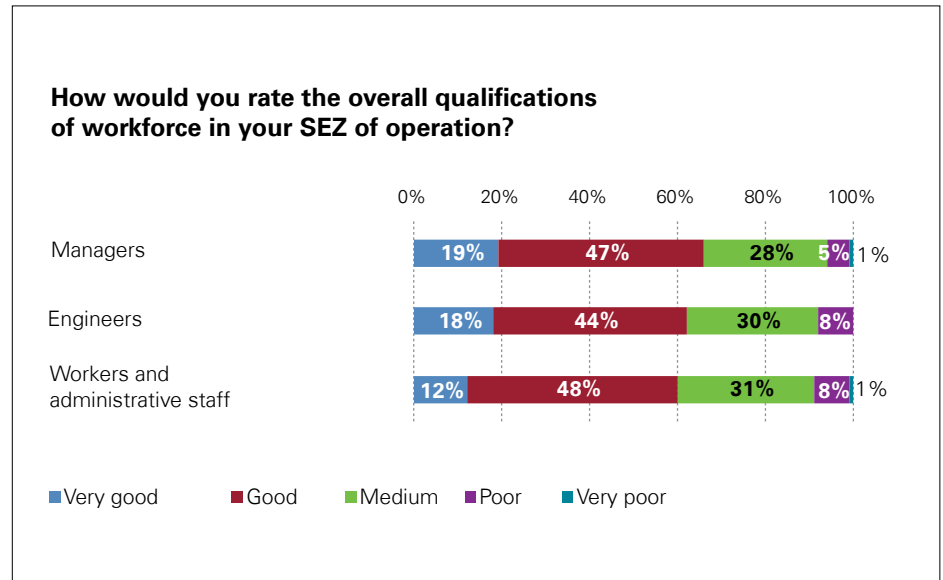


The situation with workers and administrative staff is uniform across all SEZ, with positive opinions as to their availability ranging from 64% (Wałbrzyska SEZ) to 79% (Pomorska SEZ).

Likewise, there has been no major swing in views as to the general qualifications of staff since last year. The percentage of positive responses ('very good' and 'good') is very similar to that recorded last year. Two thirds of the respondents expressed positive opinions on the qualifications of managers, 62% expressed the same view of engineers, and 60% of workers and administrative staff. The only significant difference in results versus the previous edition was the decreasing number of positive opinions for the latter category. This year, workers and administrative staff received a higher score of 'average', by as much as 14 points up since last year (17% versus 31% this year).

Sectoral analysis leads to some interesting conclusions. The most favourable opinions on managers' general qualifications are found in the auto-motive sector. As this is one of the key sectors for SEZ, staff qualifications must be high. The high percentage of positive marks given for managers' competence is shared by the printing, publishing and paper industry and the pharmaceutical sector (80% each).

As regards engineers and their qualifications, here again the pharmaceutical sector feels satisfied (80%), and is followed by printing, publishing and paper industry (70%) and metal sector (69%). The favourable opinions in the latter are



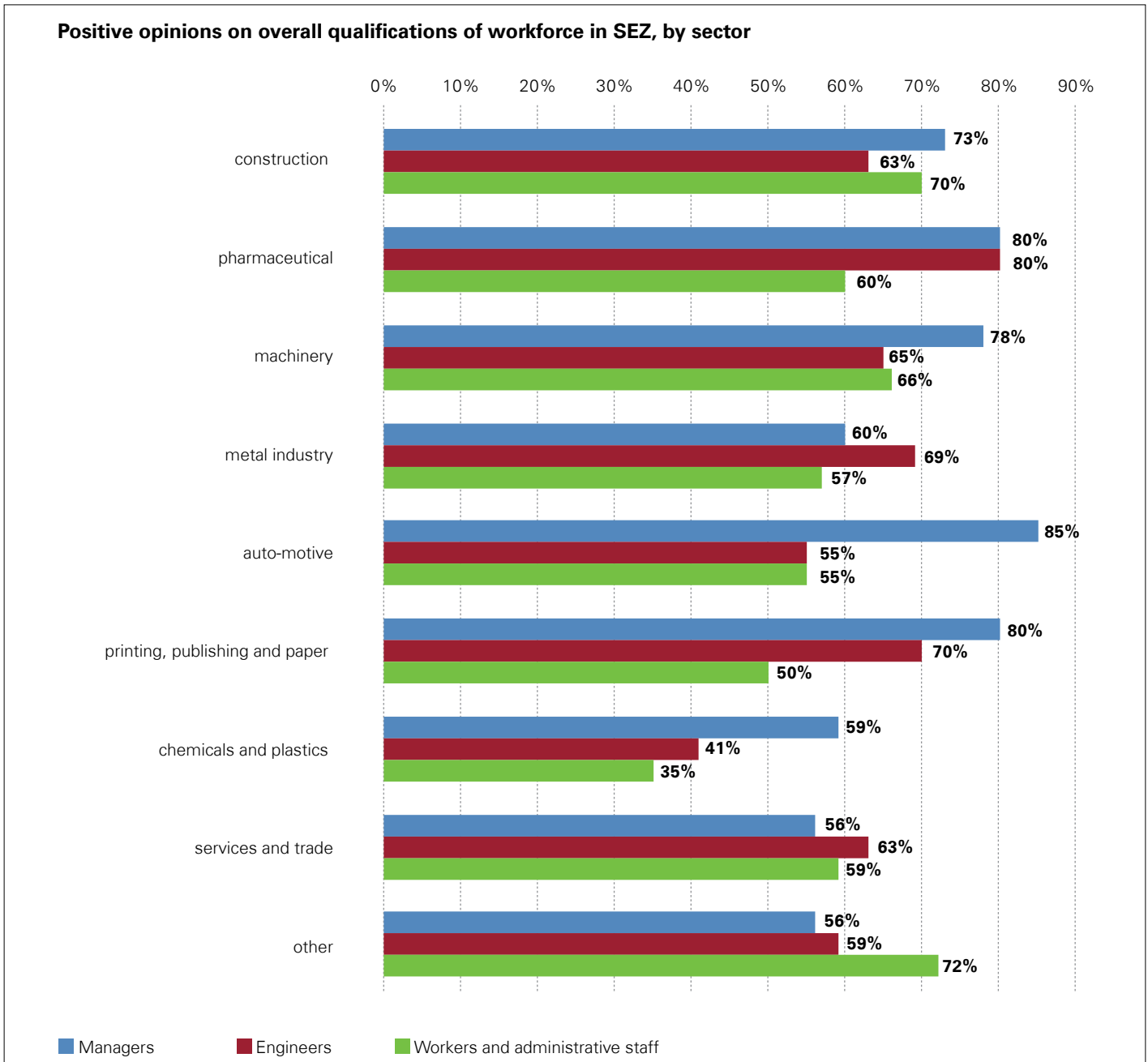
N=194

Source: KPMG in Poland

particularly notable since the Ministry of Economy report mentions it as one of the most important sectors for the SEZ. Interestingly, the dimmest view of engineers' skills came from by entrepreneurs from the chemicals and man-made materials sector (only 41% of positive ratings). That sector returned an even lower result for workers and administrative staff (35% of positive ratings), which is by 20 points lower than for the total sample. On the other hand, the best-rated workers and administrative staff were those in the construction sector (70%).

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Two thirds of the respondents expressed a positive opinion on the competences of managers, 62% had the same view of engineers and 60% of workers and administrative staff.



N=194

Source: KPMG in Poland

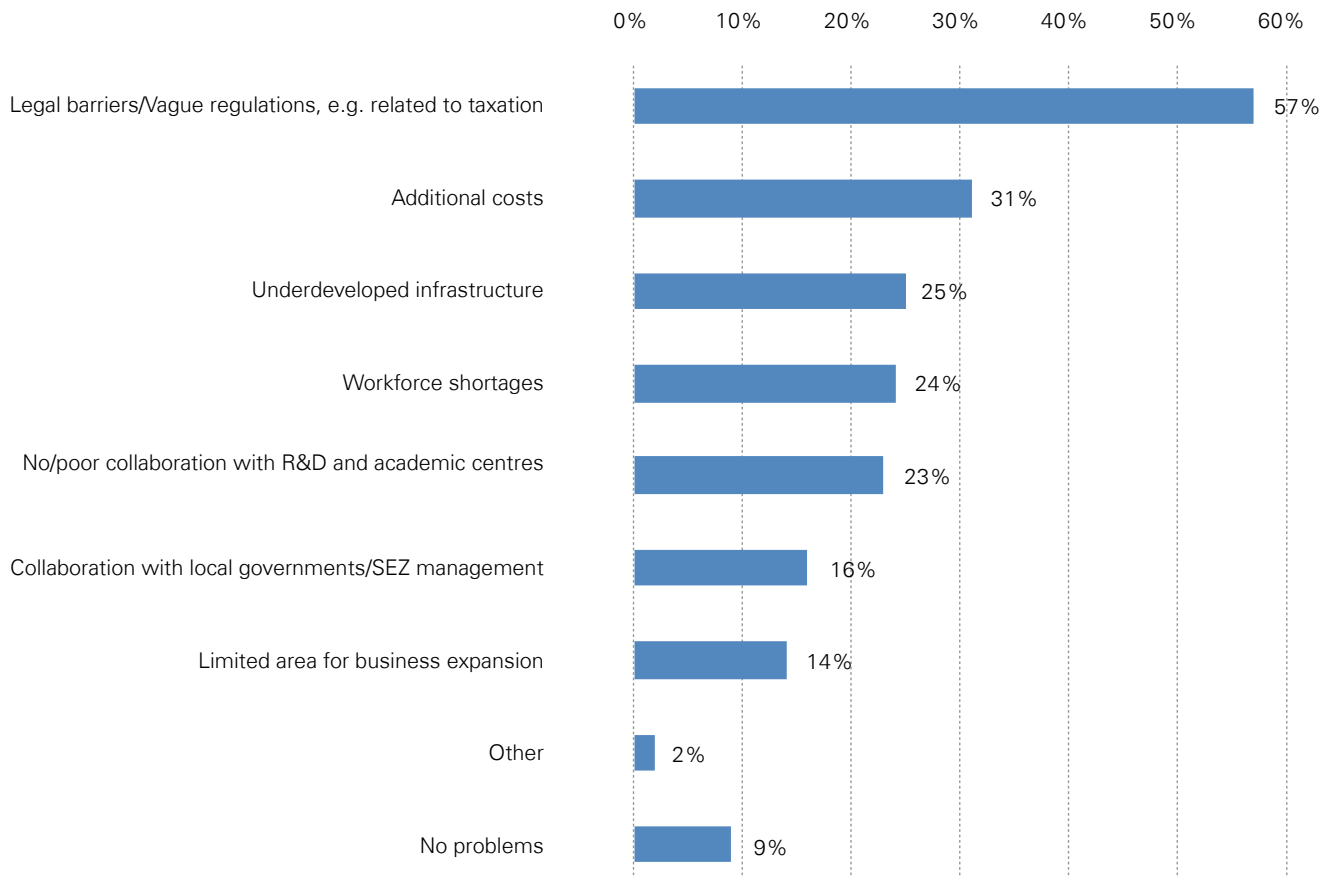
7.3. Benefits and drawbacks of operating in a SEZ

