U.P. Power Transmission Corporation Limited
उ० प्र० पावर ट्रान्समिशन कार्पोरेशन लिमिटेड
(उ० प्र० सरकार का उपक्रम)

कार्यालय :
निदेशक (वाणिज्य एवं नियोजन)
5वां तल, शक्ति भवन
14–अशोक मार्ग, लखनऊ–226001
फैक्स–8511 फोन नं0–0522 2288530

CIN No.-U40101UP2004SGC028687
GSTIN- 09AAACU8823E1Z9

Office of the :
Director (Commercial & Planning)
5th Floor, Shakti Bhawan
14- Ashok Marg, Lucknow-226001
Phone- 0522 2218689
Email- Dir_comm@upptcl.org

No.851/Dir(Comm&Plg)/UPPTCL/2018 Date: 06 November, 2018

To,

Director (Tariff),
Uttar Pradesh Electricity Regulatory Commission,
2nd Floor, Kishan Mandi Bhawan,
Vibhuti Khand, Gomti Nagar,
Lucknow-226010

Sir,

In response to the mail dated 5th November 2018, regarding the submission of the year-wise allocation of the along with the reason of Rs. 162 crores claimed towards Earned Leave Encashment in employee expenses, UPPTCL ("The Petitioner") submits its reply as follows:

1. The Hon'ble Commission in its order dated 31st May 2013 and subsequent tariff orders has repeatedly issued directives to the Petitioner to submit a fresh actuarial valuation study report in respect to employee expenses. The Petitioner in compliance to the directions of the Hon'ble Commission has appointed an Actuary to conducted an actuarial valuation study in respect of the earned leave encashment under the employee expenses.

2. The Petitioner has submitted the detailed actuarial valuation report as on 31st March 2016 towards the earned leave encashment along with the True-up Petition for FY 2015-16 dated 26th June 2018. A copy of the same is attached herewith and marked as **Annexure I**.

3. As per the actuarial valuation report as on 31st march 2016 the overall liability of the Petitioner towards the earned leave encashment is to the tune of Rs. 161.55 crore.

4. The liability of Rs. 161.55 crore as on 31st March 2016 as per the actuarial valuation report towards the earned leave encashment is computed on the basis of Projected Unit Credit Method as recommended under the Accounting Standards 15 (Revised 2005). The above liability is estimated as on 31st March 2016 considering the current employee base of the UPPTCL, average age of the employees, expected salary growth rate, inflation rate,

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seniority, promotion, attrition rate and other relevant factors such as supply and demand in the employment market.

5. It is further pointed out that the actuarial valuation does not ascertain the year wise liability of the Petitioner under such head/expenses. Hence the year-wise allocation of such liability cannot be provided by the Petitioner. As per the erstwhile accounting policy such expenses were booked in the annual accounts based on the "as claimed and approved basis". However, after the adoption of the new policy as per the Accounting Standards the Petitioner is required to book such expenses or liability in the annual accounts on the basis of actuarial valuation. The same is also reflected in the annual accounts of FY 2015-16 as quoted below:

   "In light of observation of AG Audit on Annual Accounts for FY 2014-15, provision for Earned Leave Encashment (Terminal Benefits) has been made as per Actuarial Valuation Report for FY 2015-16 i.e. in consonance with requirements of AS-15 which in comparison to erstwhile policy, has an impact of increase in current year loss to the tune of `161.55 crores and increase in "Long Term Provisions" (Note-6) to the tune of `145.07 crores & increase in "Short Term Provisions" (Note-8) to the tune of `16.48 crores classified as Non-Current Liability and Current Liability respectively as per the Actuarial Valuation Report."

6. In view of this the Petitioner has claimed an amount of Rs. 176.04 crore towards earned leave encashment in the gross employee expenses based on the audited annual accounts for FY 2015-16, which includes amount claimed and approved under this head during the year alongwith the overall liability of Rs. 161.55 crore.

