

AS 15 (REVISED) EMPLOYEE BENEFITS

PART – I FLOW CHARTS

CHART – I

Employee Benefits

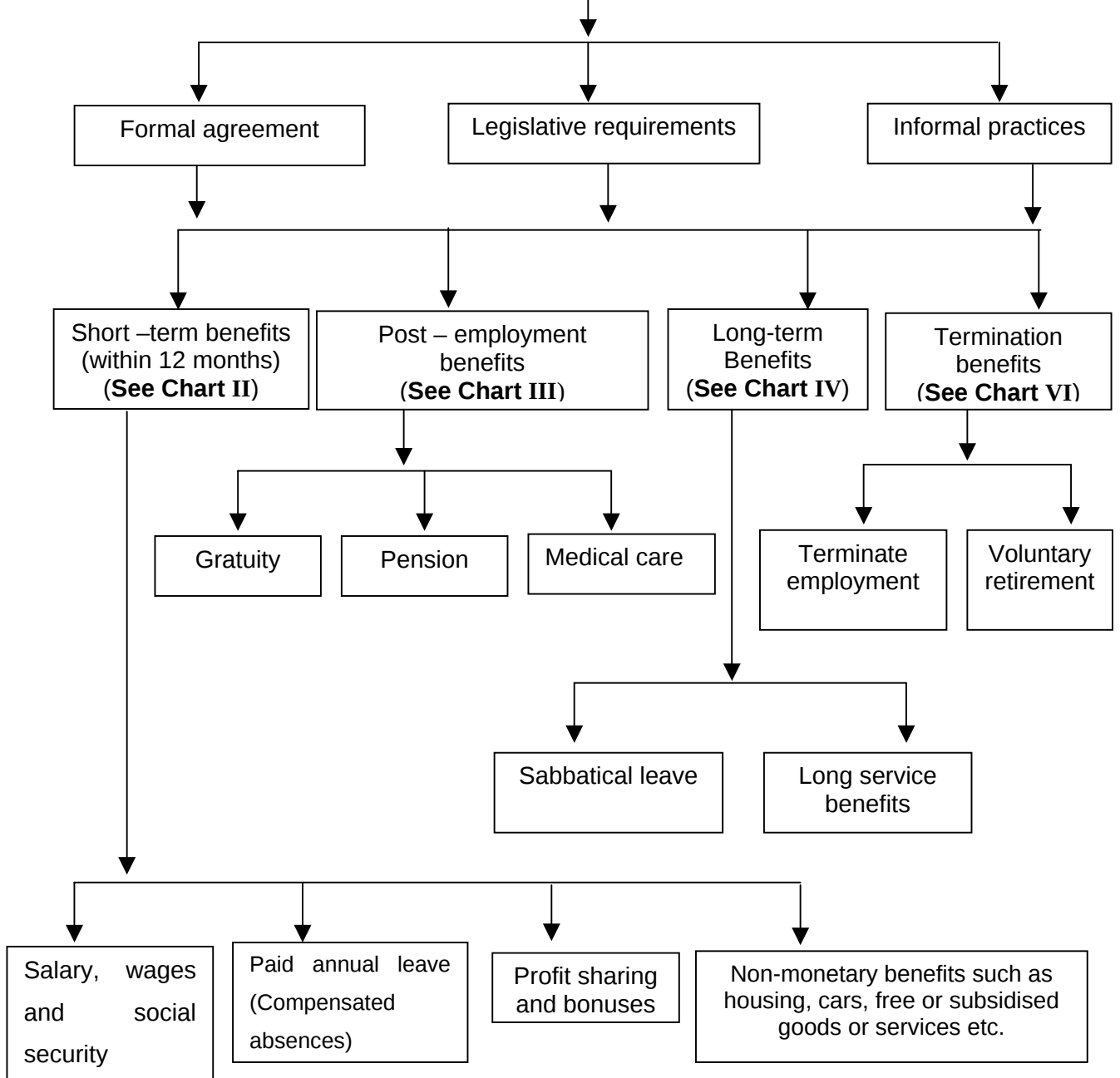
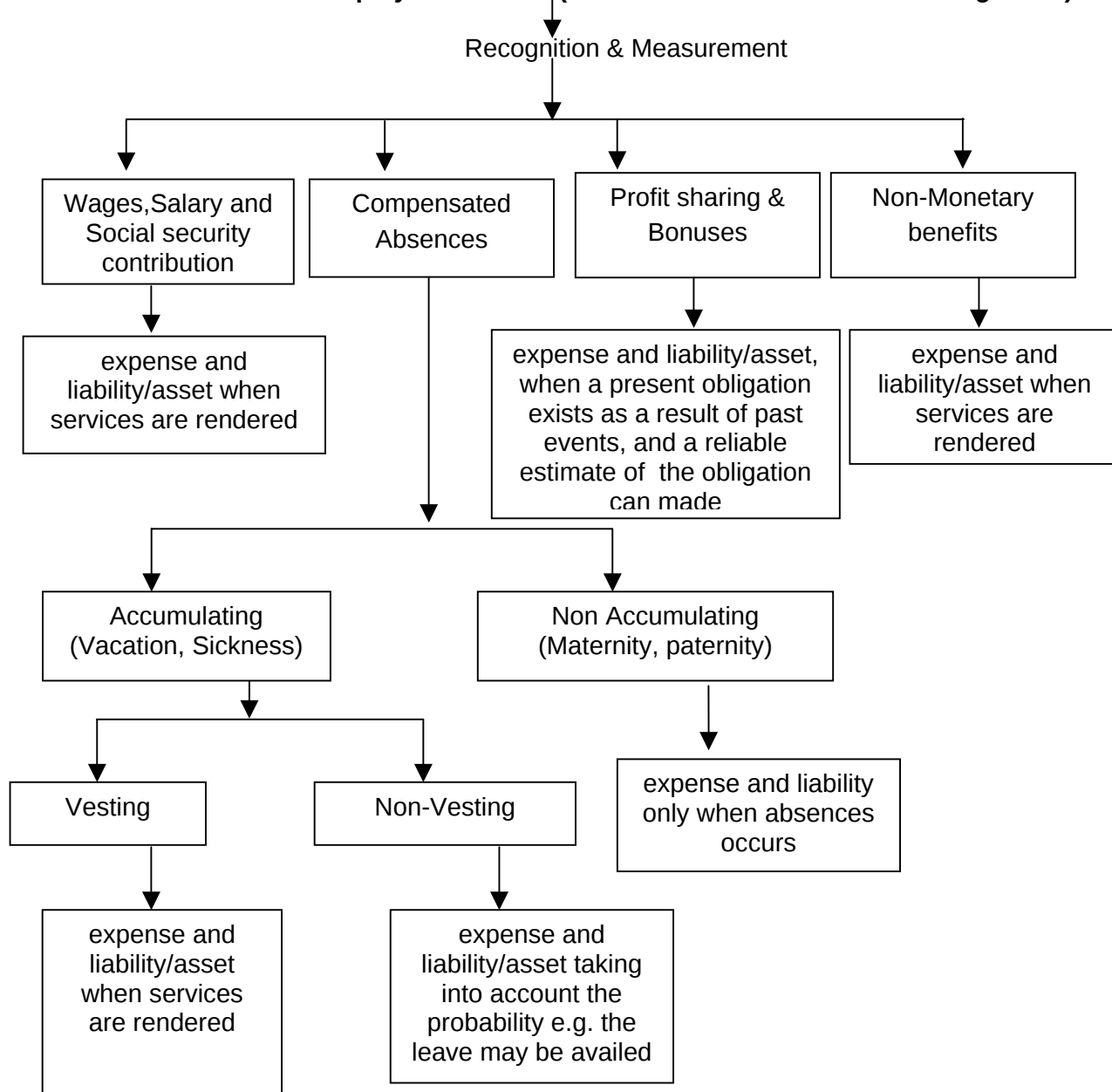