Investors operating in SEZ enjoy various incentives, most notably tax exemptions which drive high interest in the zones. However, given the

applicable legislation, investors often face many problems which they would otherwise not experience. Last year, over a half of the entrepreneurs mentioned legal barriers and vague regulations, e.g. those related to taxation. This year's results were very much the same, with the number of dissatisfied investors growing even further. In this year's edition,

the rate of dissatisfaction was 57%, up by 4 points since the previous study. Other areas of discontent included additional costs (31%) and underdeveloped infrastructure (25%), both more or less at last year's levels. However, one should note a considerable increase in mentions for collaboration with R&D and academic centres, now indicated by 23% of the

Which problems did you encounter in the SEZ which you would be unlikely to encounter to the same extent if operating outside a SEZ?



N=194

Source: KPMG in Poland

respondents (a substantial increase by 10 points). On the other hand, limited area for business expansion was mentioned rarely. Presumably, in the light of the approaching end of the validity of the SEZ Act, new areas are not required for further expansion. Interestingly, the number of firms reporting no problems related to their SEZ operations shrunk by a half. Last year, nearly a fifth of the respondents claimed they were not affected by any problems, whereas in this edition only 9% claimed they had no problems with operations within a SEZ.

Compared with last year, the number of respondents judging their decision to become established in a SEZ as 'good' has gone up by 3 points. On the other hand, the share of those holding the opposite view has remained fixed at 2%. Worth pointing out is the correlation between responses, employment and the history of operations within a SEZ. It is immediately apparent that larger companies are less likely to consider their decision to move to a SEZ as wrong. While 10% of the smallest companies (employing up to 50 people) considered their decision as 'bad' or 'rather bad' the respective

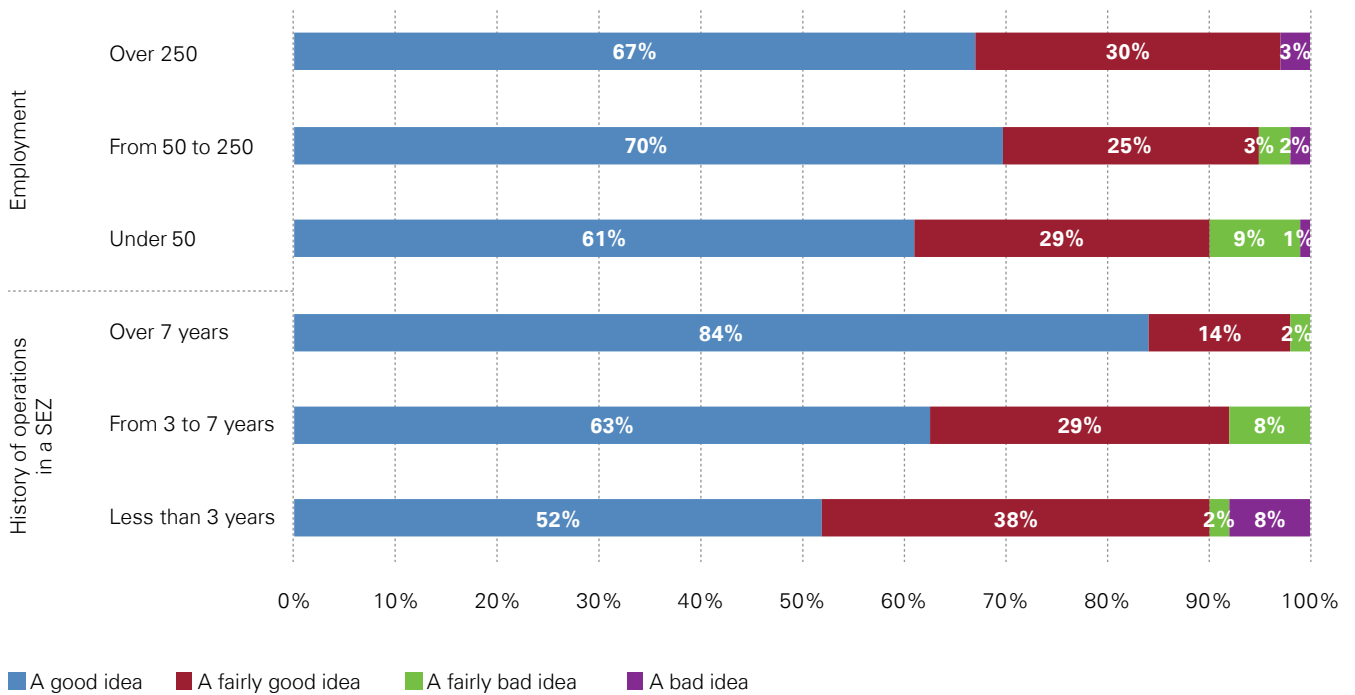
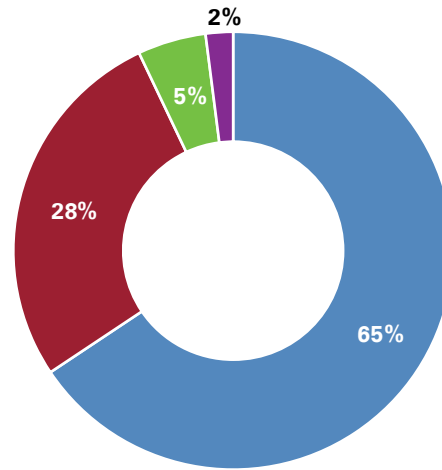
percentage for the largest companies (over 250 people) was 3%.

There is also a correlation between views on the move to the SEZ being a 'good idea' and the history of operation in a SEZ. The respondents operating in a SEZ for no more than 3 years were most likely to regret their decision (10%). Companies with a longer track record (over 7 years) were very unlikely to provide such an answer (2%).

Companies with less than 3 years of history in a SEZ were asked how easy was it to start operations. Nearly 75% of them replied that they had

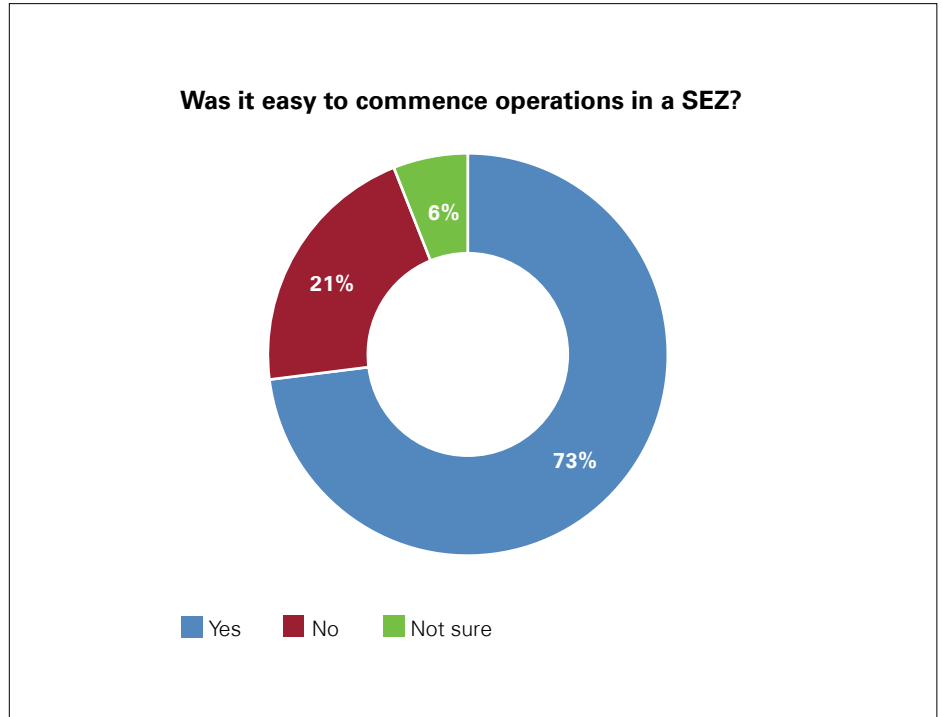
not experienced any major problems at the start-up point. On the other hand, one fifth of those companies felt this process had not been easy. The chief hurdles at start-up included high degree of red tape and lack of infrastructure (23% each). Of lesser importance in this case was vagueness of legal regulations (15%) or difficulties in obtaining loans (8%).