7. The Petitioner further submits that claims towards such terminal benefits have been accepted and approved in the past by various state commissions. The Hon'ble Maharashtra Electricity Regulatory Commission (MERC) its Order dated 17th August 2009 in Case No. 115 of 2008 had approved Rs. 177.37 crore towards provision for earned leave encashment apportioned to existing Stations of Maharashtra State Power Generation Company (MSPGCL). The relevant extract of the order is provided below:

   "During FY 2007-08, MSPGCL in compliance with Accounting Standard-15 'Accounting for Retirement Benefits in the financial statements of Employers' has changed its accounting policy for accounting for leave benefits and has accounted for compensated absences on accrual basis as against accounting for same on cash basis in earlier years. MSPGCL has made a provision for leave encashment of Rs. 192.61 Crore in FY 2007-08 as per audited accounts. MSPGCL has made such provision in

accordance with the recommendations of actuarial valuation report/study conducted by M/s K.A.Pandit. As regards the provisioning of Rs. 192.61 Crore for leave encashment in FY 2007-08 as per audited accounts, the Commission asked MSPGCL to submit the break up for the amount shown towards leave encashment for existing generating stations and recently commissioned Units of Paras and Parli as well as other upcoming stations. MSPGCL submitted that the amount of provision for leave encashment has been made based on the actuarial report, which has been prepared at the Company level. MSPGCL clarified that it does not have segregation of such amount between existing stations and recently commissioned Units. However, MSPGCL submitted that it will have to submit truing up Petition for Parli Unit-6 for FY 2007-08 based on the audited accounts. In case the Commission segregates the amount of leave encashment between existing stations and Paras and Parli (recently commissioned) Units, the same amount would be used in their truing up Petition. MSPGCL further submitted that in case of Paras Unit-3, all expenses up to March 31, 2008 are capitalized. Therefore, the amount of leave encashment apportioned for Paras will have to be added in its capital cost. The other way could be to allow such expenses in the current ARR.

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As regards the claim of leave encashment of Rs. 192.61 Crore, the Commission has considered the same for existing stations and new stations in proportion of the O&M expenses provided in the Reconciliation Statement for FY 2007-08. The summary of the allocation of leave encashment to existing stations and new stations is shown in the Table below:

Rs. Crore

Particular	*MSPGCL*	*Commission*
Provision for Earned leave encashment	*192.61*	*192.61*
Provision for Earned leave encashment apportioned to existing stations		***177.37***

The increase of around Rs. 177.37 Crore in the gross employee expenses as estimated by the Commission in the above Table is entirely attributable to the impact of provisioning for leave encashment liability on the basis of actuarial valuation. The Commission is of the view that this expenditure of Rs. 177.37 Crore in one year is an extra-ordinary expenditure, on account of change in accounting policy, due to the change in Accounting Standards. Given this background, the Commission is of the view that such a huge impact on account of a change in accounting policy, should not be passed on to the consumers in one financial year, and should be spread over five years. Moreover, *this expense is only provisioning, and is not actually incurred by the Utility. Hence, the Commission has spread this expense over five years, starting from FY 2007-08, and the expense allowed in FY 2007-08 on this account is Rs. 35.47 Crore. The Commission has allowed other prior period charges as submitted by MSPGCL."*

8. The Hon'ble Karnataka Electricity Regulatory Commission (KERC) in its tariff order dated 30th March 2016 while approving the O&M expenses of Karnataka Power Transmission Corporation (KPTCL) for FY 2014-15 had considered an amount of Rs.164.01 crore towards provision for Earned Leave encashment. The relevant extract of the order is provided below:

"As per the audited accounts for the FY15, the KPTCL has incurred Rs.164.01 Crores towards provision for leave encashment and Rs.126.33 Crores towards P&G contribution.

The Commission notes that, the KPTCL is incurring higher employee cost on account of contribution to the P&G Trust and making provisions for leave encashment annually in addition to the normal employee cost. which is inclusive of basic pay, dearness allowance and HRA. Considering, the plea of the KPTCL that the O & M expenses as per norms are not sufficient to meet the actual O & M expenses incurred, the Commission decides to allow contribution to P&G Trust and the leave encashment as uncontrollable O&M expenses. This component will be allowed in addition to the controllable normative O&M expenses to enable the KPTCL to meet its O&M expenses.

The O& M expenses on account of additional employee costs incurred by the KPTCL due to Pension & Gratuity Contribution (as per the existing approved actuarial valuation report) and leave encashment are treated as uncontrollable O & M expenses as follows:

TABLE – 4.7

Approved Additional Employee Cost (Uncontrollable O&M Expenses)

Particulars	*Amount in Rs. Crs.*
P&G Contribution for FY15	*126.33*
Provisions for earned leave encashment	*164.01*
Total Uncontrollable O&M Expenses -FY15	***290.34***

"

9. Thus, in view of the above the Petitioner humbly requests the Hon'ble Commission to allow the claim of Rs. 176.04 crore towards the earned leave encashment for FY 2015-16.