CHART – II

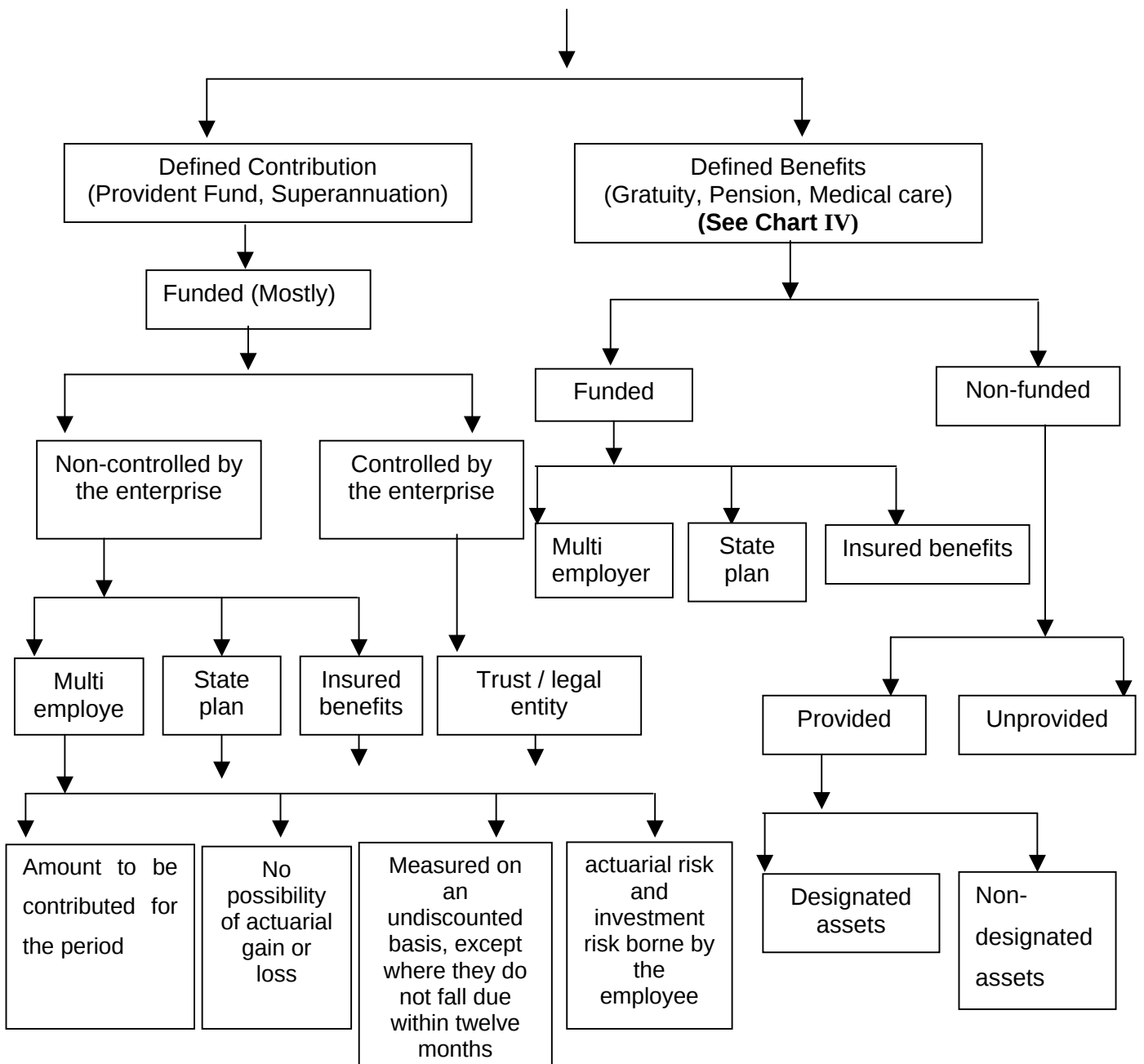
Short term Employee Benefits (Undiscounted amount to be Recognised)



