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9. Employee benefits

|  |  |
| --- | --- |
| **OVERVIEW** | * Liabilities for employee benefits are recognized on the basis of a legal or constructive obligation.
* Liabilities and expenses for employee benefits generally are recognized in the period in which the services are rendered.
* Short‑term employee benefits are accounted for using normal accrual accounting.
* A defined contribution plan is a post‑employment benefit plan under which a company pays fixed contributions into a separate entity and has no further obligations. All other post‑employment plans are defined benefit plans.
* Contributions to a defined contribution plan are expensed as the obligation to make the payments is incurred.
* A liability is recognized for an employer’s obligation under a defined benefit plan. The liability and expense are measured actuarially using the projected unit credit method.
* Assets that meet the definition of plan assets and the related liabilities are presented on a net basis in the balance sheet.
* Actuarial gains and losses of defined benefit plans are recognized immediately directly in equity.
* Liabilities and expenses for vested past service costs under a defined benefit plan are recognized immediately.
* Liabilities and expenses for unvested past service costs under a defined benefit plan are recognized over the vesting period.
* If a defined benefit plan has assets in excess of the obligation, then the amount of any net asset recognized is limited to available future benefits from the plan and unrecognized actuarial losses and past service costs.
* The expense for long‑term employee benefits is accrued over the service period.
 |

9.1 Purpose and scope

This policy provides guidance and rules on accounting for **Employee benefits** for the purpose of preparing the financial statements of the Group according to International Financial Reporting Standards, specifically IAS 19, Employee Benefits.

The policy does not provide guidance on compliance with local GAAP or statutory or tax requirements. This policy does not provide guidance on accounting for share-based payments. See Share Based Payments Policy.

The Group sponsors the following employee benefit plans in different forms around the world:

1. Short‑term employee benefits

2. Defined contribution plans

3. Defined benefit plans

4. Long-term employee benefits

9.2 Short‑term employee benefit plans

Short‑term employee benefits are those benefits payable within 12 months of the end of the period in which the employee renders the related service. They are accounted for using normal accrual accounting.

Short‑term employee benefit plans include profit‑sharing and bonus plans, wages, salaries, social security contributions, vacation and sick leaves that are due within 12 months.

The Group should recognize the expected cost of profit-sharing and bonus payments when, and only when, it has a legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the expected cost can be made.

The expected cost of short-term compensated absences should be recognized as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur.

9.3 Post‑employment benefit plans

Depending on the economic substance of the plan, post‑employment benefit plans are classified as either a defined contribution plan or a defined benefit plan.

A **defined contribution plan** is a plan that:

* Provides pension benefits in return for services rendered, through an individual account for each participant, and

Specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, a company pays fixed contributions into a separate fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. As such, the actuarial risk and the investment risk are borne by the employee.

A **defined benefit plan** is a plan that provides an agreed amount of pension or lump sum benefits in return for services rendered**,** usually as a function of one or more factors such as age, years of service, or compensation.

Under defined benefit plans, the actuarial risk and the investment risk are borne by the company. Any post‑employment benefit plan that is not a defined contribution plan is a defined benefit plan.

9.3.1 Defined contribution plan

A defined contribution plans exists when:

1. The Group’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by the Group (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and
2. in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

**State Plans**

State plans are established by legislation to cover all entities and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.

State plans are characterized as defined benefit or defined contribution in nature based on the entity’s obligation under the plan. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans, the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, in the rare cases when a state plan is a defined benefit plan, an entity applies the relevant accounting for such.

**Insured benefits**

An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

1. pay the employee benefits directly when they fall due; or
2. pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

Accounting for defined contribution plans

Accounting for defined contribution plans is straightforward because the Group’s obligation for each period is determined by the amounts to be contributed for that period.

No actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.

The obligations are measured on an undiscounted basis. The Net Periodic Pension Cost of a defined contribution plan is the amount of contributions in the accounting period that are made or to be made to the individual accounts of participants who performed services during that same period.

The Group recognizes its contributions as expense in the period the obligation was incurred (accrual basis).

9.3.2 Defined benefit plans

Any plan that is not a Defined Contribution Plan is a Defined Benefit Plan.