Looking back, was your decision to start operations in a SEZ:

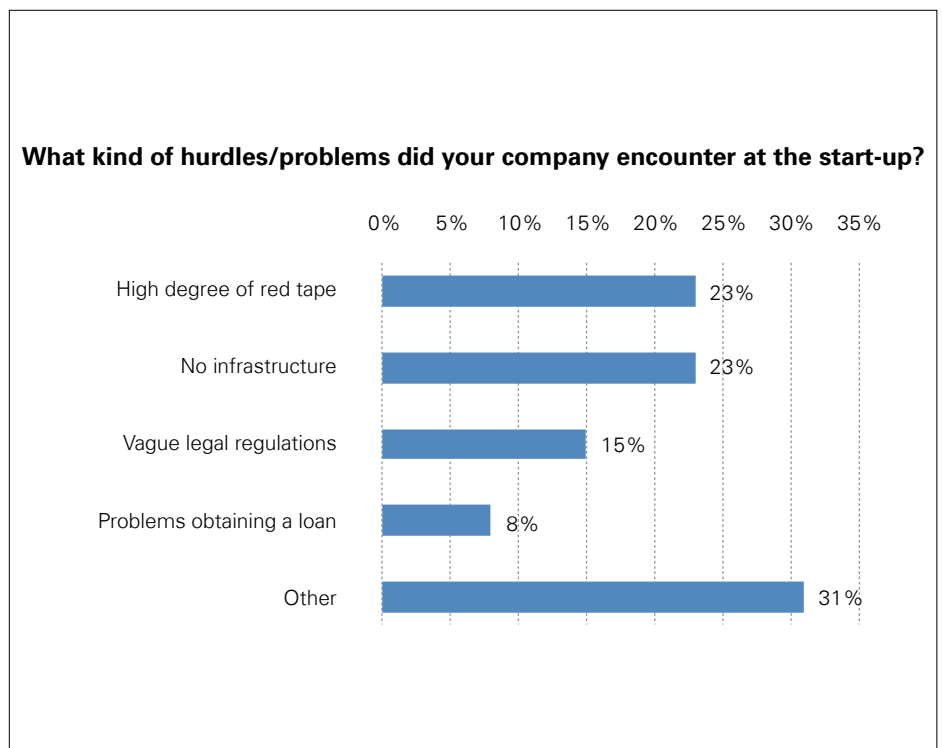




The larger the company, the less likely it is to claim that the decision to start operations in a SEZ was a bad idea.



N=48
Source: KPMG in Poland



N=13
Source: KPMG in Poland

7.4. Taxation issues

Tax incentives are among the main incentives driving companies to invest in SEZ, as savings on the corporate income tax may be invested elsewhere in the business. However, the available tax exemptions come with strings attached, with certain requirements imposed upon investors. In the previous waves of research the most common complaint was the interpretation of tax regulations concerning exemptions. This year, this issue came second in the ranking (54%), giving way to the need to split taxable income and costs from tax-exempt ones. These two issues swapped places in this year's study versus the previous edition.

We also studied whether companies operating in SEZ were interested in leveraging state aid in the form of tax exemptions. Investors' opinion fall into two grooves: nearly 40% of

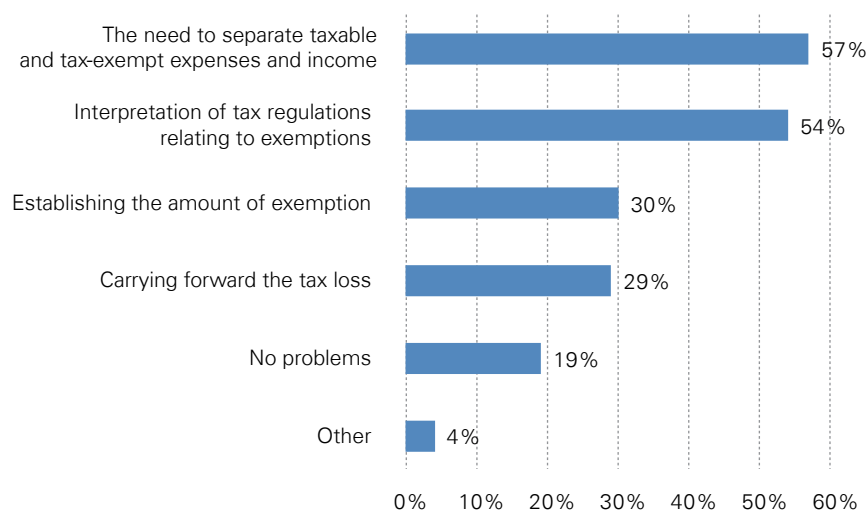
respondents declare full (or nearly full) utilisation of the available exemption whereas further 34% expect to use less than 50% of the exemption. A similar picture was established last year, with the sizes of both groups now increased. The percentage of entrepreneurs planning to use the full exemption has gone up by 3 points whereas those expecting to utilise 50% of the exemption has increased by 6 points.

The highest percentages of the respondents planning to use the tax exemption in full (90%-100%) were observed in the Krakowska, Starachowicka and Tarnobrzaska SEZ where about a half of those surveyed declared such a target. The above were closely followed by the Katowicka SEZ with 46%. At the other end of the spectrum were zones where only about one fifth of investors planned to make a full use of the available tax

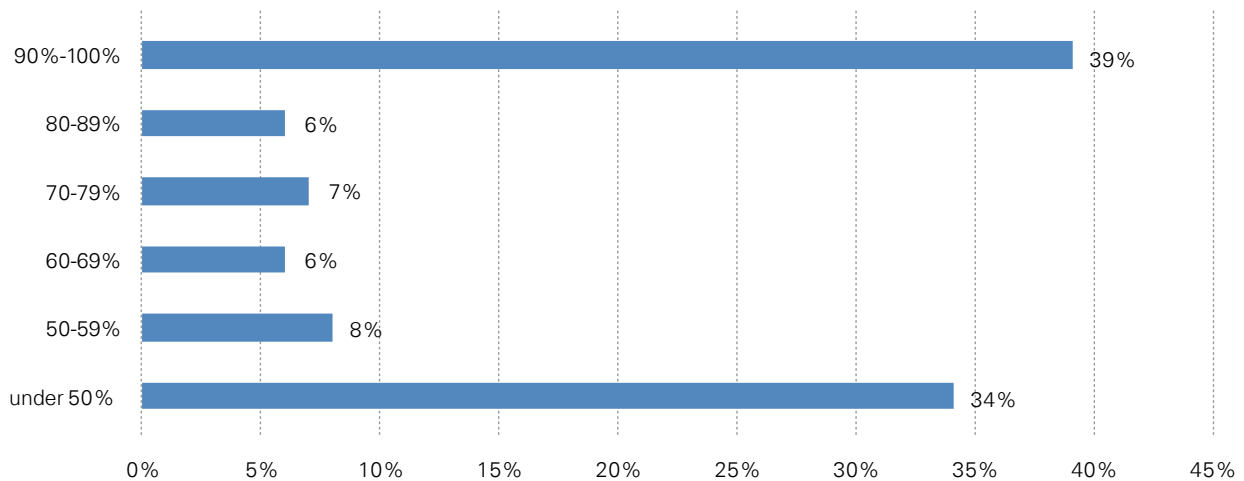


The most common complaint in the context of tax exemption this year was the need to separate taxable and tax-exempt expenses and income.

Which key problems does your company face in connection with tax exemption entitlements available in the SEZ?



What is the percentage of available state aid in the form of tax exemption that your company expects to utilise?



N=194

Source: KPMG in Poland

exemption: Legnicka, Pomorska and Kamiennogórska SEZ.

We also checked the plans related to utilisation of the tax exemption in a sectoral breakdown. Notably, a very high share (80%) of pharmaceutical companies planned to utilise the available tax exemption fully or almost fully. This result was nearly by a half higher than the total average, which is why the pharmaceutical industry strongly outpaced all other sectors in this regard. Two other sectors which are important for the SEZ in Poland came next in the ranking: chemicals and man-made materials (47%) and automotive (45%). Interestingly, the lowest intended utilisation of state aid in the form of tax exemptions was recorded among construction companies and those operating in the machinery industry (respectively 20% and 30% for full utilisation of tax exemption). The very same sectors were relatively likely

to mention problems with interpretation of tax regulations, and this might be the underlying reason for their expected low utilisation rate.

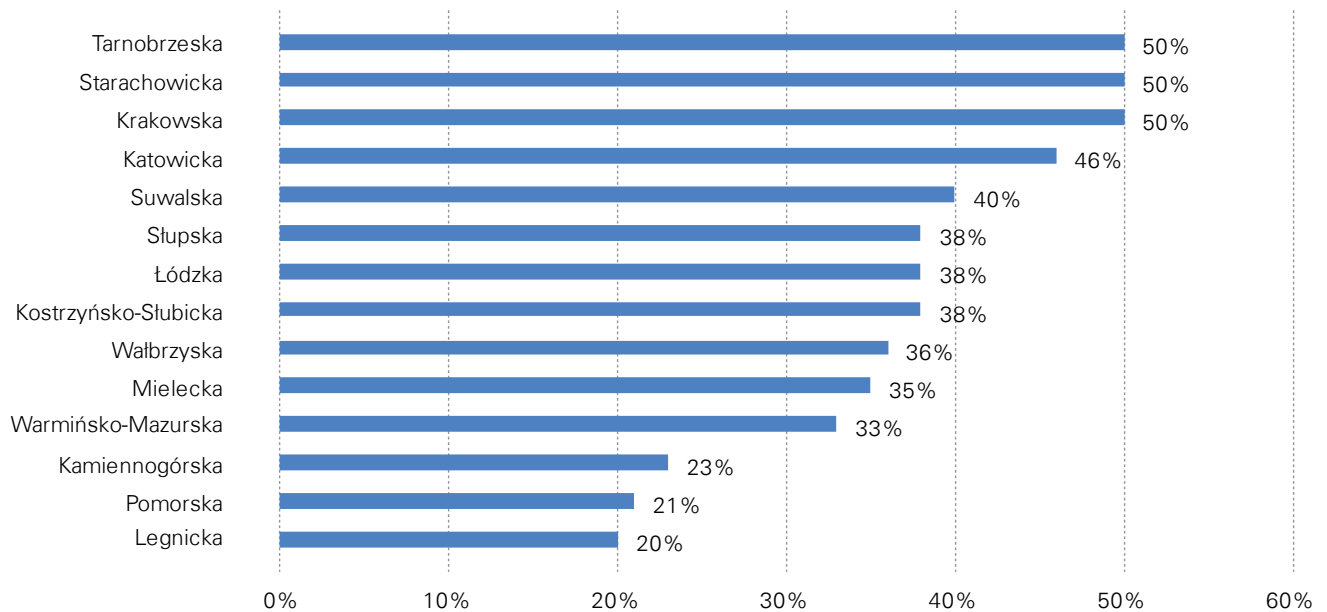
One should also note the correlation between the expected utilisation of tax exemption and company size. The larger the company, the higher the expected utilisation of tax exemption. Amongst the largest firms (employing