Notes :

- (1) Vesting : entitled to cash payment for unused entitlement on leaving.
- (2) Short-term accumulating compensated absences which are non-vesting, not applicable to SMC

Chart - III
Post – Employment Benefits

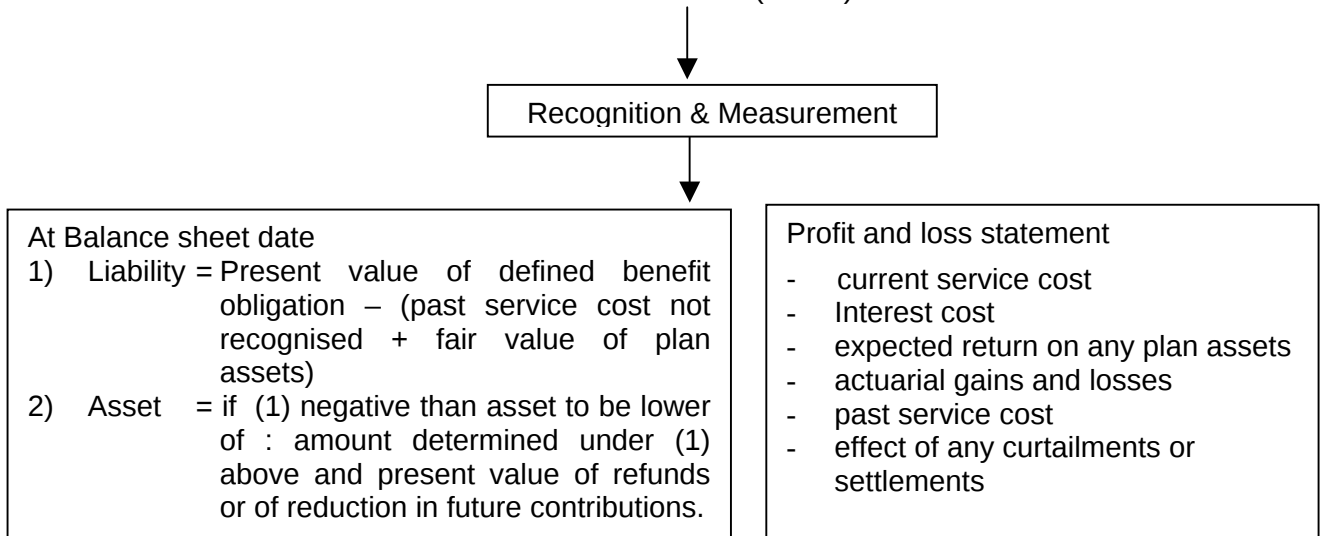


Note :

SMC not required to discount amount falling due after twelve months incase of defined contribution plans.

Chart - IV

Defined Benefit Plan (contd.)



Steps involved

- (a) Using actuarial techniques to determine how much benefit is attributable to the current and prior periods (Attributing benefits to period of service) and to make estimates about demographic variables (such as employee turnover and mortality, claim rate under medical plans) and financial variables (such as future increase in salaries and medical costs, discount rate, expected rate of return on plan assets) that will influence the cost of the benefit (actuarial assumptions).
- (b) Discounting the benefits using the projected unit credit method to determine present value of defined benefit and current service cost (actuarial valuation method). Discount rate is determined by reference to market yields at the Balance sheet date on Government Bonds.
- (c) Determine fair value of plan assets.
- (d) Determine actuarial gains and losses (resulting from increase or decrease in either the present value of a defined benefit obligation or fair value of any related plan assets).
- (e) Determine past service cost, if plan has been introduced or changed. Recognised as an expense on a straight-line basis over the average period until the benefits become vested. If benefits already vested, then past service cost recognised immediately.
- (f) Determine the resulting gain or loss where plan is curtailed or settled. Recognised as gain or loss when the curtailment or settlement occurs.

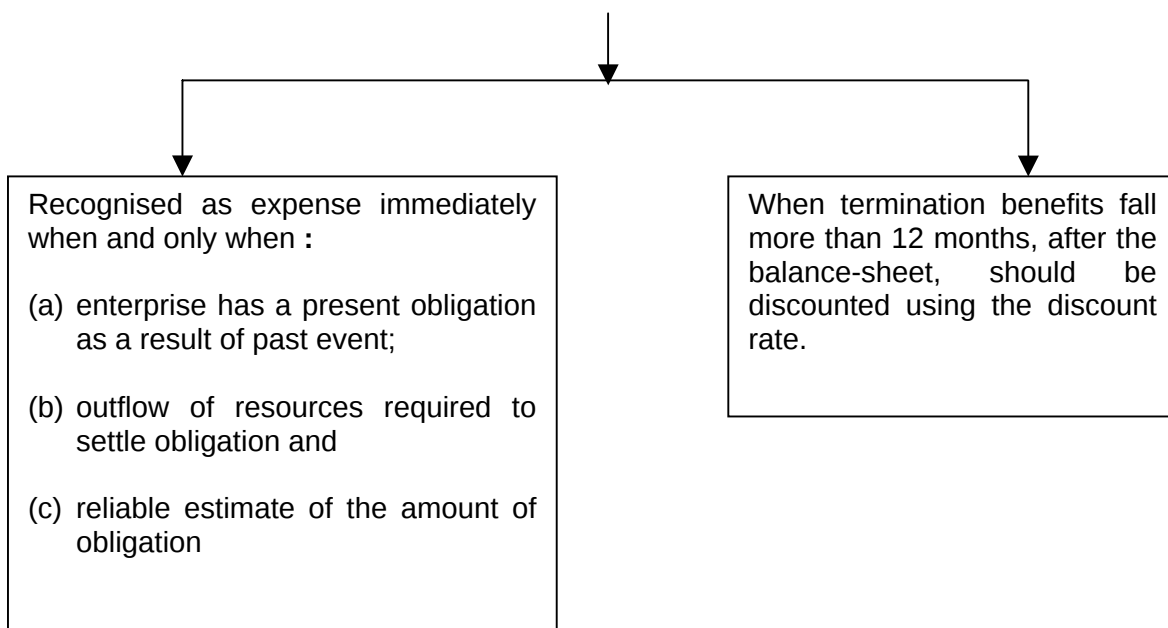
Note :