(A. K. Shukla)
Executive Engineer

Annexure I

उत्तर प्रदेश पावर ट्रांसमिशन कारपोरेशन लिमिटेड

(उ०प्र० सरकार का उपक्रम)

U.P. Power Transmission Corporation Limited

(U.P. Government Undertaking)

CIN. NO. U40101UP2004SGC028687 | Website: www.upptcl.org

GSTIN: 09AAACU8823E1Z9 | E-mail: dgmupptcl@gmail.com

शक्ति भवन विस्तार 14–अशोक मार्ग, लखनऊ–226001 Shakti Bhawan Ext., 14-Ashok Marg, Lucknow-226001

No.: 87 / UPPTCL / HO / OTHERS / F-45 Dated: 22/02.2018

Director (Commercial & Planning)
5th Floor, Shakti Bhawan,
14-Ashok Marg,
Lucknow – 226 001

Subject: Regarding compliance to directive issued by UPERC in its Tariff Order dated 30.11.2017

Annexure I

With reference to your office letter No.118/ Dir (Comm. & Plg.) / UPPTCL / APR dated 17.02.2018 we have to clarify that out of the three main components of Employee Retirement Benefits (namely Earned Leave Encashment, Gratuity & Pension), Actuarial Valuation had been done for 2015-16 in respect of Employee Earned Leave Encashment Benefits. A copy of the said report is enclosed herewith as **Annexure – 1**. Further, the assignment of Actuarial Valuation for Earned Leave Encashment in respect of financial years 2016-17 & 2017-18 is being done.

However, in respect of other two components (namely Gratuity & Pension), the Actuarial Valuation report has already been obtained by UPPCL on 09.11.2000. Pending Government notification for finalization of Final Transfer Scheme in respect of personnel of UPPTCL, all employees working in UPPTCL have employer-employee relationship with UPPCL rather than UPPTCL. Since UPPCL, being the principal employer, is already making the provision for Gratuity & Pension based on the Actuarial Valuation Report dated 09.11.2000, accordingly UPPTCL is also making similar provision of pension & gratuity as are being adopted by UPPCL.

Enclosed: As Above

21.2.18

S.K. Mishra
Director (Finance)

CC: For Kind Informaion of

1. PS to MD, UPPTCL.

आवती सं० 360 /निदे०(वा० एवं नि०)/उप्रपाट्राकालि/18
दिनांक 22/2/2018

22/2

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Date: 13-10-2017

CGM (Finance & Accounts)
Uttar Pradesh Power Transmission Corporation Limited
Shakti Bhawan, 14,
Ashok Marg, Hazrat Ganj,
Lucknow - 226001

Sir/Madam,

Subject: Actuarial Valuation Reports as on 31-03-2016.

As per the request received from **Uttar Pradesh Power Transmission Corporation Limited** for conducting an actuarial valuation as on **31-03-2016** towards **Earned Leave Liability**, the valuation report is attached herewith.

With Regards,

D.K.

ACTUARY

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Actuarial Valuation Report of Accumulating Compensated Absences (Earned Leave) Liability

As required under Accounting Standard 15 (Revised 2005)

As on 31-03-2016

Issued to

Uttar Pradesh Power Transmission Corporation Limited

M/S. K. A. PANDIT D.K.P. MN.00131 CONSULTANTS & ACTUARIES

Table of Contents

M/S. K. A. PANDIT
D K P
MN 00131
CONSULTANTS & ACTUARIES

Purpose:

The purpose of this actuarial valuation is to arrive at the **Projected Benefit Obligation** towards **Accumulating Compensated Absences (Earned Leave)** to be provided in the Entity's books of accounts which is subject to the following: -

- This report must be considered in its entirety as individual sections may be misleading if considered in isolation.
- We are available to discuss any questions that may arise regarding this report within a reasonable time period.

Scope:

To prepare valuation report in accordance with **Accounting Standard 15 (Revised 2005)** based on the data and assumptions supplied by the Entity. In particular this Report does not constitute a formal funding actuarial valuation of the Plan and does not present any recommendation of contributions or funding levels.We have made use of the relevant data and assumptions to prepare this report.