250 people) as many as 48% of the respondents plan to utilise the available exemption fully. This is by 16 points less (32%) than the respective share of small companies. The length of operation within the SEZ brings another interesting correlation. Among newcomers to SEZ, 40% reported their intent to make the full use of the exemption whereas the respective percentage for companies with a

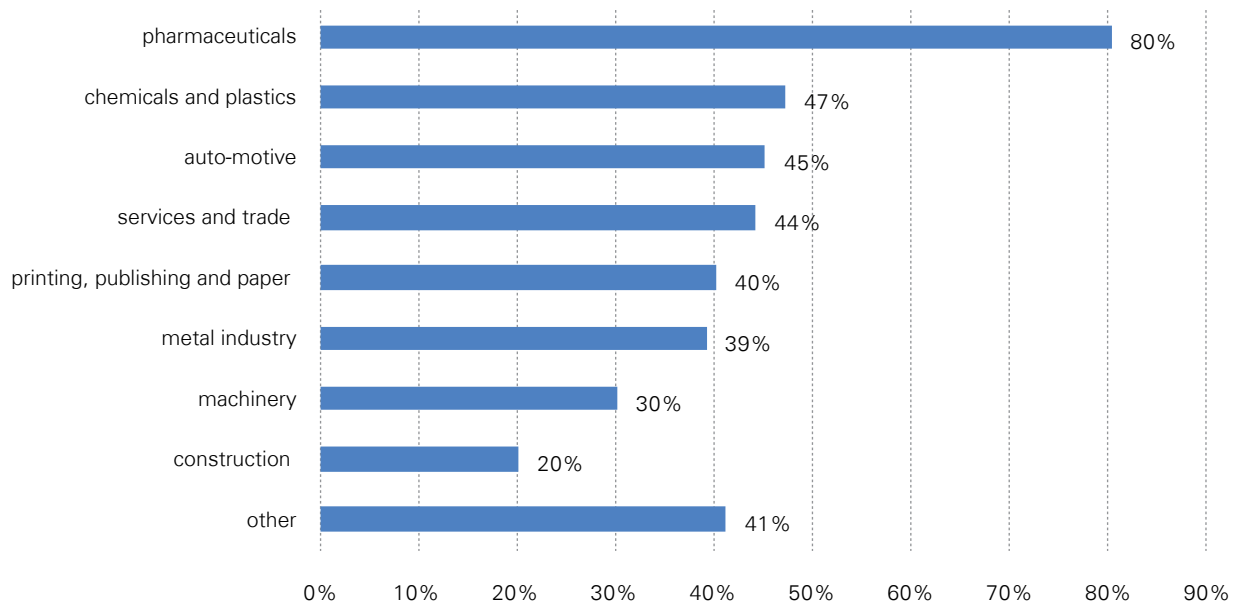


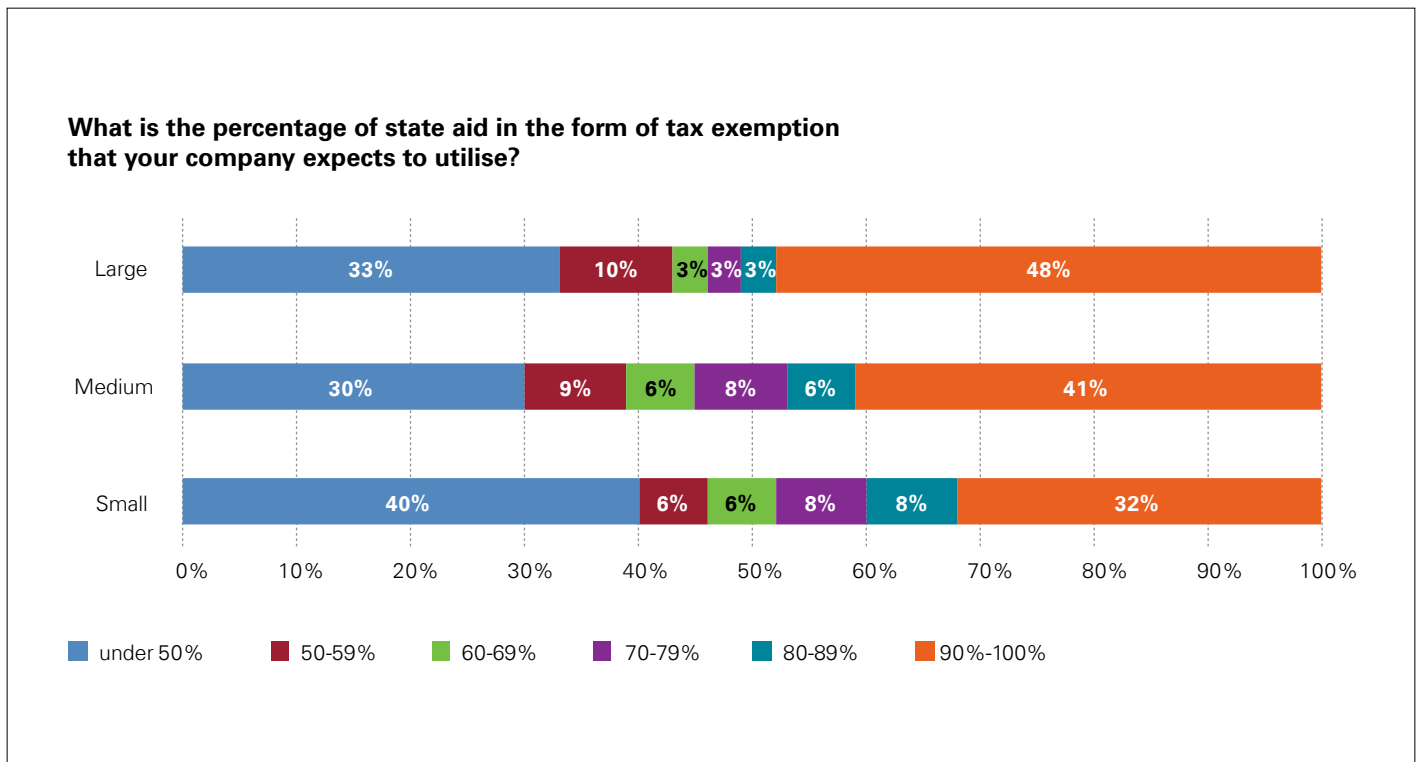
One in two respondents in the Krakowska, Starachowicka and Tarnobrzaska SEZ declared they intended to utilise the available tax exemption fully or almost fully (90–100%).

Percentages of companies intending to utilise 90-100% of state aid available in the form of tax exemptions, by SEZ



Percentages of companies intending to utilise 90-100% of state aid available in the form of tax exemptions, by sector





N=194

Source: KPMG in Poland

longer track record (3–7 years) is 36%. However, those with the longest history of operations in SEZ (over 7 years) are more willing (43%) to utilise the full tax exemption.

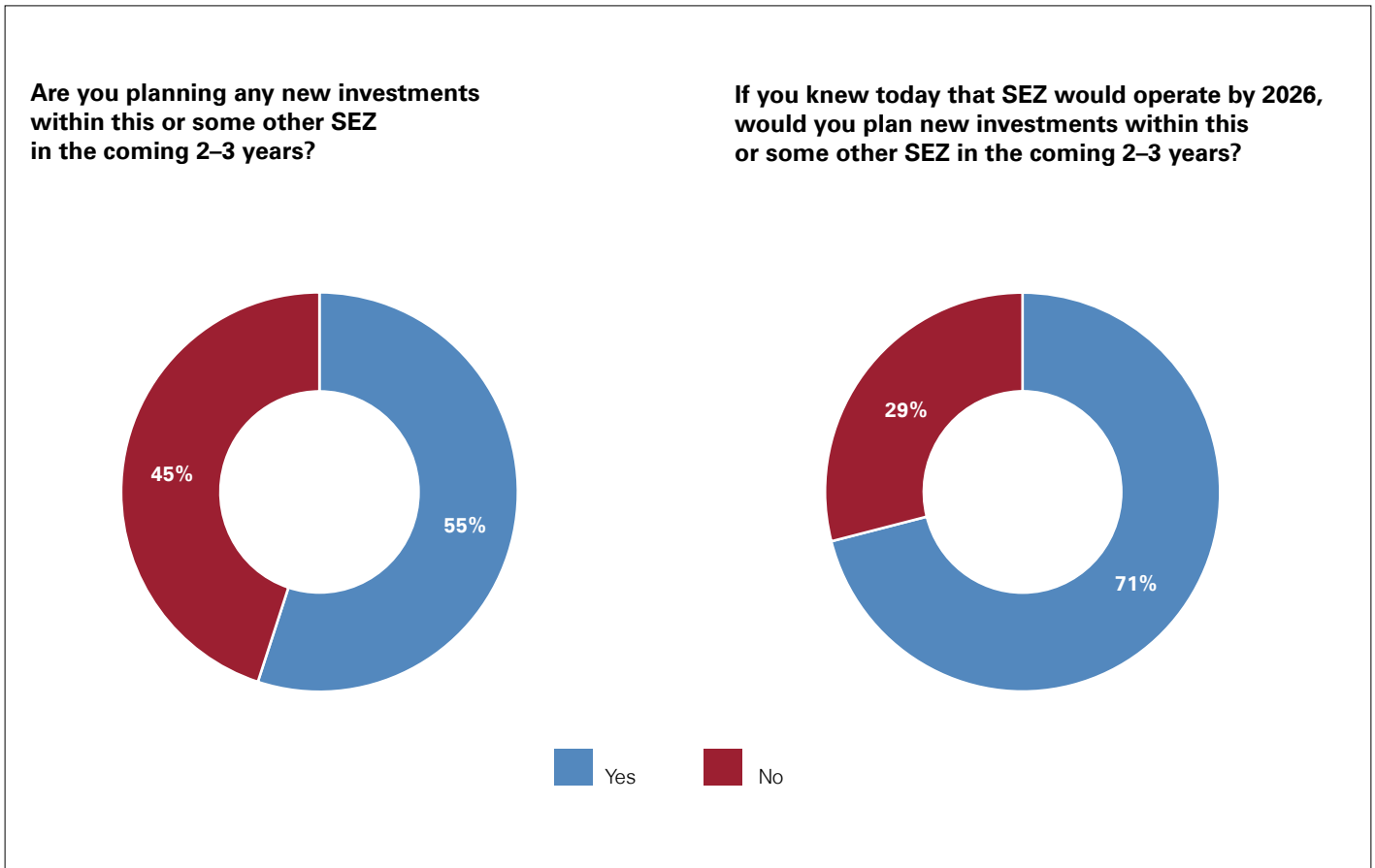
7.5. Economic aspects of the extension of SEZ operations until 2026

The Special Economic Zones Act will be in force in Poland until the end of 2020. Given the high importance of the SEZ for the national economy, there has been an increasing number of voices in favour of extending the life of the SEZ. In many cases the time needed to earn a return on investment exceeds 9 years. For this reason, a considerable group of investors might soon decide against establishing themselves in SEZ.