SMC not to follow the recognition and measurement principles laid down above, except that such enterprise should actuarially determine and provide for the accrued liability in respect of defined benefit plans as follows :

- (a) the method used for actuarial valuation should be the projected unit credit method.
- (b) the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds.
- (c) disclosure of actuarial assumption as required under para 120(l) to be made only. No other disclosure as required by paras 117 to 123 to be made.

Chart - VI

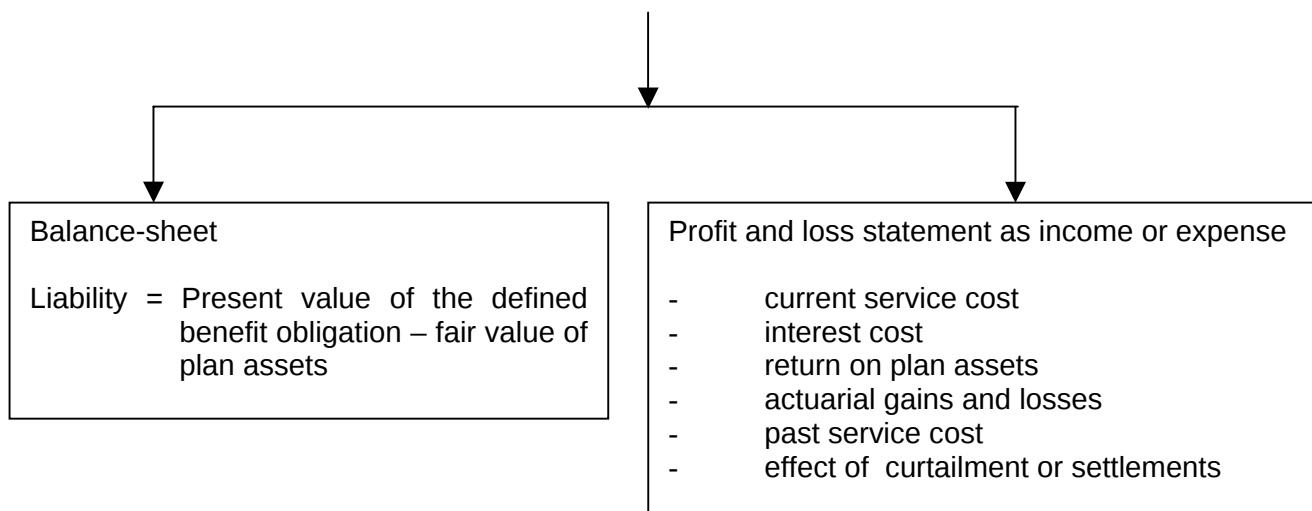
Termination Benefits



Note : SMC not required to discount amount of termination benefits falling due after 12 months.

Chart - V

Other Long-term employee benefits



Note : SMC not to follow recognition and measurement principles as laid down above. Such enterprises should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits as follows :

- (a) the method used for actuarial valuation should be Projected Unit Credit Method.
- (b) the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds.

PART – II ISSUES

Q.1 Revised AS 15, Employee Benefits is applicable from when and applicable to which entities?



Revised AS 15, Employee Benefits was originally to be made applicable in respect of accounting periods commencing on or after April 1, 2006. However, the council of Institute of Chartered Accountants of India, decided to defer the date of applicability of AS 15, by making it applicable for accounting periods commencing on or after December 7, 2006. The Central Government, on 07-12-2006, issued the Companies (Accounting Standard) Rules, 2006.

As per the notified rules, AS 15, (revised) is applicable for all accounting periods commencing on or after 07-12-2006. Thus, for Companies, whose accounting year ends on 31-12-07 or 31-03-08, will have to comply with the revised AS 15.

The AS 15 (revised) issued by the ICAI, has categorised a Level II enterprise as an enterprise which is not a Level I enterprise and whose average number of persons employed during the year is 50 or more. Whereas Level III enterprise is an enterprise which is not a Level I enterprise and whose average number of persons employed during the year is less than 50. Based on the Level of enterprise ICAI had given exemption from the applicability of certain paras of the revised AS 15. However, as companies are now governed by Companies (Accounting Standard) Rules, 2006, the criteria of categorising companies is two only. Small and Medium sized companies (SMC) and Non-Small and Medium sized companies. AS 15 is applicable in entirety to Non-SMC whereas SMC enjoy the following exemptions :

- (a) Para 11 to 16 of the AS, to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non vesting.
- (b) Para 46 and 139 of the standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date.
- (c) Paras 50 to 116 dealing with recognition and measurement principles in respect of accounting for defined benefits plans. However, such companies should actually determine and provide for the accrued liability in respect of defined benefits plans using the projected unit credit method and the discount rate used should be determined by reference to market yields at the balance sheet date on Government bonds as per para 78 of the Standard.
- (d) Paras 117 to 123 of the Standard dealing with the disclosure requirements in respect of accounting for defined benefit plans, except disclosing actuarial assumptions as per Para 120 (I) of the Standard.
- (e) Paras 129 to 131 of the Standard dealing with recognition and measurement principles in respect of accounting for other long-term employee benefits. However, such companies should actuarially determine and provide for the accrued liability in respect of defined benefits plans using the projected unit credit method and the discount rate should be determined by reference to market yields at the balance sheet date on Government Bonds as per Para 78 of the Standard.