Confidentiality:

This Report is provided solely for the Entity's use and for the specific purposes indicated above. Except where explicit agreement is given in writing, it should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted for any consequences arising from any third party relying on this Report or any advice relating to its contents. The Entity may make a copy of this Report available to its auditors, but no representation is made as to the suitability of this Report for any purpose other than that for which it was originally provided and hence accept no responsibility or liability to the Entity's auditors in this regard. The Entity should draw the provisions of this paragraph to the attention of its auditors when passing this Report to them.

Independence:

In accordance to my knowledge, I am not connected to the enterprise in a way which will impair my work and thereby the results of the valuation.

M/S. K. A. PANDIT D.K.P. MN.00131 CONSULTANTS & ACTUARIES

Valuation Date:

The liability valuation is conducted as on **31-03-2016**. Any material events that are known to have occurred since the effective date of valuation are not considered.

Qualification:

I am signing this report as a Fellow of the Institute of Actuaries of India (FIAI).

Data and Validation:

- The valuation as on **31-03-2016** is based on the data provided by the Entity, having relevance to the data requirements as on **31-03-2016.**
- We have not audited the accuracy of the data but have checked for consistency and reasonableness.
- Data have been supplied to us electronically which are stored in a dedicated folder within our servers.

M/S. K. A. PANDIT D.K.P. MN.00131 CONSULTANTS & ACTUARIES

Data Summary and Analysis:

We were provided with the current data which was checked and validated and a comparison with the data used for the previous period is provided below:

Date of Valuation	**31-03-2016**
Number of Employees Eligible for the Benefit	**5895**
Total Eligible Encashment Salary per month	**INR 291,322,015**
Average Encashment Salary per month	**INR 49,418.49**
Total Eligible Availment Salary per month	**INR 308,810,625**
Average Availment Salary per month	**INR 52,385.18**
Total Leave Days	**1229485.00 Days**
Average Leave Days	**208.56 Days**
Average Age	**39.94 Years**
Average Past Service	**14.13 Years**

M/S. K. A. PANDIT D.K.P. MN.00131 CONSULTANTS & ACTUARIES

Employee Strength (in %) Distributed with respect to Age and Past Service

as on 31-03-2016

Past Service / Age Group	4 and below	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 and above	Total
25 and below	8.79	0.32	0.00	0.00	0.00	0.00	0.00	**9.11**
26 to 30	11.79	3.46	0.37	0.00	0.00	0.00	0.00	**15.62**
31 to 35	3.41	7.92	3.72	0.54	0.00	0.00	0.00	**15.59**
36 to 40	2.00	2.00	7.62	3.85	0.76	0.00	0.00	**16.23**
41 to 45	0.92	0.83	2.66	4.00	3.04	0.56	0.00	**12.01**
46 to 50	0.25	0.31	1.03	1.24	2.12	3.09	0.25	**8.29**
51 and above	0.29	0.41	0.93	0.95	1.24	8.02	11.30	**23.14**
Grand Total	**27.45**	**15.25**	**16.34**	**10.59**	**7.16**	**11.67**	**11.55**	**100.00**

Benefit Scheme:

Leave Encashment is payable to the employees on separation from the company due to death, retirement, superannuation or resignation.

The Leave encashment benefit is payable to all the eligible employees at the rate of daily salary, subject to a maximum of 300 days.

Any leave in excess of the maximum limit of accumulation is not considered for the valuation.

Leave encashment and availment both are applicable to all the eligible employees while serving in the company.

Leave encashment is calculated by using the formula {Leave Days * Daily Encashment Salary}.

The formula to calculate Daily Encashment Salary is 1/{30} * Eligible Monthly Encashment Salary.

The formula to calculate Daily Availment Salary is 1/{30} * Eligible Monthly Availment Salary.

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Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the enterprise) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognised, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation. To arrive at the present value of the benefit obligation in accordance with the benefit scheme as explained above, we have incorporated the underlying assumptions for this actuarial valuation –

Valuation Assumptions:

- Mortality
- Retirement Age
- Attrition Rate
- Salary Escalation Rate
- Discount Rate
- While in Service Leave Encashment Rate
- While in Service Leave Availment Rate

Valuation assumptions should be unbiased and mutually compatible and are an enterprise's best estimates of the variables that will determine the ultimate cost of providing **other long term employee benefits**.