Entrepreneurs continue to be optimistic about further investments in the same or other SEZ. The most numerous are those which plan to make new investments within the

next 2–3 years (55%). An identical result was obtained last year. In the current edition we expand our analysis and additionally study propensity to invest under a hypothetical scenario that the life of the SEZ would be extended to 2026. The observed increase in the propensity to invest exceeded our expectations. A six-year extension of SEZ drove the number of firms planning new investments by as many as 16 percentage points. This results from the relatively long period needed to break even. An extension of the effective period of the SEZ Act would ensure that investors could fully utilise the available tax incentives. Considering the results of our study and investors' declarations, a six-year extension of the effective period of SEZ could boost capital expenditures even by PLN 40 billion.

Reactions to the idea of extending the life of SEZ were positive across all sectors, with the most optimistic reactions to the perspective of another



N=194
Source: KPMG in Poland

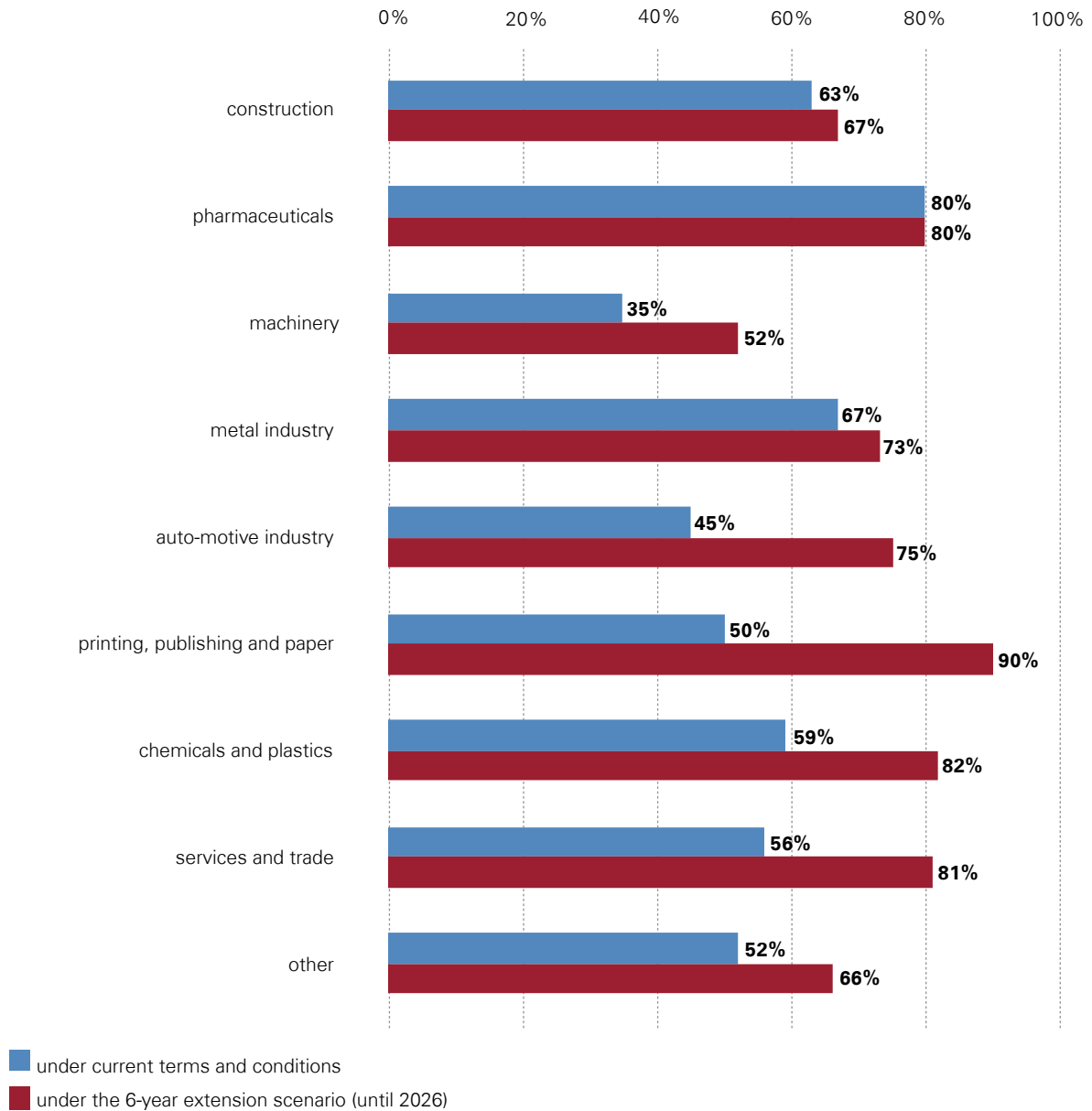
6 years being noted in the printing, publishing and paper industry where as many as 90% of investors declared new investments. With this factor excluded, the interest of companies from the printing, publishing and paper industry clearly declines: only one in two would be interested in further

investments. The lowest propensity to make investments was observed in the machinery industry (only 35% of respondents would invest under the current terms and conditions and 52% would do so under the six-year extension scenario).



An extension of the effective period of SEZ by 6 years (until 2026) could boost capital expenditures by a total of even PLN 40 billion.

Companies planning new investments within the same or another SEZ in the coming 2–3 years, by sector



N=194
Source: KPMG in Poland

7.6. Period required to obtain return from a SEZ investment

Any investment has an associated level of risk, which is why investors are cautious about their expenditures and perform detailed analysis of the period needed to break even. In this

year’s edition we decided to measure how much time investors need to recover the invested resources. Our findings clearly confirm investors’ expectations related to the extended life of the SEZ. As many as 62% of the surveyed investors decided that they had not reached the break-even point yet. The second most common response was a relatively short period to obtain return: 2 to 4 years (13%).

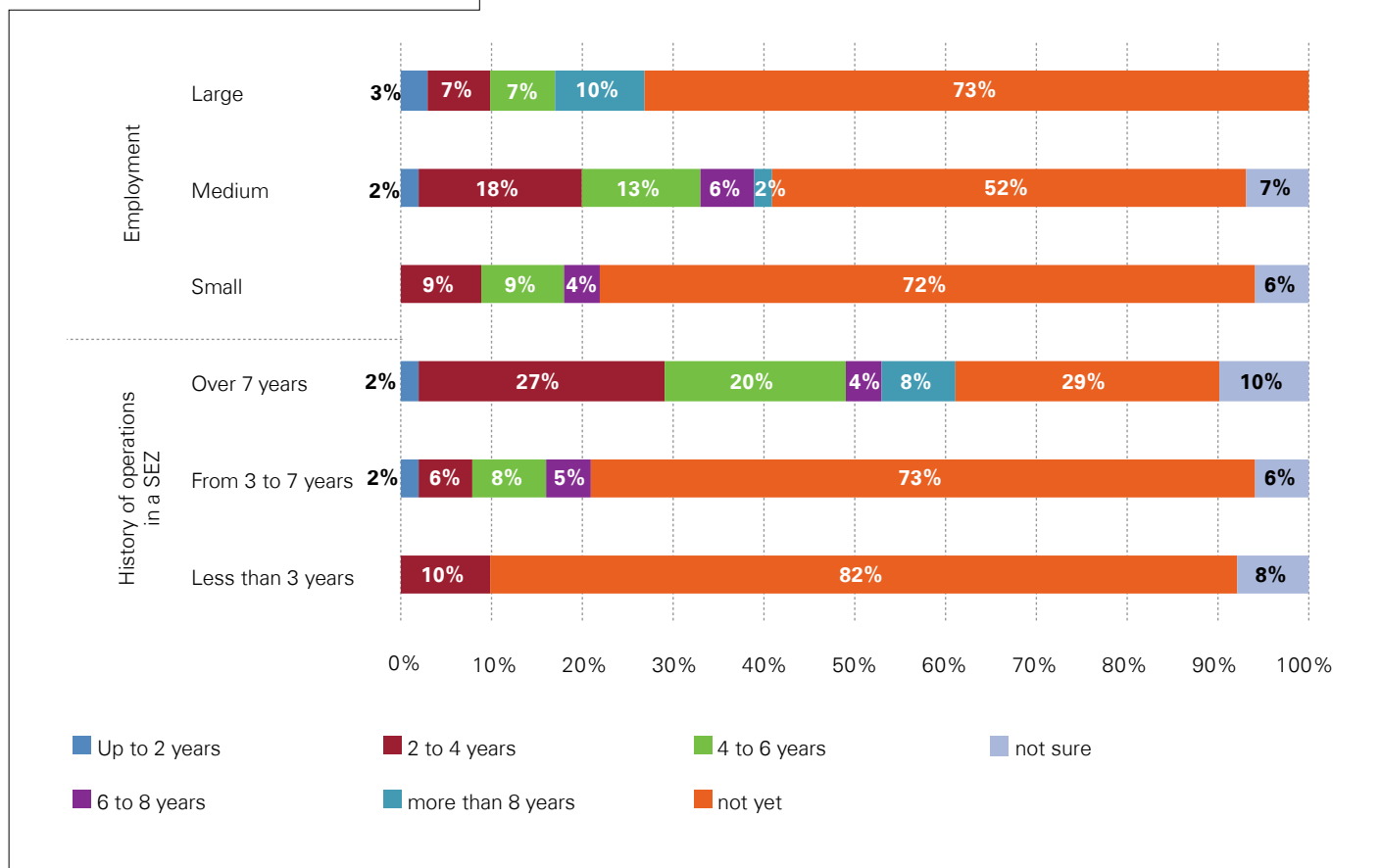
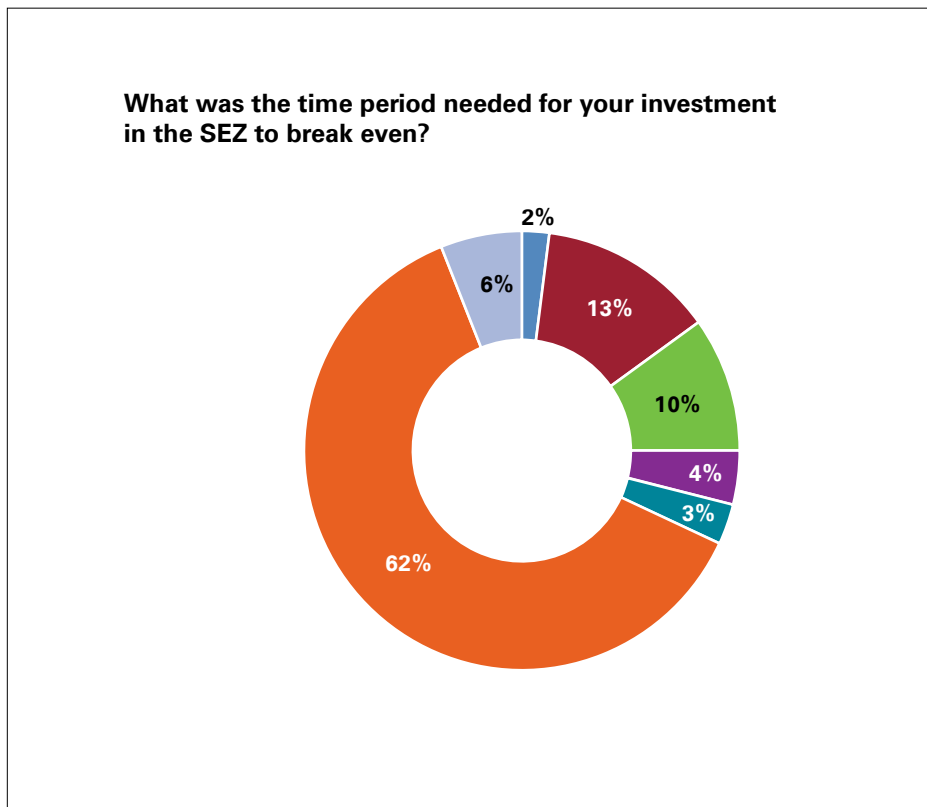
Given the diversity of underlying conditions across sectors and the individual characteristics of each SEZ, a reliable average period to break even cannot be calculated.