Accounting for defined benefit plans [IAS 19.48]

Accounting for defined benefit plans is complex because:

* Actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses, and

The obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

The Group uses a qualified actuary to determine the defined benefit obligation on an annual basis.

Funded status

The funded status of the benefit plans, i.e. the extent to which the benefit obligations are covered by the Group’s contributions into the dedicated fund, results from the difference between:

* The projected benefit obligation, and

The fair value of plan assets, if any.

Balance Sheet: Defined benefit liability

The amount recognized as a defined benefit liability is the net total of the following amounts:

|  |  |
| --- | --- |
| **+** | The present value of the defined benefit obligation at the balance sheet date;  |
| **+** | Any unrecognized actuarial gains (less any actuarial losses);  |
| **‑** | Minus any past service cost not yet recognized; (*see income statement recognition section*)  |
| **‑** | Minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly.  |

When the calculation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Present value of defined benefit obligation

The Group uses actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods as of the balance sheet date. Actuarial assumptions about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) are used by the Company’s actuaries to determine the cost of the benefits. The calculated benefits are discounted using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation.

Actuarial gains and losses

Considering the uncertainties inherent in predicting the evolution of both the benefit obligation and the value of assets, the funded status of the employee benefit plan is likely to evolve outside expectations from one year to another.

Actuarial gains and losses are the changes in the amount of either the projected benefit obligation or plan assets resulting from:

**Experience** different from that assumed, for example:

* A turnover higher than expected (actuarial gain)

A return on plan assets below expectations (actuarial loss)

Changes in actuarial assumptions, for example:

A decrease in the discount rate (actuarial loss)

The Group has opted to recognize such actuarial gains and losses in the year they arise.

Timing of valuation

An actuarial valuation is required once a year. The Group typically engages an actuarial to perform this calculation at each calendar year end.

Fair value of plan assets

Plan assets are comprised of assets held by a long‑term employee benefit fund that:

A. are held by a fund that is legally separate from the Group and exists solely to pay or fund employee benefits; and

B. are available to be used only to pay or fund employee benefits, are not available to the Group’s own creditors (even in bankruptcy), and cannot be returned to the Group, unless either:

i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the Group; or

ii) the assets are returned to the Group to reimburse it for employee benefits already paid.

The fair value of plan assets is determined based on market rates. If no market price is available, the fair value is estimated; for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation**)**.

Plan assets and the related liabilities are presented on a net basis in the balance sheet. Net liabilities and net assets arising on different plans are presented separately, except in the rare circumstances when there is a legal right of offset and an intention to settle the plans on a net basis.

Income Statement: Net Periodic Pension Cost [IAS 19.61]

The Net Periodic Pension Cost is comprised of the following:

|  |  |
| --- | --- |
| **+** | Service Cost;  |
| **+** | Interest Cost;  |
| **+** | Amortization of unrecognized unvested past service cost;  |
| **+** | the effect of any curtailments or settlements |
| **+** | Any unrecognized actuarial gains (less any actuarial losses);  |

Service cost

Service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost

Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation. The discount rate used in the present value calculation is the yield at the reporting date on the Actuary’s Yield Curve which matches the Group’s cash flows to theoretical bond indices.

The net interest cost on the net defined benefit liability (asset) comprises:

* Interest cost on the defined benefit obligation
* Interest income on the plan assets
* Interest on the effect of Asset Ceiling

Past service cost

Past service costs arises when the Group introduces a defined benefit plan or changes the terms of an existing plan or the initiation of a new plan. It may arise, for example, from the adoption of a new law or from a renegotiation of benefits (plan amendment).

A plan amendment may increase benefits including those attributed to years of service already rendered. Plan amendments are normally granted with the expectation that the employer will realize economic benefits in future periods and result in retroactive benefits, known as past service cost.

The unvested portion of the past service cost are amortized as a component of Net Periodic Pension Cost by assigning an equal amount to each future period of service for each employee active at the date of the amendment and who is expected to receive benefits under the plan. An amortization schedule for Past Service Costs is established when benefits are introduced or changed and should only be amended due to a curtailment or settlement.

Vested employee benefits are employee benefits that are not conditional on future employment. Accrued benefits that are already vested upon the introduction of, or changes to, a defined benefit plan are recognized immediately. The vested past service cost to be recognized at once is measured as the change in the liability resulting from the amendment.