Mortality:

To provide for liability on account of death while in service we have used the mortality rates as given under **Indian Assured Lives Mortality (2006-08) Ultimate**.

Retirement Age:

Retirement Age is the age at which persons who hold certain jobs or offices are required by company custom or by law to leave their employment. We have considered the retirement age for employees as **60 years**, as advised by the company.

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Attrition Rate:

Attrition rate represents employee turnover other than on account of retirement, death or disablement. Attrition rate is dependent on the nature of business carried out by the organization and the retention policy of the organization. Attrition rates are considered at the beginning of each future year. We have considered **the service related attrition rate** as tabulated below, as advised by the company.

Service Group	Attrition Rate
For All Service Groups	**0.50% p.a.**

Salary Escalation Rate:

Since the payments due to accumulating compensated absences are to be made on the salary at the time of encashment, liability to pay such benefit is based on the salary which the employee will be drawing at the time of encashment; so, it is necessary to arrive at figures which would reflect the salaries of members in the future years. Estimates of future salary increases has been done on the basis of current salary suitably projected for future, beginning from the end of the first year taking into consideration the general trend in inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market. We have considered the salary escalation rate as tabulated below, as advised by the company.

Future Years	Salary Escalation Rate
For All Future Years	**5.00% p.a.**

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Discount Rate:

The rate used to discount long term employee benefit obligations reflects the estimated timing of benefit payments and the currency in which the benefits are to be paid. We have used the Discount Rate as 8.01% p.a. which relates to the benchmark rate available on Government Securities (G. Sec.) for the tenure of 19.00 years i.e. the expected term of the obligation. The rate is taken as per the deal rate as on 31-03-2016 as suggested under Accounting Standard 15 (Revised 2005).
(Ref: www.fimmda.org)

While in Service Leave Encashment Rate:

While in Service Encashment of accumulating compensated absences are those compensated absences that are encashed by the employees on all instances other than exit. Liability on account of while in service encashment for the next year is a **short term compensated absences liability. We have considered no while in service encashment in all future years, as advised by the company.**

While in Service Leave Availment Rate:

Out of the accumulating compensated absences credited, employees will utilize absences for various purposes. When this utilization exceeds the credit given for the current year, an accumulating compensated absences availment liability arises for the company which has to be provided for and hence incorporated in the actuarial valuation. Liability on account of while in service availment for the next year is a **short term compensated absences liability. We have considered the while in service availment rate as 0.25% p.a., for all future years, as advised by the company.**

Reasonableness of Assumptions:

The assumptions with regards to salary escalation and attrition rates are the expectations of the entity based on the salary escalation that the entity will provide in future and the expected attrition rate in the future. Historical trends of these assumptions may or may not be suitable to be extrapolated for future projections, as it is the entity's prerogative to decide on the expected future trends and thereby the assumptions given by entity are accepted.

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The assumption with regards to the discount rate has been considered as per the requirements of the standard.

Since no separate analysis of the mortality rate for the entity was undertaken, we have considered the latest mortality table available.
The results are particularly sensitive to some assumptions, such as the discount rate, level of salary inflation, level of employee turnover and mortality. For example, a decrease in the assumed discount rate or an increase in salary inflation will lead to an increase in reported liability.

Materiality:

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements, we have assumed that while providing the assumptions , materiality of the assumptions has been considered by the entity.

The result of the valuation were shared with the entity, and this Report is prepared in accordance with the constructive confirmation on the actuarial valuation summary specifying the data, assumptions and scheme for the same. The determination and interpretation of the assumptions was discussed with the client and was thereby found suitable.

Recognition and Measurement Principles:

- Method of Valuation
- Recognition of Actuarial Gains and Losses
- Accounting Standard

The obligation arises as employees render services in return for **other long-term employee benefits** which an enterprise expects to pay in current and future reporting periods. Actuarial techniques allow an enterprise to measure such obligation with sufficient reliability to justify the recognition of a liability. The above principles are described in the following paragraphs –

M/S. K A PANDIT D.K.P. MN.00131 CONSULTANTS & ACTUARIES

Method of Valuation:

To calculate the Projected Benefit Obligation (PBO) we have used the **Projected Unit Credit Method** which is recommended under **Accounting Standard 15 (Revised 2005)**. Based on the company's experience, the leave balances are split up into three proportions; leaves for availment, leaves for while in service encashment and leaves for encashment on exit. This proportion is considered to follow the **LIFO** (Last in First Out) approach as guided in the example below Paragraph 15 of the **Accounting Standard 15 (Revised 2005).**

Recognition of Actuarial Gains and Losses:

As required under **Accounting Standard 15 (Revised 2005)**, **Actuarial Gains and Losses** should be recognised immediately in the statement of profit and loss as an income or expense.

