

29. Employee benefit obligations

| PLN '000 | Note | Dec 31 2014 | Dec 31 2013 (restated) | Jan 31 2013 (restated) |
|---|-------------|----------------|---------------------------|---------------------------|
| Non-current obligations | | | | |
| Post-employment benefits | 29.1 | 41,510 | 32,741 | 26,286 |
| Length-of-service awards and other benefits | 29.1 | 143,941 | 118,684 | 103,576 |
| Total | 29.1 | 185,451 | 151,425 | 129,862 |
| Current obligations | | | | |
| Post-employment benefits | 29.1 | 3,681 | 3,869 | 6,201 |
| Length-of-service awards and other benefits | 29.1 | 11,716 | 11,966 | 9,553 |
| Bonuses, awards and unused holidays | | 51,520 | 71,547 | 77,934 |
| Salaries and wages payable | | 17,121 | 16,591 | 16,283 |
| Total | | 84,038 | 103,973 | 109,971 |
| Total obligations | | 269,489 | 255,398 | 239,833 |

29.1 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.

| PLN '000 | Note | Post-employment benefits | Length-of-service awards and other benefits | Total |
|---|-------------|--------------------------|---|----------------|
| Jan 1 2014 | | 32,808 | 130,650 | 163,458 |
| Current service cost | | 1,206 | 9,289 | 10,495 |
| Cost of discount | 9.6; 29.3 | 1,251 | 5,103 | 6,354 |
| Past service cost | | 47 | 362 | 409 |
| Benefits paid | | (1,840) | (12,575) | (14,415) |
| Actuarial (gain)/loss under profit or loss | 29.3 | - | 29,953 | 29,953 |
| Actuarial (gain)/loss under other comprehensive income | 29.3 | 8,850 | - | 8,850 |
| Dec 31 2014 | | 42,322 | 162,782 | 205,104 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | 38,723 | 150,586 | 189,309 |
| <i>current</i> | | 3,599 | 12,196 | 15,795 |
| Obligations under length-of-service awards and post-employment benefits at foreign companies ⁽¹⁾ | | 4,832 | - | 4,832 |
| Reclassification to liabilities directly associated with assets held for sale (or disposal groups) | 17 | (1,963) | (7,125) | (9,088) |
| Dec 31 2014 | 29.2 | 45,191 | 155,657 | 200,848 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | 41,510 | 143,941 | 185,451 |
| <i>current</i> | | 3,681 | 11,716 | 15,397 |

| PLN '000 | Note | Post-employment benefits | Length-of-service awards and other benefits | Total |
|---|-------------|--------------------------|---|----------------|
| Jan 1 2013 | | 32,018 | 113,129 | 145,147 |
| Current service cost | | 1,804 | 17,277 | 19,081 |
| Cost of discount | 9.6; 29.3 | 1,158 | 4,980 | 6,138 |
| Past service cost | | (152) | (793) | (945) |
| Benefits paid | | (2,206) | (11,236) | (13,442) |
| Actuarial (gain)/loss under profit or loss | 29.3 | - | 7,680 | 7,680 |
| Actuarial (gain)/loss under other comprehensive income | 29.3 | 225 | - | 225 |
| Dec 31 2013 | | 32,847 | 131,037 | 163,884 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | 29,132 | 119,033 | 148,165 |
| <i>current</i> | | 3,715 | 12,004 | 15,719 |
| Obligations under length-of-service awards and post-employment benefits at foreign companies ⁽¹⁾ | | 3,802 | - | 3,802 |
| Deconsolidation (LOTOS Tank Sp. z o.o.) | | (39) | (387) | (426) |
| Dec 31 2013 | 29.2 | 36,610 | 130,650 | 167,260 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | 32,741 | 118,684 | 151,425 |
| <i>current</i> | | 3,869 | 11,966 | 15,835 |

⁽¹⁾ 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 Geonafra Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations are presented separately as *Obligations under length-of-service awards and post-employment benefits at foreign companies*.

29.2 Present value of future employee benefit obligations

| (PLN '000) | Note | Present value of future employee benefit obligations |
|-------------|------|--|
| Dec 31 2014 | 29.1 | 200,848 |
| Dec 31 2013 | 29.1 | 167,260 |
| Dec 31 2012 | | 145,616 |
| Dec 31 2011 | | 131,801 |
| Dec 31 2010 | | 107,829 |

Present value of future employee benefit obligations is equal to their carrying amount.