Categorisation of Level II and Level III enterprise as per AS 15 (revised) will apply now only to non-corporate enterprises such as partnership, sole proprietor, co-operatives, trusts, AOP, etc.

Q.2 Viceroy Ltd. pays yearly performance incentive to its employees as well as has a policy to pay long service incentives depending upon number of years service with the company. The above are payable over and above, bonus, gratuity and pension as payable under the statute till 31-03-07. The company was accounting for the same in the year of payment. For accounting year ending 31-03-2008 is provision required?



“Short term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service”. Therefore, payment in nature of yearly performance incentive is in nature of **“short term employee benefit”** as the same falls due within 12 months after the end of the period in which the employees render the related services. The company should recognise the undiscounted amount of short-term employee benefit i.e. performance incentive as at 31-03-2008 as an expense in the profit and loss statement and as a liability, in the balance sheet.

“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”. Payment of long service / stay incentive is in nature of **“other long-term employee benefits”** as they do not fall due wholly within 12 months after the end of the period in which the employees render the related service. Expense and liability should be recognised by the company. The amount of liability to be recognised, is the present value of the defined benefit obligation at the balance sheet date using the projected unit credit method to determine the related current service cost and past service cost. Since, no provision existed prior to 01-04-2007, the entire amount will be provided as an expense in the profit and loss statement unless otherwise permitted by the transitional provisions for accounting of liability prior to 01-04-2007.

Q.3 Employees of Happy Ltd., are entitled to three types of leave : annual leave (AL); sick leave (SL) and casual leave (CL). CL is credited to employees in April and can be utilised during the financial year and no carry over of the CL is permitted. SL is credited at the rate of 10 days on the first day of April to all employees. There is no limit to the number of SL that can be carried forward. On retirement balance of SL, subject to maximum of 150 days can be encashed. AL is credited based on the number of years of service as follows :

Service less than 5 years	:	15 days
Service of 5-10 years	:	17 days
Service of 10-15 years	:	19 days
Service of 15 years & above	:	21 days

The maximum number of AL balance that can be carried forward as on 31st March is 250 days. AL is encashable during service upto 50%.

The question for consideration is should the company treat the above as short term employee benefit, or post retirement benefit or other long term employee benefits and whether the company will need to follow differential treatment for AL / SL since part of AL is encashable during service but SL is encashable only on retirement, though both can be availed fully during service.



As Casual Leave (CL) is non-accumulating i.e. it can not be carried forward, they lapse during the current year if not used and do not entitle the employees to a cash payment for unused entitlement on leaving the company. The company recognises no liability or expense for CL which remains unutilised at year end, since they lapse and are not carried forward. Such will also be the case for maternity or paternity leave.

The AL and SL entitlement of the employees of the company can be carried forward for more than twelve months after the end of the period in which employees render the related service, which can be either availed or encashed, as the case may be. Therefore, the benefit arising to the employees on account of AL and SL falls within the category of “other long-term employee benefits”. Since the benefits are not payable after the completion of employment, the same cannot be termed as “Post employment benefits”.

The recognition and measurement of AL and SL should be on actuarial basis using the projected unit credit method. The standard contains detailed requirements in this regard in paragraphs 129 and 130. However, their measurement basis may be different which should be taken care of in the actuarial valuation.

Q.4 Highprofits Ltd. has a profit-sharing plan with its employees, whereby 3% of profits is paid to employees who remain with the company throughout the year and till the date of payment i.e. till 30th September. Such scheme is also extended to contract employees. Uptil now Highprofits Ltd. was debiting the expense in the year of payment. Will the position change after revised AS 15 comes into force, for the year ending 31st March 2008?

 As per AS 15 (revised), an enterprise should recognise the expected cost of Profit-sharing and bonus, when and only when;

- (a) the enterprise has a present obligation to make such payments as a result of past events and
- (b) a reliable estimate of the obligation can be made.

A present obligation exists, when, and only when, the enterprise has no realistic alternative but to make the payments.

Based on above, Highprofits Ltd., for the year ending 31st March 2008, will have to recognise a provision for profit-sharing payable to employees assuming (considering the probability factor that some employees may leave the company without receiving profit-sharing payments).

As per the standard, full-time, part-time, permanent, casual or temporary employees are also covered. Employees would also include whole-time directors or other Management Personnel. Since, persons taken through contract are termed and construed as employees of the company, Highprofits Ltd., will also have to provide for the profit sharing payable to such contract employees, assuming that some contract employees may leave without receiving profit-sharing payments. Thus, in case of contract employees, all employee benefits such as short-term employee benefits, post-employment benefits, other long-term employee benefits as well as termination benefits will have to be accounted on accrual basis as per requirement of AS 15 (revised) and not on payment basis.

Q.5 Spectrum Ltd.'s, Employees Provident Fund is administered and managed by Spectrum Ltd. However, the rate of interest on Provident Fund is linked with the rate payable on Government Provident Fund. Spectrum Ltd. has guaranteed to compensate for the deficiency in the form of additional contribution, should the interest return on investments be less than interest payable as declared by the government managed Provident Fund. Would such plan be considered as defined contribution or defined benefit and what would be the consequences on Spectrum Ltd., if the same is considered as defined benefit plan?

 Provident Fund is a Post-employment benefit. Post employment benefits are classified as either defined contribution plan or defined benefit plan. Under defined contribution plans, the enterprise's obligation is limited to the amount that it agrees to contribute to the fund, as a consequence the actuarial risk and investment risk fall on the employee; whereas, under defined benefit plan, the enterprise's obligation is to provide the agreed benefits and the actuarial risk and investment risk fall on the enterprise.