Accounting Standard:

The valuation is done as per the requirements under **Accounting Standard 15 (Revised 2005)** issued by the Council of the **Institute of Chartered Accountants of India** which is aligned with the **Companies (Accounting Standard) Rules, 2006** and **The Companies Act of India, 2013.**

Discontinuance Liability:

The liability on discontinuance basis is the amount an entity has to pay if an entity discontinues its business on the valuation date. The discontinuance liability on the valuation date works out to **INR 2,221,028,484.**

Past Service Wise Distribution of the Discontinuance Liability

Total Discontinuance Liability in case of employees with past service of 4 years and below.	**6.48%**
Total Discontinuance Liability in case of employees with past service of 5 years and above.	**93.52%**

K. A. PANDIT D.K.P. MN.00131 CONSULTANTS & ACTUARIES

Summary and Comparison of Valuation Assumptions:

Date of Valuation	31-03-2016
Mortality	Indian Assured Lives Mortality (2006-08) Ultimate
Retirement Age	60 years
Attrition Rate	0.50% p.a.
Salary Escalation Rate	5.00% p.a.
Discount Rate	8.01% p.a.
While in Service Leave Encashment Rate	Not considered for the valuation.
While in Service Leave Availment Rate	0.25% p.a.

Valuation Result:

The result of this actuarial valuation is dependent on the actuarial assumptions used. The actuarial calculation is intended to provide information for accounting purposes.

The valuation of the liability is as on **31-03-2016** and this report is made in conformity with generally accepted actuarial principles and practices, in accordance with the Guidance Note issued by **Institute of Actuaries of India** to its members.

The valuation is done as per the parameters & measurements suggested under **Accounting Standard 15 (Revised 2005)**. As per Para 132 of **Accounting Standard 15 (Revised 2005)**, Disclosures for other long term employee benefits are not mandatory.

M/S. K. A. PANDIT D.K.P MN.00131 CONSULTANTS & ACTUARIES

The Projected Benefit Obligation towards this accumulating compensated absences (Earned Leave) along with the Current & Non-Current Liability in accordance with Schedule III of The Companies Act of India, 2013 is tabulated below:

Date of Valuation	**31-03-2016**
Projected Benefit Obligation	**INR 1,615,495,719**
Funding Status	**Unfunded**
Fund Balance	**N.A.**
Current Liability	**INR 164,843,516**
Non-Current Liability	**INR 1,450,652,203**

Age and Past Service Wise Distribution of the Projected Benefit Obligation (PBO)

as on 31-03-2016

Age Interval	Distribution Of PBO	Past Service Interval	Distribution Of PBO
30 and below	3.90%	9 and below	13.11%
31 to 40	21.08%	10 to 19	27.55%
41 to 50	27.03%	20 to 29	31.57%
51 and above	47.98%	30 and above	27.76%

* As we have conducted this valuation for the first time, the comparatives figures have not been provided in this report.

D.K.P

Date: 13-10-2017

ACTUARY
D. K. PANDIT
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Glossary of key terms

Accumulating Compensated Absences: - *Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. (AS15 (R): Para 13)*

Actuarial Gains/Losses: - *Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. (AS15 (R): Para 7)*

Attrition Rate: - *Attrition rate represents employee turnover other than on account of retirement and death or disablement.*

Average Expected Future Service: - *The average expected future service is the estimated future working lifetime representing the expected term of the obligation.*

Current Liability: - *A current liability is an obligation that is payable within one year from the date of valuation.*

Discount Rate: - *The rate used to discount other long-term employee benefit obligations (both funded and unfunded) should be determined by reference to market yields at the balance sheet date on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the other long-term employee benefit obligations.*

Other Long-term Employee Benefits: - *Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service. (AS15 (R): Para 7)*

