

## 5.7 Provisions for employee benefits

### Accounting policy applied

The Group provides its employees with long-term benefits during their employment (jubilee awards) as well as benefits after expiration of the tenure of their employment (pension and disability severance benefits, transportation services and benefits from the Company Social Benefits Fund (ZFŚS) for old age and disability pensioners, post-mortem benefits). Jubilee awards are paid out to the employees after working for specified number of years. Pension and disability severance benefits are paid out as lump sum when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The Group is establishing provisions for future liabilities arising out of the foregoing virtues to assign the costs to the respective periods. The employees are also vested with the right to receive benefits after their employment in the form of social benefits from the Company Social Benefits Fund and train fare discounts. In its statement of financial position, the Group recognizes the foregoing benefits at the current value of the liability as at the date ending the reporting period.

The amount of long-term benefits during the employment period and benefits after the employment period is calculated by an independent actuarial firm using the forecasted individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. The costs of defined benefit plans for which the employee is eligible during his/her ongoing employment is recognized in the result as costs of employee benefits, except when it is recognized as costs of creating an asset component and reflects the growth of liabilities on account of defined benefits attributable to work performed by the employees in the current period. The costs of past employment are recognized directly in the financial result. The net interest cost is calculated through application of the discount rate to the net value of liability on account of specified financial expenses and it is presented in the financial expenses. Actuarial earnings and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.



### SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2018 and 31 December 2017, the actuarial valuation of provisions for employee benefits for the Polish Group companies was based on the following assumptions:

	Valuation as at	
	31/12/2018	31/12/2017
	%	%
Discount rate	3.0	3.25
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 3.0	up to 3.5
Assumed growth of the price of transportation benefits	up to 2.5	up to 2.5
Assumed average annual growth of the base for calculation of provisions for Company Benefits Fund	3.5 - 5.0	3.3 - 5.0
Weighted average employee mobility ratio	1.7 - 8.2	1.1 - 10.0

The value of provisions for employee benefits is significantly affected by the adopted assumptions for discount rate, the assumed salary growth and the expected average employment growth. The sensitivity analysis for changes in the foregoing assumptions may be found below. The analysis was conducted by changing only one variable while leaving the remaining assumptions unchanged.

### Sensitivity analysis of provisions for employee benefits

	Discount rate	Salary growth ratio	Employee mobility ratio			
	31/12/2018	+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.

	31/12/2018	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	304.0	(4.3)	4.4	3.7	(3.7)	(3.8)	3.8
Retirement and disability severance benefits	195.8	(3.3)	3.4	2.9	(2.8)	(3.0)	2.9
Post-mortem benefits	7.9	(0.1)	0.1	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	130.2	(5.0)	5.3	4.4	(4.2)	(0.8)	0.8
Transportation benefits	32.8	(1.3)	1.3	1.1	(1.1)	(0.3)	0.3
<b>Total</b>	<b>670.7</b>	<b>(14.0)</b>	<b>14.5</b>	<b>12.2</b>	<b>(11.9)</b>	<b>(8.0)</b>	<b>7.9</b>

	31/12/2017	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	288.0	(4.1)	4.3	3.5	(3.4)	(3.7)	3.7
Retirement and disability severance benefits	174.6	(3.1)	3.2	2.7	(2.6)	(2.7)	2.7
Post-mortem benefits	7.1	(0.1)	0.2	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	143.5	(5.6)	6.0	5.2	(5.0)	(0.8)	0.8
Transportation benefits	33.8	(1.3)	1.4	1.3	(1.1)	(0.2)	0.3
<b>Total</b>	<b>647.0</b>	<b>(14.2)</b>	<b>15.1</b>	<b>12.8</b>	<b>(12.2)</b>	<b>(7.5)</b>	<b>7.6</b>

### Movement in provisions for employee benefits

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
<b>1/01/2018 (audited)</b>	<b>166.8</b>	<b>143.5</b>	<b>33.8</b>	<b>7.1</b>	<b>274.2</b>	<b>37.2</b>	<b>662.6</b>
Corrections of prior period errors	7.8	-	-	-	13.8	-	21.6
<b>1/01/2018 (restated)</b>	<b>174.6</b>	<b>143.5</b>	<b>33.8</b>	<b>7.1</b>	<b>288.0</b>	<b>37.2</b>	<b>684.2</b>
Current service cost	5.7	1.9	1.6	0.2	11.2	-	20.6
Interest expenses	4.8	4.7	1.1	0.2	8.6	-	19.4
Actuarial (profits) / losses recognized in other comprehensive income	27.3	(12.5)	(2.7)	1.1	-	-	13.2
Actuarial (profits) / losses recognized in the statements of profit or loss	-	-	-	-	37.2	-	37.2
Recognition of provisions	-	-	-	-	-	30.9	30.9
Reversal of provisions	-	-	-	-	-	(19.3)	(19.3)
Benefits paid out	(16.6)	(7.4)	(1.0)	(0.7)	(41.1)	(12.6)	(79.5)
FX differences	-	-	-	-	0.1	0.2	0.3
<b>31/12/2018</b>	<b>195.8</b>	<b>130.2</b>	<b>32.8</b>	<b>7.9</b>	<b>304.0</b>	<b>36.3</b>	<b>707.0</b>
Long-term provisions	169.1	125.3	31.7	6.6	258.8	-	591.5
Short-term provisions	26.7	4.9	1.1	1.3	45.2	36.3	115.5