Thus, in case of Spectrum Ltd., though contributions in form of Provident Fund is defined i.e. a percentage of salary, the contribution it agrees to pay to meet the interest shortfall makes the plan a defined benefit plan in accordance with the requirements of paragraph 26(b) of the AS 15. Spectrum Ltd. needs to actuarially value the difference in interest earnings as a result of difference between guaranteed rate of interest and actual rate of interest being earned. The differential will relate to future term of existing liabilities on valuation date i.e. say 31st March, 2008

Q.6 Honest Ltd., has a defined benefit scheme covered under a group Gratuity with Life Insurance Corporation of India, where the actuarial risk and investment risk have not been transferred by Honest Ltd. to LIC of India. Whether Honest Ltd. can rely upon actuarial valuation certificate provided by LIC or a separate certificate from a qualified actuary is required to be obtained for determination of actuarial liability?



In case of defined benefit scheme covered under a group Gratuity with LIC of India, where the actuarial risk and investment risk have not been transferred by Honest Ltd. to LIC, the actuarial valuation certificate provided by LIC can be relied upon by the company. However, the company should ensure that such actuarial valuation has been carried out by a qualified actuary in accordance with revised AS 15, the underlying data is accurate, the assumptions are appropriate and the information required for compliance with the disclosure requirements of the standard have been provided by LIC to the company. A separate certificate from another qualified actuary is not necessary.

Q.7 New Born Ltd. is established in 2005. Provisions of Gratuity Act, 1972 are not applicable to the company as no employee has put in five years of service. The company contends that no provision for gratuity is required to be made in financial statements for the year ending 31st March, 2008 even under the revised AS 15. Is the contention of New Born Ltd. correct?



In this case, the employee's right to receive the benefit is conditional on future employment for a period of five years. Although there is a possibility that the benefit may not vest, there is also a probability that the employee would serve for the minimum period of five years and become eligible for gratuity. An obligation exists even if a benefit is not vested. The obligation arises when the employee renders the service though the benefit is not vested. The measurement of this obligation at its present value takes into account the probability that the benefit may not vest and this is appropriately factored in the calculation of the present value of the defined benefit obligation. New Born Ltd. or for that purpose even an old company, should therefore create a provision in respect of gratuity payable during the first five years of an employee.

Q.8 Simple Ltd., has taken out a group gratuity policy for all its employees with Life Insurance Corporation of India. The company submits the data as required by LIC and based on the demand for premiums by LIC pays regularly the same to LIC. The finance director is of the opinion that the company is not required to revisit the gratuity liability working after the introduction of revised AS 15, as it regularly pays premium to LIC based on the demand made by later and that LIC has not asked for any additional premiums over these past year. Is the understanding of finance director of Simple Ltd. appropriate?



The revised AS 15 unlike the old AS 15 makes a clear distinction between 'financial decision' which means paying premium under an insurance policy or making contribution to a self-administered fund and 'accounting provision', which refers to provision made in the accounts. While 'financial decision' will be influenced by various factors such as profitability, taxation and cash flows, as regards 'accounting provision' the new standard specifies that the premium paid to the insurers form part of plan assets and for making 'accounting provision' the services of qualified actuary are to be utilized.

This will have a major impact on Simple Ltd., since it is no longer possible to treat the amount qualified as premiums by LIC as provisions to be made in accounts. Simple Ltd. will have to restate the actuarial liability on the date of adoption i.e. 01-04-2007, both under old AS 15 (1995) and revised AS 15.

Q.9 Reward Ltd., a listed company for its employees has a group gratuity scheme with LIC of India. As regards long-service benefits, the same is accounted on cash basis. However, with revised AS 15 becoming mandatory, what options are available with Reward Ltd. As regards long-service benefits are concerned, the company is advised that the amount of benefit as at the commencement of financial year when the revised standard is first applied would be a prior period item as it represents an omission in the preparation of the financial statements of earlier periods. The amount of such benefit should be charged to the profit and loss account in the period when it is first accounted for and should be dealt with in accordance with AS 5. Is Reward Ltd., entitled to the use the transitional provisions of revised AS 15?



Paras 143 to 145 of revised AS 15 deal with Transitional Provisions. Further Para 142A and 145 have recently been inserted / revised by the ICAI. However, no corresponding revision is made in the revised AS 15 issued by Central Government.

As regards Gratuity, is concerned, Reward Ltd., will have to work out the liability as at 01-04-2007 as per the old AS 15 as well as the revised AS 15. The difference (as adjusted by any related tax expenses; normally the deferred tax) would be adjusted immediately against opening balance of revenue reserves & surplus. This is as per pre-revision of new AS 15. However, with the limited revision made to new AS 15, by ICAI, Reward Ltd., will also have an option (subject to certain conditions) to write-off the difference between the two liabilities on straight-line basis up to five years from date of adoption i.e. 01-04-2007. Thus, Reward Ltd., can either adjust the difference in liability between the two ASs either to revenue reserves (as at 01-04-2007) or write-off over five years commencing from accounting year 2007-08. However, if the transitional liability as at 01-04-2007 is less than the liability that would have been recognised as per old AS 15, then Reward Ltd., should recognise that decrease immediately as an adjustment against the opening balance of revenue reserves & surplus.

As regards long service benefits are concerned, Reward Ltd., can argue that it is not a retirement benefit. Since, old AS 15, dealt with Retirement Benefits, the same did not apply for long service benefits and accordingly, provision was not made but accounted on payment basis. Further, transitional provisions require comparison of working between the two ASs the old and the revised. Since, as per the old AS, no liability arises, the liability as per old AS will be NIL. The liability as worked out as per revised AS when compared with old AS, will give differential liability to be provided, which in fact will be the entire liability.