**Curtailments / Settlements [IAS 19.109-110]**

Gains or losses resulting from curtailments or settlements of a plan are recognized when the curtailment or settlement occurs. Curtailments are reductions in scope of employees covered or in benefits.

The gain or loss on a curtailment or settlement is any resulting change in the present value of the defined benefit obligation; any resulting change in the fair value of the plan assets; and any related actuarial gains and losses and past service cost not previously been recognised.

9.4 Termination plans

Unlike post‑employment benefit plans, an obligation for termination benefits is regarded as arising from the termination and not from the employee’s service; therefore the obligation for termination benefits is not recognized until the Group is committed without realistic possibility of withdrawal to the termination.

Termination benefits are those benefits that are payable as a result of the Group terminating employment before the normal retirement date, or an employee’s decision to accept an offer of voluntary redundancy.

Expenses and liabilities for termination benefits should be recognized immediately when the Group has an obligation to make the payment. The cost is not spread over any remaining service period.

9.5 Other long‑term benefit plans

An employee benefit payable during employment, other than equity compensation (see IFRS 2 *Share‑based payments*), but more than one year after the end of the period in which the employee services were rendered, is a long‑term employee benefit.

Long‑term benefits are accounted for in a manner similar to post-employment benefits (see *9.3 Post employment benefit plans*), except that all actuarial gains and losses and past services are recognized immediately in profit or loss.

9.6 Presentation and disclosure

9.6.1 Offsetting

Assets that meet the definition of plan assets and the related liabilities are presented on a net basis in the balance sheet. All other assets and obligations should be presented on a gross basis.

Net liabilities and net assets arising on different plans are presented separately, except in the rare circumstances when there is a legal right of offset and an intention to settle the plans on a net basis.

**9.6.2 Current/non-current distinction**

A distinction between current and non‑current assets and liabilities arising from post‑employment benefits is not required.

**9.6.3 Disclosures**

**9.6.3.1 Defined contribution plans**

The Group shall disclose the amount recognized as an expense for defined contribution plans.

**9.6.3.2 Defined benefit plans**

The Group shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

The Group shall disclose the following information about its defined benefit plans:

1. the Group accounting policy for recognizing actuarial gains and losses.
2. a general description of the type of plan.
3. a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period for each of the following:
	1. current service cost,
	2. interest cost,
	3. contributions by plan participants,
	4. actuarial gains and losses,
	5. foreign currency exchange rate changes on plans measured in a currency different from the entity’s presentation currency,
	6. benefits paid,
	7. past service cost,
	8. business combinations,
	9. curtailments and
	10. settlements.
4. an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.
5. a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognized as an showing separately, if applicable, the effects during the period attributable to each of the following:
	1. return on plan assets,
	2. actuarial gains and losses,
	3. foreign currency exchange rate changes on plans measured in a currency different from the entity’s presentation currency,
	4. contributions by the employer,
	5. contributions by plan participants,
	6. benefits paid,
	7. business combinations and
	8. settlements.
6. a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognized in the statement of financial position, showing at least:
	1. the net actuarial gains or losses not recognized in the statement of financial position (see paragraph 92);
	2. the past service cost not recognized in the statement of financial position (see paragraph 96);
	3. any amount not recognized as an asset, because of the limit in paragraph 58(b);
	4. the fair value at the end of the reporting period of any reimbursement right recognized as an asset in accordance with paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and
	5. the other amounts recognized in the statement of financial position.
7. the total expense recognized in profit or loss for each of the following, and the line item(s) in which they are included:
8. Current service cost and the components of such for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.
9. the amounts included in the fair value of plan assets for:
	1. each category of the entity’s own financial instruments; and
	2. any property occupied by, or other assets used by, the entity.
10. a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.
11. the actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset in accordance with paragraph 104A.
12. the principal actuarial assumptions used as at the end of the reporting period, including, when applicable:
	1. the discount rates;
	2. the expected rates of return on any plan assets for the periods presented in the financial statements;
	3. the expected rates of return for the periods presented in the financial statements on any reimbursement right recognized as an asset in accordance with paragraph 104A;
	4. the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
	5. medical cost trend rates; and
	6. any other material actuarial assumptions used.
		* + 1. An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.
13. the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:
	1. the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and
	2. the accumulated post-employment benefit obligation for medical costs.
		* + 1. For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.
14. the amounts for the current annual period and previous four annual periods of:
	1. the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
	2. the experience adjustments arising on:
		1. the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the end of the reporting period and
		2. the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the end of the reporting period.
15. the employer’s best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting period.