The distribution of answers to the question about the period to break even is best illustrated among the companies with more than 7 years of operation in SEZ. Here, the highest percentage of companies have not yet reached the break-



As many as 62% of the surveyed investors decided that they had not reached the break-even point yet.

even point (29%). However, it is interesting to look at other responses as well: nearly 33% of those companies claimed to have recovered their investment already after 2-4 years. About one fifth reached that point after 4-6 years while 12% of the companies were able to break even after at least 6 years of operations within a SEZ.





8

Plans for the future

We asked SEZ managers about their plans for the coming years. The findings shows that despite the inflow of varied news from the market an optimistic sentiment still prevails in the zones.

As many as 86% of the respondents whose responsibility is to attract investors decided that 2012 should be better than 2011 in terms of attracting new investors. The remaining respondents (14%) expressed the opposite view.

There is an increasing wave of speculation about the approaching end of the statutory term of special economic zones in Poland. There are a few possible scenarios for further development for the SEZ management companies. Potential investors emphasize that the year 2020 (the statutory end of the SEZ Act) is too short a prospect to reach the break-even point. We decided to ask SEZ

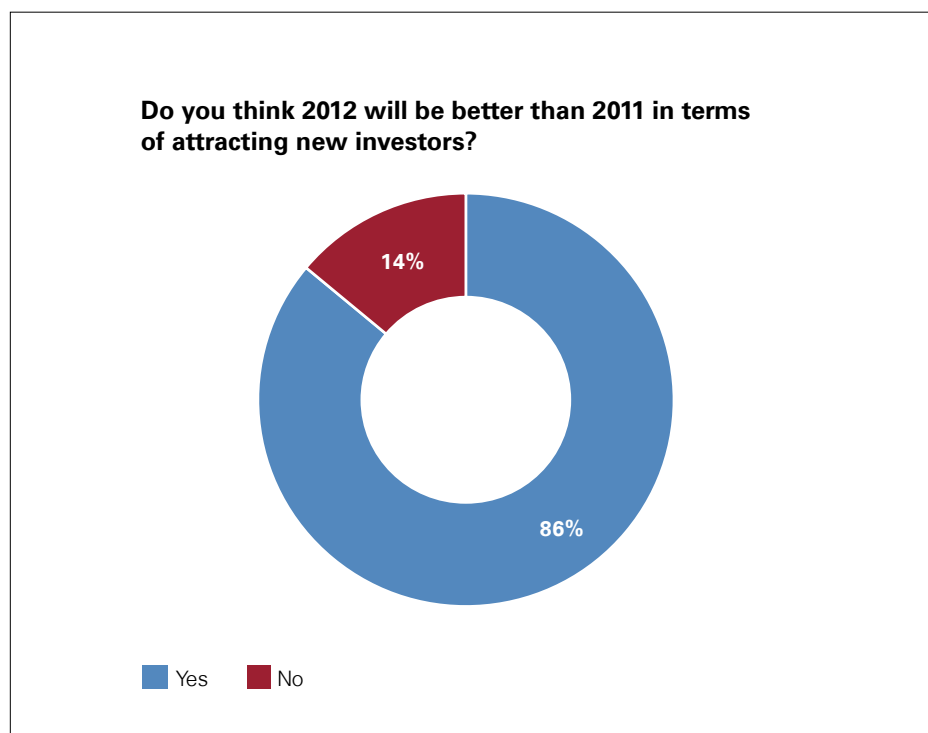
managers about their expectations related to the future of the zones and then to juxtapose their answers with responses collected from enterprises.

As many as 86% SEZ boards decided that the best solution would be to continue the operation of the zones under the existing terms and conditions. Such a high percentage indicates that SEZ managers are satisfied with the current situation even though some of them suggested certain modifications to the SEZ Act to facilitate the issue of permits for running a business in the zones.

On the other hand, 36% of the respondents said that it would be a good idea to transform the current SEZ into

”

As many as 86% SEZ felt that 2012 should be better than 2011 in terms of attracting new investors.



N=14

Source: KPMG in Poland based on based on responses given by SEZ

industrial parks or technology parks. While those are certainly less advanced forms vis-à-vis SEZ and do not offer such extensive tax exemption opportunities, they also represent an incentive for making investments. In turn, 21% of the respondents decided that it would be a good idea to transform the SEZ into business clusters.

Some voices represented other development scenarios for the SEZ. One interesting idea would be to add advisory services, real estate trading or land development services to the range of services offered by SEZ managers. In particular, the idea to transform SEZ into real estate agents for investment-related property was mentioned quite frequently. It was also suggested that the operation of SEZ should be extended only in the

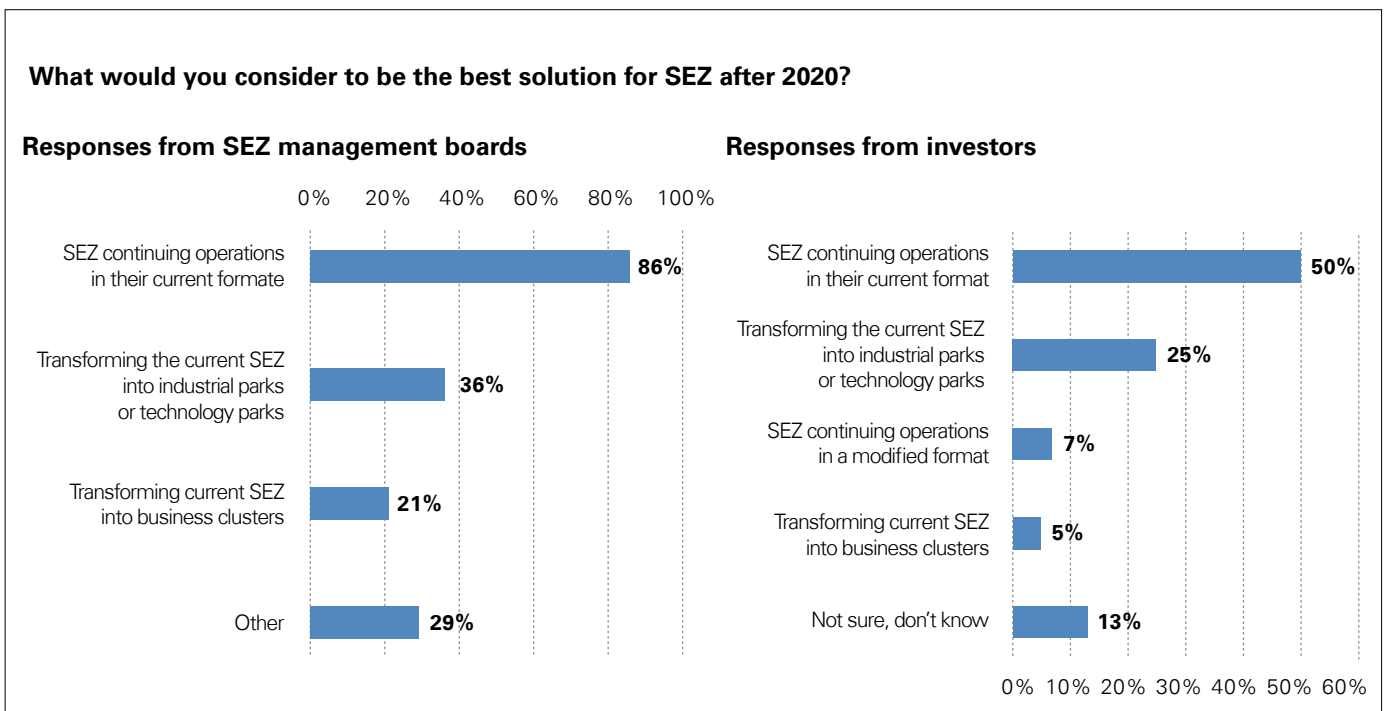
eastern parts of Poland to balance off the differences in levels of development between different parts of the country.