Based on the above submission, it can be argued that such non-provision in past is not an omission as per old AS 15, hence the difference in liability as worked out as per revised AS 15, can be adjusted against opening balance of revenue reserves as at 01-04-07 or written-off upto five years on straight-line basis commencing from 2007-08.

Any change in the application of the principles of accounting for employee benefits based on the revised AS 15 as compared to the old standard including the methods of applying those principles would be a change in accounting policy and should be dealt with as per the requirements of paragraph 32 of AS 5. Where an enterprise measures post employment benefits using the Projected Unit Credit Method as against the Aggregate Method in the past, such a change would be a change in accounting policy. However, where the enterprise has always been measuring such benefits based on the Projected Unit Credit Method and there are changes in discount rate and other assumptions, this would be a change in estimate and should be dealt with in accordance with para 23 of AS 5 and disclosed in accordance with para 27 of AS 5.

Q.10 Obessity Ltd., introduced a voluntary retirement / redundancy scheme for its employees in the accounting year 2007-08, as a result 500 employees opted for the same and company paid Rs.1050 lakhs as redundancy benefits to these outgoing employees over and above their normal retirement benefits. Not to distort the financial results the company decided to amortize the Rs.1050 lakhs over five years commencing from 2007-08 and accordingly amortized Rs.210 lakhs in 2007-08 and balance of Rs.840 lakhs was carried forward to be amortized till 2011-12. Is decision of Obessity Ltd. proper in context of revised AS 15?

 As per revised AS 15, Termination benefits needs to be expensed immediately if the expenditure is incurred. However, the revised AS 15, gives a little liberty / relaxation of such expenditure incurred on or before 31st March, 2009. Enterprise may choose to follow the accounting policy of deferring such expenditure over its pay back period. However, the expenditure so deferred can not be carried forward to accounting periods commencing on or after April 1, 2010.

Merely because under section 35DDA of the Income-tax Act, 1961, such expenditure is allowable over a period of five years, the same contention can not be adopted for write-off in financial statements. Obessity Ltd., will have to make an assessment of the pay back period and if the pay-back period comes to only three years, the same should be amortised over a period of three years.

Further, as per revised AS 15, as no carry forward is permissible after 01-04-2010, the unamortised amount of Rs.420 lakhs (1050 – 630) will have to be written-off in financial statements for the year ending 31st March, 2010 over and above the normal charge of Rs.210 lakhs for the same year.

Q.11 Which instances would qualify for transitional treatment and which instances would be construed as PRIOR PERIOD items in relation to Employee Benefits?

 (a) Following are few instances, which would qualify for treatment under transitional provision:

- (i) gratuity liability of contract employees calculated under the revised AS.
- (ii) making provisions for a long service award where on completion of say 15 years of service, the employee is paid a cash lump sum.
- (iii) increase in gratuity liability due to adopting of projected unit cost method as specified under the revised standard.
- (iv) contribution of amount to PF trust in lieu of guaranteed interest payments as per the actuarial valuation under AS 15 (revised).

(b) Following are few instances, which would be considered as prior period items :

- (i) abnormally high discount rate considered for valuations under pre-revised accounting standard.
- (ii) provisions not made under the pre-revised standard for retirement benefits like gratuity pension.
- (iii) all permanent employees not considered in earlier valuations.

Q.12 What is the difference between National AS 15 and IAS 19, Employee Benefits?



(a) Recognition of actuarial gains and losses :

IAS 19, provides options to recognise actuarial gains and losses as follows :

- (i) by following a 'Corridor Approach'; which results in deferred recognition of the actuarial gains and losses, or
- (ii) immediately in the statement of profit and loss or
- (iii) immediately outside the profit or loss in a statement of changes in equity titled 'statement of recognised income and expense'.

The revised AS 15, does not permit options and requires that actuarial gains and losses should be recognised immediately in the statement of profit and loss.

(b) Recognition of Defined Benefit Asset :

AS 15, (revised) Provides that the asset should be recognised only to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions of the plan. IAS 19, on the other hand, provides that the asset should be recognised to the extent of the total of (i) any cumulative unrecognised net actuarial losses and past service cost and (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

(c) Termination benefits :

(i) Recognition of Liability

IAS 19 provides that an enterprise should recognise termination benefits as a liability and an expense when and only when, the enterprise is demonstrably committed to either :

- (i) terminate the employment of an employee or group of employees before the normal retirement date or
- (ii) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The revised AS 15, Provides criteria for recognition of liability in respect of termination benefits on lines of AS 29, Provisions, Contingent Liabilities and Contingent Assets.

(ii) Deferment of Liability

In respect of termination benefits, the revised AS 15 provides where an enterprise incurs expenditure on termination benefits on or before 31st March 2009, the enterprise may choose to follow the accounting policy of deferring such expenditure over its pay-back period. However, the expenditure so deferred can not be carried forward to accounting periods commencing on or after 1st April 2010. IAS 19, does not provide for such a transitional provision.

PART – III DISCLOSURE

Larsen & Toubro Limited (31-03-2007)

(A) Significant Accounting Policies :

Employee Benefits

(a) Short Term Employee Benefits

All employee benefits payable wholly within twelve months of rendering the service are classified as short term employee benefits. Benefits such as salaries, wages, short term compensated absences, etc. and the expected cost of bonus, ex-gratia are recognised in the period in which the employee renders the related service.

(b) Post-Employment Benefits

(i) **Defined Contribution Plans :** The Company's superannuation scheme, state governed provident fund scheme, employee state insurance scheme and employee pension scheme are defined contribution plans. The contribution paid/payable under the schemes is recognised during the period in which the employee renders the related service.

(ii) **Defined Benefit Plans :** The employee's gratuity fund schemes, post-retirement medical plan, pension scheme and provident fund scheme managed by Trust are the Company's defined benefit plans. The present value of the obligation under such defined benefit plans is determined based on actuarial valuation using the Projected Unit Credit Method, which recognises each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation.