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

| PLN '000 | Note | year ended Dec 31 2014 | year ended Dec 31 2013 |
|---|-----------|------------------------|------------------------|
| Items recognised in profit or loss: | | 51,960 | 35,593 |
| Length-of-service awards, retirement and other post-employment benefits | 9.2 | 45,606 | 29,455 |
| - <i>current service cost</i> | | 10,495 | 19,081 |
| - <i>past service cost</i> | | 409 | (945) |
| - <i>effect of foreign operations</i> | | 4,749 | 3,639 |
| - <i>actuarial (gain)/loss</i> | 29.1 | 29,953 | 7,680 |
| Cost of discount | 9.6; 29.1 | 6,354 | 6,138 |
| Items recognised in other comprehensive income: | | 8,933 | 188 |
| Actuarial (gain)/loss | 29.1 | 8,850 | 225 |

| | | |
|---|---------------|---------------|
| Effect of foreign operations | 83 | (35) |
| Deconsolidation (LOTOS Tank Sp. z o.o.) | - | (2) |
| Total comprehensive income | 60,893 | 35,781 |

29.4 Actuarial assumptions

The table below presents the key assumptions adopted by the actuary as at the balance-sheet date to calculate the amount of the obligation.

| | Dec 31 2014 | Dec 31 2013 |
|---|-------------|-------------|
| Discount rate (%) | 2.70% | 4.30% |
| Expected inflation rate (%) | 2.50% | 2.50% |
| Employee turnover ratio (%) | 2.43% | 2.49% |
| Expected growth rate of salaries and wages (%) in the following year | 4.00% | 0.00% |
| Expected growth rate of salaries and wages (%) in the following years | 2.50% | 2.76% |

- 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 2013, published by the Polish Central Statistics Office (GUS), and assume that the Group's employee population is representative of the average Polish population in terms of mortality (December 31st 2013: Life Expectancy Tables of Poland for 2012).
- The changes resulting from amendments to the Act on Pensions and Disability Pensions from Social Security Fund (Pensions Act) were accounted for, in particular changes relating to the retirement age of women and men, including its extension over a defined period to 67 years for both women and men. 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 half of the full amount of death benefits is paid.
- The discount rate on future benefits was assumed at 2.7%, i.e. reflecting the assumptions made at the corporate level (December 31st 2013: 4.3%, the average yield of the lowest-risk long-term securities traded on the Polish capital market).

29.5 Termination benefits

In 2014, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 3,363 thousand (2013: PLN 3,984 thousand).

In 2014, provisions for termination benefits totalled PLN 69 thousand (2013: PLN 74 thousand).

29.6 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

| PLN '000 Salaries and wages growth rate | Discount rate | Length-of- service awards | Old-age and disability retirement severance payments | Death benefits | Social benefits fund | Total ⁽¹⁾ |
|---|---------------|------------------------------|---|-------------------|-------------------------|----------------------|
| base | base | 148,623 | 37,766 | 10,524 | 8,191 | 205,104 |
| base + 1% | base | 163,597 | 42,695 | 11,656 | 9,813 | 227,761 |
| base - 1% | base | 137,729 | 33,823 | 9,596 | 6,947 | 188,095 |
| base | base + 0.5% | 142,855 | 35,599 | 10,013 | 7,517 | 195,984 |
| base | base - 0.5% | 157,237 | 40,367 | 11,136 | 8,987 | 217,727 |

The table below presents 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 2015

| PLN '000 Salaries and wages growth rate | Discount rate | Length-of- service awards | Old-age and disability retirement severance payments | Death benefits | Social benefits fund | Total ⁽¹⁾ |
|---|---------------|------------------------------|---|-------------------|-------------------------|----------------------|
| base | base | 11,876 | 2,216 | 833 | 335 | 15,260 |
| base + 1% | base | 13,371 | 2,638 | 954 | 448 | 17,411 |

| | | | | | | |
|-----------|-------------|--------|-------|-----|-----|--------|
| base - 1% | base | 10,614 | 1,879 | 731 | 254 | 13,478 |
| base | base + 0.5% | 11,209 | 2,038 | 780 | 292 | 14,319 |
| base | base - 0.5% | 12,608 | 2,418 | 890 | 387 | 16,303 |

Cost of discount projected for 2015

| PLN '000 Salaries and wages growth rate | Discount rate | Length-of- service awards | Old-age and disability retirement severance payments | Death benefits | Social benefits fund | Total (1) |
|---|---------------|------------------------------|---|-------------------|-------------------------|-----------|
| base | base | 3,737 | 926 | 267 | 215 | 5,145 |
| base + 1% | base | 4,111 | 1,056 | 297 | 258 | 5,722 |
| base - 1% | base | 3,413 | 816 | 242 | 181 | 4,652 |
| base | base + 0.5% | 4,209 | 1,025 | 300 | 232 | 5,766 |
| base | base - 0.5% | 3,210 | 809 | 231 | 192 | 4,442 |

Total current service cost and cost of discount projected for 2015

| PLN '000 Salaries and wages growth rate | Discount rate | Length-of- service awards | Old-age and disability retirement severance payments | Death benefits | Social benefits fund | Total (1) |
|---|---------------|------------------------------|---|-------------------|-------------------------|-----------|
| base | base | 15,613 | 3,142 | 1,100 | 550 | 20,405 |
| base + 1% | base | 17,482 | 3,694 | 1,251 | 706 | 23,133 |
| base - 1% | base | 14,027 | 2,695 | 973 | 435 | 18,130 |
| base | base + 0.5% | 15,418 | 3,063 | 1,080 | 524 | 20,085 |
| base | base - 0.5% | 15,818 | 3,227 | 1,121 | 579 | 20,745 |

(1) 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 Geonafra 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)