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post- mortem benefits	Jubilee awards	Other employee benefits	Total provisions
<b>Total</b>	<b>195.8</b>	<b>130.2</b>	<b>32.8</b>	<b>7.9</b>	<b>304.0</b>	<b>36.3</b>	<b>707.0</b>

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post- mortem benefits	Jubilee awards	Other employee benefits	Total provisions
<b>1/01/2017 (audited)</b>	<b>153.2</b>	<b>128.6</b>	<b>33.3</b>	<b>6.9</b>	<b>268.9</b>	<b>34.0</b>	<b>624.9</b>
Corrections of prior period errors	7.0	-	-	-	13.7	-	20.7
<b>1/01/2017 (restated)</b>	<b>160.2</b>	<b>128.6</b>	<b>33.3</b>	<b>6.9</b>	<b>282.6</b>	<b>34.0</b>	<b>645.6</b>
Current service cost	5.3	1.7	0.6	0.1	11.0	-	18.7
Interest expenses	4.8	4.5	1.2	0.2	8.4	-	19.1
Actuarial (profits) / losses recognized in other comprehensive income	21.0	15.4	(0.2)	0.7	-	-	36.9
Actuarial (profits) / losses recognized in the statements of profit or loss	-	-	-	-	29.8	-	29.8
Recognition of provisions	-	-	-	-	-	26.7	26.7
Reversal of provisions	-	-	-	-	-	(18.4)	(18.4)
Benefits paid out	(16.7)	(6.7)	(1.1)	(0.8)	(43.8)	(5.1)	(74.2)
<b>31/12/2017</b>	<b>174.6</b>	<b>143.5</b>	<b>33.8</b>	<b>7.1</b>	<b>288.0</b>	<b>37.2</b>	<b>684.2</b>
Long-term provisions	150.9	137.8	32.5	6.3	248.2	-	575.7
Short-term provisions	23.7	5.7	1.3	0.8	39.8	37.2	108.5
<b>Total</b>	<b>174.6</b>	<b>143.5</b>	<b>33.8</b>	<b>7.1</b>	<b>288.0</b>	<b>37.2</b>	<b>684.2</b>

#### Items recognized in the result in reference to employee benefits programs

	31/12/2018	31/12/2017
Employee benefits	(69.4)	(56.8)
Financial expenses	(19.4)	(19.1)
<b>Total recognized in the result before tax</b>	<b>(88.8)</b>	<b>(75.9)</b>

#### Actuarial (profits) / losses

2018	change of demographic assumptions	change of financial assumptions	other amendments	Total
<b>Actuarial (profits) / losses - post-employment benefits</b>				
Retirement and disability severance benefits	4.4	2.5	20.4	27.3
Company Social Benefits Fund	1.2	4.2	(17.9)	(12.5)
Transportation benefits	0.3	1.1	(4.1)	(2.7)
Post-mortem benefits	0.1	0.1	0.9	1.1

2018	change of demographic assumptions	change of financial assumptions	other amendments	Total
<b>Actuarial (profits) / losses - other long-term benefits</b>				
Jubilee awards	5.3	3.2	28.7	37.2
<b>Total</b>	<b>11.3</b>	<b>11.1</b>	<b>28.0</b>	<b>50.4</b>
<b>Actuarial (profits) / losses - post-employment benefits</b>				
Retirement and disability severance benefits	0.1	2.7	18.2	21.0
Company Social Benefits Fund	1.4	5.3	8.7	15.4
Transportation benefits	0.4	1.2	(1.8)	(0.2)
Post-mortem benefits	(0.2)	0.1	0.8	0.7
<b>Actuarial (profits) / losses - other long-term benefits</b>				
Jubilee awards	(0.4)	3.3	26.9	29.8
<b>Total</b>	<b>1.3</b>	<b>12.6</b>	<b>52.8</b>	<b>66.7</b>

#### Analysis of maturities of paid out employee benefits

31/12/2018	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	26.7	4.9	1.1	1.3	45.2	36.3	115.5
1 to 5 years	63.6	21.9	5.2	3.3	133.6	-	227.6
over 5 years	105.5	103.4	26.5	3.3	125.2	-	363.9
<b>Total</b>	<b>195.8</b>	<b>130.2</b>	<b>32.8</b>	<b>7.9</b>	<b>304.0</b>	<b>36.3</b>	<b>707.0</b>

31/12/2017	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	23.7	5.7	1.3	0.8	39.8	37.2	108.5
1 to 5 years	53.2	23.8	5.0	2.7	128.0	-	212.7
over 5 years	97.7	114.0	27.5	3.6	120.2	-	363.0
<b>Total</b>	<b>174.6</b>	<b>143.5</b>	<b>33.8</b>	<b>7.1</b>	<b>288.0</b>	<b>37.2</b>	<b>684.2</b>

The average maturity of employee benefits in the Parent Company was 10.3 years as at 31 December 2018. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using actuarial methods, is approx. 90%.