

29. Employee benefits

29.1 Retirement benefits and other post-employment benefits

In accordance with the Group's remuneration systems, the Group's employees are entitled to severance payments upon old-age or disability retirement. Length-of-service awards are paid out after a specific period of employment. Therefore, based on a valuation prepared by professional actuary firms or based on own estimates, the Group recognises provisions for the present value of its obligation to provide old-age and disability retirement severance payments and length-of-service awards. The table below provides information on the amount of the provisions and a reconciliation presenting changes in the provisions during the financial period.

	Year ended Dec 31 2011	Year ended Dec 31 2010
At beginning of the period	107,829	98,694
Provision recognised, including:	42,013 ⁽¹⁾	32,695
- acquisition of control over the AB LOTOS Geonafta Group	555	-
- currency translation differences on foreign operations	70	-
Reclassification into assets held for sale	(3,476)	-
Benefits paid	(9,585)	(10,970)
Provision released	(4,179)	(6,332)
Provision used	(801)	(6,258)
At end of the period	131,801	107,829

⁽¹⁾ change in the method of determination of the basis for calculation of employee benefits (removal of base pay change factor).

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 2011	Dec 31 2010
Discount rate (%)	5.7%	5.8%
Expected inflation rate (%)	2.5%	2.5%
Employee turnover ratio (%)	1%-11.4%	1%-12.9%
Expected growth rate of salaries and wages (%)	0%-3.5%	0%-5%
Expected growth rate of salaries and wages (%) in the following years	1.5%-6%	1.5%-7%

- The discount rate for future payments of employee benefits is 5.7% (i.e. it equals the return on the safest long-term securities traded on the Polish capital market as at the valuation date) (December 31st 2010: 5.8%),
- The long-term annual growth rate of average remuneration in the national economy: 5%, i.e. the total of the real annual growth rate of remuneration of 2.5% and the long-term annual inflation rate of 2.5% (the National Bank of Poland's inflation target).
- The long-term annual growth rate of remuneration in the Group in 2012: within the range 0% – 3.5%; in subsequent years: 0% – 6% (December 31st 2010: the long-term annual growth rate of remuneration in 2011: within the range 0% – 5%). The presented ranges of the ratios are a synthetic representation of the relevant absolute values determined separately for each Group company.
- 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 adopted by the actuary were determined separately for men and women and broken down into nine age categories in five-year intervals.
- The mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2010, 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 2010: Life Expectancy Tables of Poland for 2009).
- It is assumed that the Group employees will retire according to the standard system, i.e. men – after reaching the age of 65, women – after reaching the age of 60, except for those employees who, based on the information provided by the Group, meet

the conditions for early retirement.

7. The data used in the assumptions does not cover cases related to organisational changes.

29.2 Termination benefits

In 2011, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 5,703 thousand (2010: PLN 2,236 thousand).

In 2011, provisions for termination benefits totalled PLN 18 thousand (2010: PLN 806 thousand).

This is a translation of a document originally issued in Polish.