

## 25. Employee benefit obligations

	Note	Dec 31 2016	Dec 31 2015
<b>Non-current liabilities:</b>	<b>25.1</b>	<b>168,537</b>	<b>182,252</b>
Post-employment benefits	25.1	40,235	38,459
Length-of-service awards and other benefits	25.1	128,302	143,793
<b>Current liabilities:</b>	<b>25.1</b>	<b>135,612</b>	<b>122,201</b>
Post-employment benefits	25.1	7,096	4,224
Length-of-service awards and other benefits	25.1	14,219	12,184
Bonuses, awards and unused holidays		85,222	78,409
Salaries and wages payable		29,075	27,384
<b>Total</b>		<b>304,149</b>	<b>304,453</b>

### 25.1 Obligations under length-of-service awards and post-employment benefits

In accordance with the Group's remuneration systems, the Group employees are entitled to post-employment benefits upon retirement. Length-of-service awards are paid after a specific period of employment. Therefore, based on valuations prepared by professional actuary firms or based on own estimates, the Group recognises the present value of obligations under length-of-service awards and post-employment benefits. The table below provides information on the amount of the obligations and reconciliation of changes in the obligations during the reporting period.

	Note	Post-employment benefits	Length-of-service awards and other benefits	Total
<b>Jan 1 2016</b>		<b>40,519</b>	<b>155,977</b>	<b>196,496</b>
Current service cost		2,445	12,069	14,514
Cost of discount	25.2; 9.6	1,033	4,076	5,109
Past service cost		5,674	(15,841)	(10,167)
Benefits paid		(2,113)	(11,733)	(13,846)
Actuarial (gain)/loss under profit or loss	25.2	-	(2,027)	(2,027)
Actuarial (gain)/loss under other comprehensive income	25.2	(2,243)	-	(2,243)
<b>Dec 31 2016</b>		<b>45,315</b>	<b>142,521</b>	<b>187,836</b>

including:

non-current	38,535	128,302	166,837
current	6,780	14,219	20,999
Obligations under length-of-service awards and post-employment benefits at foreign companies (1)	2,016	-	2,016
<b>Dec 31 2016</b>	<b>47,331</b>	<b>142,521</b>	<b>189,852</b>
including:			
non-current	40,235	128,302	168,537
current	7,096	14,219	21,315

	Note	Post-employment benefits	Length-of-service awards and other benefits	Total
<b>Jan 1 2015</b>		<b>40,359</b>	<b>155,657</b>	<b>196,016</b>
Reclassification to liabilities directly associated with assets held for sale (or disposal groups)		1,963	7,125	9,088
Current service cost		2,488	12,929	15,417
Cost of discount	25.2; 9.6	1,031	4,027	5,058
Past service cost		(1,694)	(6,323)	(8,017)
Benefits paid		(2,916)	(12,497)	(15,413)
Actuarial (gain)/loss under profit or loss	25.2	-	(4,941)	(4,941)
Actuarial (gain)/loss under other comprehensive income	25.2	(712)	-	(712)
<b>Dec 31 2015</b>		<b>40,519</b>	<b>155,977</b>	<b>196,496</b>
including:				
non-current		36,476	143,793	180,269
current		4,043	12,184	16,227
Obligations under length-of-service awards and post-employment benefits at foreign companies (1)		2,164	-	2,164
<b>Dec 31 2015</b>		<b>42,683</b>	<b>155,977</b>	<b>198,660</b>
including:				
non-current		38,459	143,793	182,252
current		4,224	12,184	16,408

(1) Given the different nature of the pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafta Group – and their immaterial effect on the Group's total obligations under length-of-service awards and post-employment benefits, those companies' obligations are presented separately under obligations under length-of-service awards and post-employment benefits at foreign companies.