Paragraph 120A (b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan shall include informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance

with paragraph 52. Further detail is not required.

When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

* + - * 1. the geographical location of the plans, for example, by distinguishing domestic plans from foreign plans; or
				2. whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

Income statement presentation

The Group recognizes net periodic pension cost in SG&A in the Income Statement.

|  |  |  |
| --- | --- | --- |
| **Amounts recognized in the balance sheet** |  | **December 31,** |
|  |  | **20X1** |  | **20XX** |
| Present value of funded obligations |  |  |  |  |
| Fair value of plan assets |  |  |  |  |
| **Subtotal** |  |  |  |  |
| Present value of unfunded obligations |  |  |  |  |
| **Net liability in balance sheet** |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Amounts recognized in income statement** |  | **12 months endedDecember 31, 20X1** |  | **12 months endedDecember 31, 20XX** |
| Current service cost |  |  |  |  |
| Interest cost |  |  |  |  |
|  |  |  |  |  |
| **Net periodic pension cost** |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Expense recognized in the following line items in the income statement** |  | **12 months endedDecember 31, 20X1** |  | **12 months endedDecember 31, 20XX** |
| Admin Expense |  |  |  |  |
| **Total** |  |   |  |   |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **12 months endedDecember 31, 20X1** |  | **12 months endedDecember 31, 20XX** |
| Actual return on plan assets |  |  |  |  |

|  |  |  |
| --- | --- | --- |
|  |  | **December 31,** |
| **Composition of plan assets by category** |  | **20X1** |  | **20XX** |
| Equity securities |  |  |  |  |
| Government Bonds |  |  |  |  |
| Other (insurance funds) |  |  |  |  |
|  |  |   |  |   |
| **hanges in the present value of the defined benefit obligation** |  | **12 months endedDecember 31, 20X1** |  | **12 months endedDecember 31, 20XX** |
| Defined benefit obligations at opening |  |  |  |  |
| Service cost |  |  |  |  |
| Interest cost |  |  |  |  |
| Actuarial losses (gains) |  |  |  |  |
| Liabilities assumed on business combinations |  |  |  |  |
| Benefits paid |  |  |  |  |
| **Defined benefit obligations at closing** |  |   |  |   |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Changes in the present value of plan assets** |  | **12 months endedDecember 31, 20X1** |  | **12 months endedDecember 31, 20XX** |
| Fair value of plan assets at opening |  |  |  |  |
| Contributions paid into the plan |  |  |  |  |
| Benefits paid by the plan |  |  |  |  |
| Expected return on plan assets |  |  |  |  |
| Actuarial (losses) gains recognized in equity |  |  |  |  |
| Assets acquired on business combinations |  |  |  |  |
| **Fair value of plan assets at closing** |  |   |  |   |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Change in the net liability** |  | **12 months endedDecember 31, 20X1** |  | **12 months endedDecember 31, 20XX** |
| Net liability at opening |  |  |  |  |
| Expense as above |  |  |  |  |
| Benefits paid directly |  |  |  |  |
| Employer’s contributions |  |  |  |  |
| Business combinations |  |  |  |  |
| Movement in SoRIE (statement of recognized income and expense) |  |  |  |  |
| **Net liability at closing** |  |   |  |   |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Amounts included in total recognized income and expense** |  | **20X1** |  | **20XX** |
| Cumulative amount at January, 1 |  |  |  |  |
| Actuarial gains and losses in the period |  |  |  |  |
| Cumulative amount at December, 31 |  |   |  |   |
|  |  |  |  |  |
|  |  | **December 31,** |
| **Principal Actuarial Assumptions** |  | **20X1** |  | **20XX** |
| Discount rate at December 31 |  |  |  |  |
| Expected return on plan assets at December 31 |  |  |  |  |
| Future salary increases |  |  |  |  |
| Future pension increases |  |  |  |  |