Investors' opinions were more varied but the same answer prevailed. One in two investors decided that it would be best to allow the SEZ to operate in an unchanged format. Investors argued, above all, that the current performance of SEZ had been very good and that time was needed to reach the break-even point, with gains exceeding the capital expenditures. Another favoured option would be to transform the zones into technology parks or industrial parks. This idea was supported by 25% of the respondents whereas the remaining options did not find as much support among those surveyed. Transformation into clusters was selected by only 5%

and 7% favoured continued operations of SEZ in a slightly modified format. It is also important to bear in mind that one tenth of the respondents were unsure which scenario would be optimal.

Investors stressed, however, that the most important aspect for them would be to learn about the SEZ reform in the shortest possible time. The earlier the relevant decisions are made, the better use companies will make of the remaining time.

Transformation of SEZ into business clusters is related to the fact that many companies with a similar business profile operate within the SEZ. Concentration of companies from one sector might lead to each SEZ developing their own specialisation profile. All the SEZ decided



N=14

N=194

Source: KPMG in Poland based on responses given by SEZ and enterprises



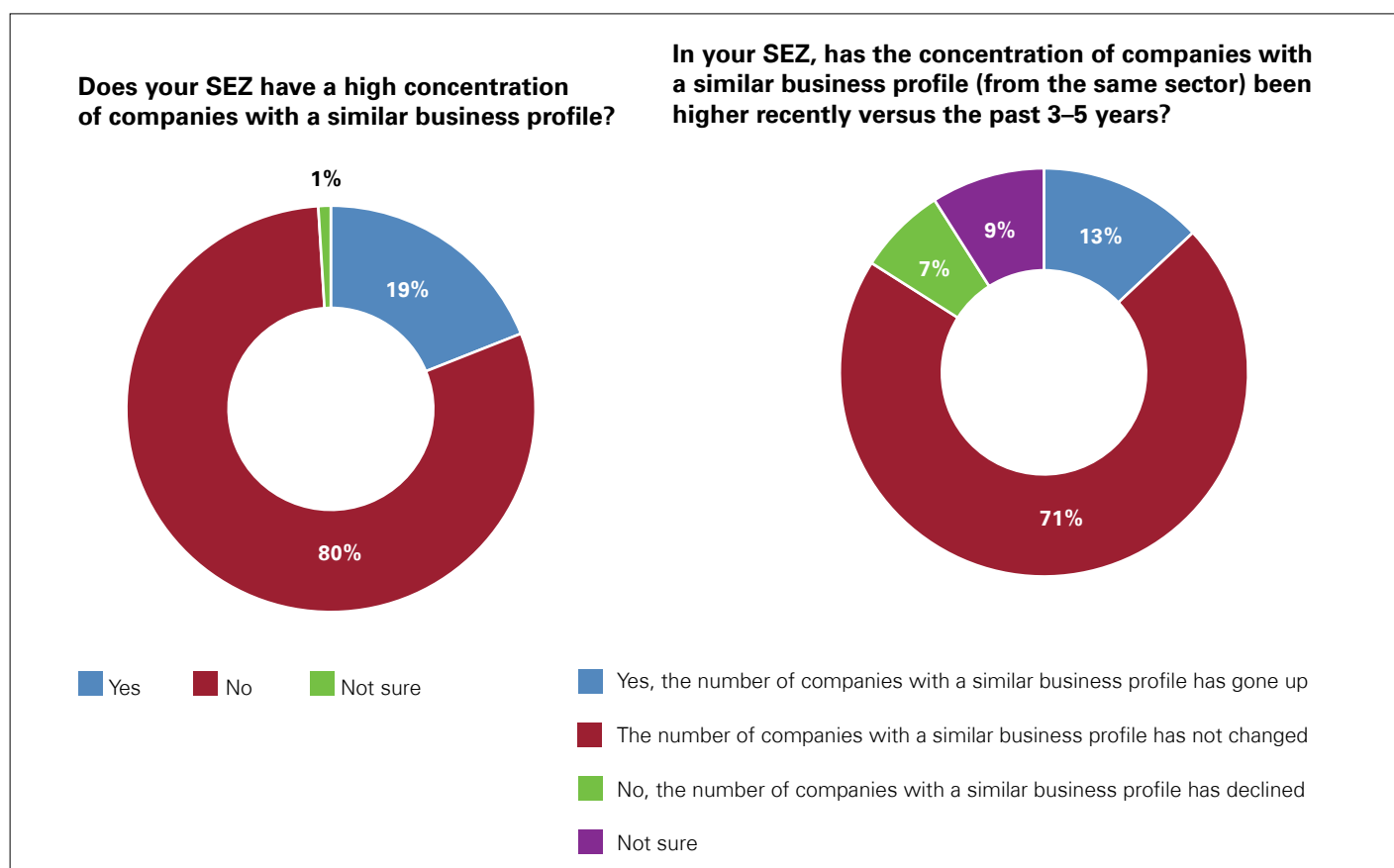
As many as 86% of the SEZ claimed that the best solution after 2020 would be to continue the operation of SEZ under the current terms and conditions. This solution was identified also by one in two surveyed investors

they would be able to single out a few leading sectors. The responses are presented in the table.

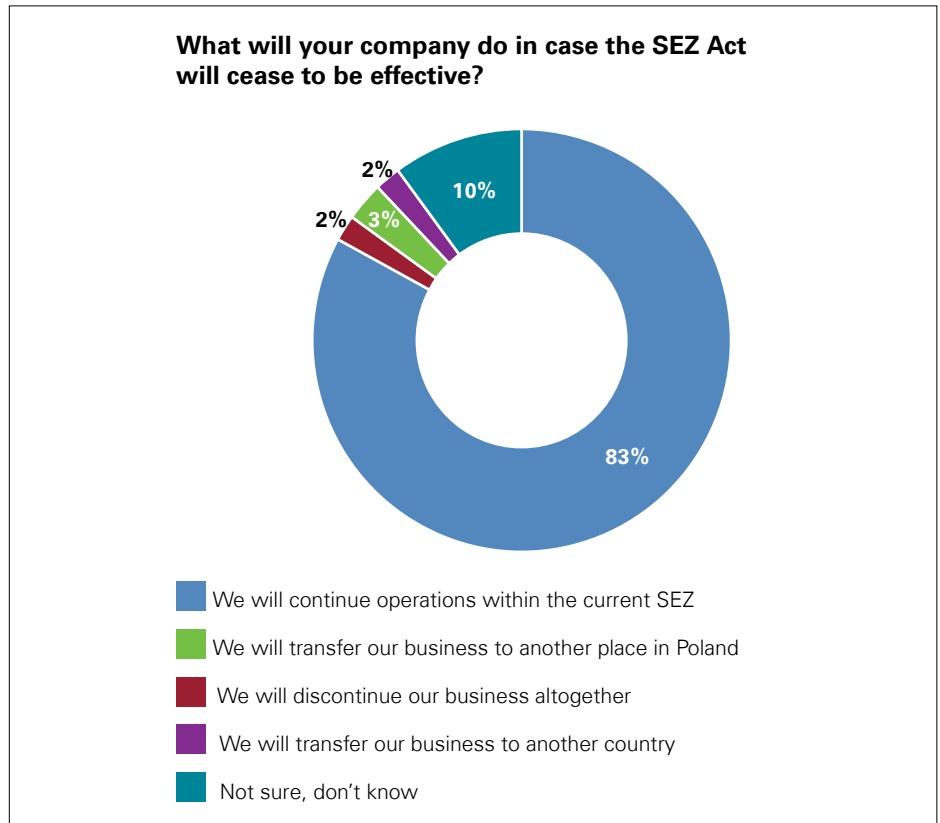
In order to confront opinions, we also asked investors about concentration of businesses. However, as many as 80% of those surveyed decided that there was no concentration of companies with a similar business profile in their respective SEZ. Only one in five enterprises felt that their zone could be said to have a specialisation. Entrepreneurs had noticed only minor changes in this respect over the past years. In fact, 75% of enterprises believe that the number of companies with a similar business profile has not changed over the last 3–5 years. Only 13% of the respondents claim that such concentration had increased. If one potential growth scenario for the zones after 2020 would be to transform them into business clusters, this solution might not bring the expected results from the entrepreneurs' perspective.

List of leading sectors in SEZ (as declared by SEZ management boards)	
SEZ	Leading sector(s)
Kamiennogórska	metal, auto-motive, printing & publishing, ceramics
Katowicka	auto-motive
Kostrzyńsko-Słubicka	paper, auto-motive, food
Krakowska	publishing, BPO
Legnicka	auto-motive, metal
Łódzka	household appliances, pharmaceuticals and cosmetics, man-made materials, construction
Mielecka	aviation, metal, auto-motive
Pomorska	electronics, paper, machinery
Słupska	auto-motive, wood, metal
Starachowicka	metal, ceramics, chemicals
Suwalska	man-made materials, wood, construction
Tarnobrzaska	electronics, aluminium
Wałbrzyska	auto-motive, household appliances
Warmińsko-Mazurska	man-made materials and rubber, electronics and optical instruments

Source: KPMG in Poland based on responses given by SEZ



While there are still over eight years to go before 2020, systemic solutions should be sought now to make sure that all investors are in a position to analyse various development scenarios. We asked investors about their expected decisions in case nothing changes by the end of the current effective period of SEZ. The most common answer was that the respondents wanted to continue their operations (as many as 83%). One in ten of those surveyed was unable to provide an answer and believed that the prospect was still quite distant. Other answer options were chosen very rarely, e.g. transferring the business to another location in Poland (3%) or transferring the business to another country (2%). An equally small proportion of the respondents felt they would discontinue their business altogether with this course of events (2%).