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Glossary of key terms

LIFO (Last In First Out) Approach: - *This means that the leave availed or encashed is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year. (AS15 (R): Para 14-15 and the Example illustrating those paragraphs)*

Projected Benefit Obligation / Defined Benefit Obligation: - *The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. (AS15 (R): Para 7)*

Projected Unit Credit Method: - *The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (AS15 (R): Para 66)*

Salary Escalation Rate: - *The rate at which salary is assumed to increase on a yearly basis in the future is known as the salary escalation rate. Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market. (AS15 (R): Para 84)*

Short-term Compensated Absences: - *Short-term compensated absences are the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service. (AS15 (R): Para 8)*

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Estimate of the Earned Leave Liability as on 31-03-2016

Further to the request for an Actuarial Valuation of the Earned Leave Liability, please refer to the summary & assumptions below:

Name of the Company	Uttar Pradesh Power Transmission Corporation Limited
Request received on	27-09-2017
Request received from	UPPTCL
Date of Valuation	31-03-2016
Benefit Type	Earned Leave
Method of Valuation	Projected Unit Credit Method

Data Summary

Number of Employees	5895
Total Salary (Encashment)	INR 291,322,015
Average Salary (Encashment)	INR 49,418.49
Total Salary (Availment)	INR 308,810,625
Average Salary (Availment)	INR 52,385
Average Age	39.94 years
Average Past Service	14.13 years
Total Leave Days	1229485.00 days
Average Leave Days	208.56 days

Valuation Results

Discontinuance Liability	INR 2,221,028,484
Projected Benefit Obligation	INR 1,615,495,719

Other Results

Average Future Service	19 years. (Kindly Refer Notes & Recommendations)

Current & Non-Current Liability

Funding Status	Unfunded
Fund Balance	N.A.
Current Liability	INR 164,843,516
Non-Current Liability	INR 1,450,652,203

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Valuation Assumptions

(i) Financial Assumptions

Salary Escalation Rate	5.00% p.a.
Discount Rate	8.01% p.a.(Indicative G.Sec referenced on 31-03-2016)

(ii) Demographic Assumptions

Mortality Rate	Indian Assured Lives Mortality (2006-08) Ultimate
Attrition Rate	0.50% p.a. for all service groups.

Valuation Inputs

Retirement Age	60 years
Maximum Accumulation	300 days
Divisor	30 (Monthly Salary/Divisor)
While in service Leave Availment Rate	0.25% p.a.

Benefit Scheme

The leave is encashable.

Leave encashment occurs due to retirement, superannuation, resignation or death.

Leave encashment does not occur while serving in the company.

Leave availment is applicable to all the eligible employees while serving in the company.

Leave days can accumulate subject to the maximum limit of 300 days.

Any leave in excess of the maximum limit of accumulation, is not considered for the valuation.

The divisor to calculate monthly salary into daily salary for leave benefits is considered as 30.

The above table illustrates our understanding of your company's leave scheme. Kindly draw our attention to the differences, if any, with regards to the same.

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Notes & Recommendations

- Valuation Assumptions, Scheme Benefits and the Data are provided by the Company.
- Age & Past Service of the employees is rounded to the nearest integer.
- Average Future Service is the expected term of the obligation and is calculated individually from the end of first year, using Actuarial techniques.
- Cash flow projection has been considered in calculating Actuarial Liability (PBO) which also provides / calculates Current & Non-Current Liability in accordance with Schedule III of the Companies Act of India, 2013.
- The availment is considered on the basis of expected leave taken in the future years out of the current accumulated balance. The Availment Rate is to be confirmed by the client.
- The formula to calculate While in Service Availment Rate for the next year is:
  (Applicable only when availed days are greater than the current leave credited, else availment rate is 0%):
  ((Leave Availed - Leave Credited)/(Opening Leave Balance for that employee)) *100%
  *It should be a %, after taking an average for all employees
- A current liability is an obligation that is expected to be payable within one year from the date of valuation. Current & Non-Current Liabilities depend upon the funded position of the Company. For further information on Current & Non-Current Liability, please refer to the note on our website, www.ka-pandit.com.
- We would request you to confirm the figures provided in the Summary within 7 Working Days, beyond which we will assume the above given figures are accepted and Hard Copies will be issued based on the same.
- Hard copies of our Reports and Disclosures will be dispensed after receiving your confirmation on the given Summary within 3 Working Days.

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