## 25.2 Total cost of future employee benefit payments charged to profit or loss

	Note	2016	2015
<b>Items recognised in profit or loss:</b>		<b>10,638</b>	<b>10,133</b>
Length-of-service awards, retirement and other post-employment benefits	9.2	5,529	5,075
- current service cost		14,514	15,417
- past service cost		(10,167)	(8,017)
- effect of foreign operations		3,209	2,616
- actuarial (gain)/loss	25.1	(2,027)	(4,941)
Cost of discount	25.1; 9.6	5,109	5,058
<b>Items recognised in other comprehensive income:</b>		<b>(2,019)</b>	<b>654</b>
Actuarial (gain)/loss	25.1	(2,243)	(712)
Effect of foreign operations		224	1,366
<b>Total comprehensive income</b>		<b>8,619</b>	<b>10,787</b>

## 25.3 Actuarial assumptions

Assumptions adopted by the actuary	Dec 31 2016	Dec 31 2015
Discount rate (%)	3.50%	2.90%
Expected inflation rate (%)	2.50%	2.50%
Employee turnover ratio (%)	2.33%	2.33%
Expected growth rate of salaries and wages (%) in the following year	2.00%	0.00%
Expected growth rate of salaries and wages (%) in the following years	2.50%	2.50%

- The employee attrition probability is based on the historical data on employee turnover at the Group and statistical data on employee attrition in the industry. The employee turnover ratios applied by the actuary were determined separately for men and women and broken down into nine age categories. The employee turnover ratio is now calculated on an average basis.
- The mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2015, published by the Polish Central Statistics Office (GUS), and assume that the Company's employee population is representative of the average Polish population in terms of mortality (December 31st 2015: Life Expectancy Tables of Poland for 2014).
- The changes resulting from amendments to the Act on Pensions and Disability Pensions from Social Security Fund (Pensions Act), in particular changes relating to the retirement age of women and men, were accounted for. The amendments to the Pensions Act resulted in a change in the operation of individual benefit plans, giving rise to additional past service costs.

- It was assumed that employees would retire in accordance with the standard procedure, as prescribed by the Pensions Act, with the exception of employees who, according to the information provided by the Company, meet the conditions for early retirement entitlement.
- Based on the historical data, it was assumed that in 60% of cases death benefit payments represent half of the full death benefit amount.
- The discount rate on future benefits was assumed at 3.5%, i.e. reflecting the assumption made at the corporate level (December 31st 2015: 2.9%, reflecting the assumption made at the corporate level).

## 25.4 Termination benefits

In 2016, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 4,994 thousand (2015: PLN 6,939 thousand).

In 2016, provisions for termination benefits totalled PLN 379 thousand (2015: PLN 125 thousand).

## 25.5 Sensitivity analysis

The table below presents results of calculations for changed key actuarial assumptions: the salaries and wages growth rate and the discount rate.

### Initial obligation balance

Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total <sup>(1)</sup>
base	base	130,756	40,268	7,810	8,959	187,793
base + 1%	base	141,423	44,311	8,540	10,610	204,884
base - 1%	base	121,371	36,822	7,170	7,661	173,024
base	base + 0.5%	125,387	38,338	7,451	8,256	179,432
base	base - 0.5%	136,545	42,382	8,197	9,761	196,885

The tables below present results of calculations for changed key actuarial assumptions: the salaries and wages growth rate, medical care contributions, and the discount rate.

### Current service cost projected for 2017

Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total <sup>(1)</sup>
base	base	10,176	2,213	629	388	13,406
base + 1%	base	11,307	2,575	710	511	15,103
base - 1%	base	9,203	1,916	561	298	11,978
base	base + 0.5%	9,667	2,058	594	341	12,660

base	base - 0.5%	10,729	2,386	668	444	14,227
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### Cost of discount projected for 2017

Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total <sup>(1)</sup>
base	base	4,110	1,173	252	303	5,838
base + 1%	base	4,483	1,314	278	361	6,436
base - 1%	base	3,781	1,052	230	258	5,321
base	base + 0.5%	4,482	1,263	274	318	6,337
base	base - 0.5%	3,696	1,069	228	284	5,277

### Total current service cost and cost of discount projected for 2017

Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total <sup>(1)</sup>
base	base	14,286	3,386	881	691	19,244
base + 1%	base	15,790	3,889	988	872	21,539
base - 1%	base	12,984	2,968	791	556	17,299
base	base + 0.5%	14,149	3,321	868	659	18,997
base	base - 0.5%	14,425	3,455	896	728	19,504

<sup>(1)</sup> Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafta Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations were not presented in the review.

The Notes to the consolidated financial statements are an integral part of the statements.  
(This is a translation of a document originally issued in Polish)