N=194
Source: KPMG in Poland



Only 2% of the investors claim they will discontinue their business altogether if the legal framework of SEZ does not change by 2020.

Comments from SEZ managers regarding economic and financial situation²:

We hope to maintain the dynamics of current projects within the next 12–18 months, which will be positively reflected in our financial performance. After the period of strong small and medium-sized investment projects, we are witnessing an increasing interest in bringing large scale investments to our zone. We are planning to expand the area of our zone by adding new, attractive land in the Bolków municipality, which is an excellent location (at the national road no. 5), and in the Janowice Wielkie municipality, to accommodate an investment project involving scientific R&D services. Hence, it would be reasonable to see an extension of the SEZ Act effective period as it would have a positive effect on investment decisions made by entrepreneurs. The current effective period of SEZ no

longer offers sufficient guarantees that state aid may be utilised, thus strongly undermining the appeal of property located in the SEZ as investment targets.

Iwona Krawczyk

President
Kamienogórska SEZ

In subsequent years, the SEZ managing company will, at best, fulfil a managerial role, without being able to offer attractive investment support for investors.

At present, we plan to intensify our current promotional projects in order to present our investment opportunities to a broad group of investors. We intend to intensify our activities involving participation in conferences,

² KPMG did not interfere with the content of the original statements.

investment seminars and fairs aimed at promoting investment opportunities, such as REAL EXPO.

We continue to liaise with Commerce and Investment Promotion Sections at Polish embassies across the EU and Asia (China, Korea, Japan) and we take part in joint undertakings with the Polish Information and Foreign Investment Agency (PAIIZ).

Roman Dziduch

Vice-President
Kostrzyńsko-Slubicka SEZ

At present, the borders of the Krakowska Special Economic Zone are being adjusted and, once this process has been completed, the final area of the zone will reach 558.718,5 ha. This will open the door for new investment projects, in particular those on private land, by companies such as Synthos Dwory 2 Sp. z o.o., Synthos Dwory 6 Sp. z o.o., Bahlsen Sp. z o.o. and Capita (Polska) Sp. z o.o. Those players have committed to invest over PLN 316 million and to employ over 560 people. Following the adjustment of SEZ borders, we will have three new subzones in Bukowina, Chełmek and Skawina. The zone in Zator will be expanded considerably as it attracts high interest among potential investors.

Given the high interest in bringing investments to the Krakowska SEZ, the management board of our SEZ plans to issue at least 11 business permits in the coming months. In 2012 we expect to complete the construction of the Małopolski Park of Information Technologies and put it into operation.

An extension of the effective period of Special Economic Zones will untap the inflow of major investments. Otherwise the period available for consummating state aid might prove insufficient for large investment projects.

Wiesława Kornas

Prezes
Krakowski Park Technologiczny

Our main goals are:

1. to complete the final extension of the Łódzka SEZ; as part of the process the properties located in the Łódź agglomeration will receive the SEZ status; to commence efforts aimed at developing and managing those areas in order to attract new investors.
2. to revitalise and extend the historical post-factory facility in Centrum located in Łódź; the facility would be used for office purposes, and will house the new office of the Łódzka SEZ and provide office space and conference facilities for rent.
3. to take measures in order to expand the technical infrastructure within the Radomsko, Kutno, Koluszki and Brójce subzones.
4. to continue the company's Corporate Social Responsibility commitments: to provide access to the refurbished pump room in area 1 of the Łódź subzone for cultural and educational activities under the Art Strefa programme (the programme was a winner in this year's 'Punkt dla Łodzi' contest in the category defined as 'Showing positive initiatives, people and places in Łódź').
5. to launch a real property agency service focusing on commercial property.

Tomasz Sadzyński

President
Łódzka SEZ

Within the specified period (12–18 months – KPMG's note) we plan to enhance collaboration with the industrial parks and S&T parks operating within the EURO-PARK MIELEC SEZ in order to build cluster initiatives and to support the existing business clusters such as the Aviation Valley and the newly established Podkarpacki IT Cluster.

We plan to continue our expansion by adding new locations to the zone in order to offer more attractive investment opportunities and to create conducive conditions for growth in the Aviation Valley and for new cluster initiatives. In parallel, the SEZ managing company will continue its land development operations i.e. build new production and warehousing facilities for potential investors.

Our plans have been formulated in response to the initiative to extend the effective period of the SEZ Act as this initiative is particularly important for SEZ operating in eastern Poland.

Mariusz Błędowski

Head of Industrial Development
Agency branch in Mielec
Mielecka SEZ

Our most important plans for the coming months include, above all, the start-up of the newly constructed part of the Gdańsk Science & Technology Park and the continuation of the historically largest investment project in the Pomorska SEZ, i.e. the construction of the Baltic Industrial Park on the sites formerly occupied by the Gdynia Shipyard. The aim behind this investment is to manage those areas to create a qualitatively new and functional industrial park and directly stimulate growth in the region as a whole. We plan an array of investments, starting from those which create conducive conditions for investors operating within those areas, through construction and upgrades of transport infrastructure, roads and energy infrastructure, as well as the construction of state-of-the-art office and conference facilities and R&D facilities for companies operating within those areas. Moreover, our SEZ actively supports growth plans developed by investors who operate within the former shipyard sites: those working directly for the marine industry and steel structures industry, and those which offer support services for the shipbuilding industry. The project involving the management of the former Gdynia Shipyard site

call for an enormous effort in terms of business management and financial management.

Importantly, while pursuing our growth strategy, our SEZ has endeavoured to incorporate new areas, located in the following voivodships (provinces): Pomorskie, Kujawsko-Pomorskie, Zachodniopomorskie and Wielkopolskie. We also undertook efforts to continue developmental efforts in areas belonging to the Pomorska SEZ, which will undoubtedly expand our pool of investment areas offered to potential investors.

We must firmly emphasize that the extension of the effective period of the SEZ Act would have a bearing on the plans pursued by the Pomorska SEZ managing company. If a decision is adopted to extend the period, it would allow us to complete numerous investments which the investors had postponed due to the 2008–2009 economic downturn. Those players who wish to commence investments within a SEZ are concerned that they might not have enough time to utilise the available state aid before 2020. This concern is expressed, in particular, in the context of major undertakings.

Teresa Kamińska

President
Pomorska SEZ

Our main goals are as follows:

1. to expand the area of the Slupska SEZ. An application for the extension of the overall area of the Slupska SEZ has been submitted at the Ministry of Economy in connection with the expansion of the existing subzones and creation of new subzones within the Slupska SEZ.
2. Since 2009 the Pomeranian Regional Development Agency has been pursuing an investment project involving the construction and furnishing of the Slupsk Technology Incubator. Under those efforts, a modern building will be erected in

mid-2012 within the Slupska SEZ to offer business space for start-ups and to support businesses through activities such as training and advisory services, and through conducive atmosphere promoting entrepreneurial spirit and innovation. Alongside the building with office space and technology facilities, essential infrastructure will be provided: an auxiliary building, access roads, areas for pedestrian and motor traffic, parking lots for passenger cars and delivery vans, lighting for access roads and parking lots. The total value of the project approaches PLN 41,000,000 gross. The project is co-financed by the European Union from the European Regional Development Fund under the 2007-2013 Regional Operational Programme for the Pomeranian Voivodship, Submeasure 1.5.1 'Infrastructure for Development of Innovative Companies'.

3. to extend technical infrastructure in subzones.
4. to organise overseas roadshows in order to promote the strengths of the Pomeranian Voivodship and attract new investors in Scandinavia.
5. to offer additional training for SEZ entrepreneurs on legislation regarding business operations within the SEZ. An extension of the SEZ Act effective period will mean that Special Economic Zones will continue to be attractive and new investors will have more time to utilise state aid.

Leonard Ferkaluk

Head of Investments
Slupska SEZ

We are expecting the Council of Ministers to decide on the new borderlines of our zone, which will allow us to make new investments worth min. PLN 251 million and create at least 550 new jobs. As an important marketing event, improving the image of our company in 2011, we were classified among the Top 10 Global Free Zones of Future 2010/2011 in the Financial Times-

fDi Magazine in terms of investment efficiency. At present, our key focus is top obtain objective assessments from entrepreneurs who run their business here and, in particular, to increase the number of satisfied investors who would recommend our SEZ to their business partners.

Marek Bogumił

President
Starachowicka SEZ

In the coming months the Suwalska SEZ intends to solve one of its problems related to the transfer of water and sewage system and roads to local governments. This step is likely to cut the costs of the SEZ managing company and generate resources to diversify its operations. Steps will be taken to recover competitiveness, extend the period of operation and obtain other measures of preferential treatment in order to find a strategic investor for our SEZ. The company hopes to solicit support from the Ministry of Economy and governmental agencies in this regard. We will also endeavour to expand the area of our SEZ in a few municipalities of north-eastern Poland.

Wojciech Kierwajtyś

Vice-President
Suwalska SEZ

Recently, the Tarnobrzaska SEZ acquired new investment areas in central and south-eastern Poland. Based on concerted efforts with local and regional authorities, we plan to undertake many steps to boost the appeal of those areas as investment destinations. Our goal is to stimulate business in areas where the number of new projects is relatively low. Our plans also focus on starting design work for new industrial facilities within our SEZ. In parallel, we will undertake steps to ensure the completion of SEZ investments commenced in 2009–2010 as we believe that this will help us to achieve much more dynamic growth of the number of business permits

issued and to improve the ratio of capital expenditures per one new job.

Marek Indyk

Director,
Industrial Development
Agency in Tarnobrzeg
Tarnobrzaska SEZ

We will continue our efforts to improve the appeal of our investment land. In the near future, our SEZ plans to focus on establishing a very attractive offering for entrepreneurs concentrated around two major urban hubs of our region (Olsztyn and Elbląg). Among other steps, we are planning to expand the area of the Olsztyn subzone and create conducive conditions for local entrepreneurs collaborating with strategic investors (Michelin Polska S.A., Indykpol S.A.). We will continue marketing and information efforts targeted at entrepreneurs from the Kaliningrad District, aiming to offer attractive investment opportunities within our SEZ. An extension of the effective period of Polish SEZ is of great importance for successful completion of our plans.

Krzysztof Gąsior

Infrastructure Department,
Department Director
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