The obligation is measured at the present value of the estimated future cash flows. The discount rates used for determining the present value of the obligation under defined benefit plans, is based on the market yields on Government securities as at the balance sheet date, having maturity periods approximating to the terms of related obligations.

Actuarial gains and losses are recognised immediately in the profit and loss account.

In case of funded plans, the fair value of the plan assets is reduced from the gross obligation under the defined benefit plans, to recognise the obligation on net basis.

Gains or losses on the curtailment or settlement of any defined benefit plan are recognised when the curtailment or settlement occurs. Past service cost is recognised as expense on a straight-line basis over the average period until the benefits become vested.

(c) Long Term Employee Benefits

The obligation for long term employee benefits such as long term compensated absences, long service awards etc. is recognised in the same manner as in the case of defined benefit plans as mentioned in (b) (ii) above.

(d) Termination Benefits

Where termination benefits such as compensation under voluntary retirement cum pension scheme are payable within a year of the balance sheet date, the actual amount of termination benefits is amortised over a defined period. Where termination benefits are payable beyond one year of the balance sheet date, the discounted amount of termination is amortised over the defined period.

The defined period of amortisation is five years or the period till March 31, 2010, whichever is earlier.

(B) Notes forming part of Accounts

- (i) Pursuant to the transitional provisions of Accounting Standard (AS) 15 (Revised) on "Employee Benefits", an amount of Rs.35.45 crore (net of tax) has been debited to the General Reserve. The said amount represents the difference between the liability in respect of various employee benefits determined under AS 15 (Revised) as on April 1, 2006 and the liability that existed as on that date as per AS 15 prior to the revision. **(Para 143)**

- (ii) Defined Contribution Plans :

Amount of Rs.43.26 crore is recognised as expense and included in "Staff Expenses" (Schedule N) in the Profit and Loss Account **(Para 47)**

- (iii) Defined Benefit Plans :

- a) The amounts recognised in Balance Sheet are as follows : **(Para 120{F})**

Rs.crore

Particulars		As at 31-03-2007			
		Gratuity Plan	Post-retirement Medical Benefit Plan	Company Pension Plan	Trust Managed Provident Fund Plan
A.	Amount to be recognised in Balance Sheet				
	Present Value of Defined Benefit Obligation				
	- Wholly Funded (Para 120 {d})	203.07	--	--	827.24
	- Wholly Unfunded (Para 120 {d})	0.38	46.36	119.76	--
		203.45	46.36	119.76	827.24
	Less: Fair value of Plan Assets	152.93	--	--	839.86
	- Unrecognised Past Service Costs	--	--	1.20	--
	Amount to be recognised as liability or (asset)	50.52	46.36	118.56	(12.62) @
B.	Amounts reflected in the Balance Sheet				
	Liabilities	50.52	46.36	118.56	0.75
	Assets	--	--	--	--
	Net liability (asset)	50.52	46.36	118.56	0.75 #

Notes :

@ Asset is not recognised in the Balance Sheet.

Employer's and employees' contribution (Net) for March 2007 paid in April 2007.

- (b) The amounts recognised in Profit and Loss Account are as follows: **(Para 120 {g})**

Rs.crore

Particulars		As at 31-03-2007			
		Gratuity Plan	Post-retirement Medical Benefit Plan	Company Pension Plan	Trust Managed Provident Fund Plan
1.	Current Service Cost	11.91	See Note Below *	3.59	32.88 **
2.	Interest Cost	12.41	See Note Below *	8.18	64.60
3.	Expected Return on Plan Assets	(11.08)	--	--	(62.71) +
4.	Actuarial Losses / (Gains)	20.56	--	2.40	(5.16) +
5.	Past Service Cost	--	--	--	--
6.	Effect of any curtailment or settlement	--	--	--	--
7.	Actuarial Gain not recognised in books	--	--	--	3.27 +
8.	Adjustment for earlier years	16.99	--	25.12	--
	Total included in "Staff Expenses" (1 to 8)	50.79	46.36	39.29	32.88
	Actual Return on Plan Assets (Para 120 {k})	8.17	--	--	67.87

Note :

+ The actual return on plan assets is higher than interest cost, but no credit has been taken to the Profit and Loss Account for the same.

- (c) The changes in the present value of defined benefit obligation representing of opening and closing balances thereof are as follows : **(Para 120 {c})**

Particulars	As at 31-03-2007			
	Gratuity Plan	Post-retirement Medical Benefit Plan	Company Pension Plan	Trust Managed Provident Fund Plan
Balance of the present value of Defined Benefit Obligation as at 01-04-2006	173.24	--	106.69	757.87
Add: Current Service Cost	11.91	46.36 *	3.59	--
Add: Interest Cost	12.41	See Note Below *	8.18	64.60
Add: Contribution by plan participants				
i) Employer	--	--	--	32.88 **
ii) Employee	--	--	--	69.10
Add/(Less): Actuarial losses / (gains)	17.64	--	2.40	--
Less: Benefits paid	(12.27)	--	(2.30)	(97.21)
Add: Past service cost	--	--	1.20	--
Add: Liabilities assumed on amalgamation	0.52	--	--	--
Balance of the present value of Defined Benefit Obligation as at 31-03-2007	203.45	46.36	119.76	827.24

Notes :

- * Pursuant to change in accounting policy, the liability for post-retirement medical benefits has been determined on actuarial basis during the year and the amounts for current service cost & interest are not determined separately.
- ** Employer's contribution to Provident Fund.

- (d) Changes in the fair value of plan assets representing reconciliation of the opening and closing balances thereof are as follows : **(Para 120 {e})**.

Particulars	Rs.crore	
	Gratuity Plan	Trust-Managed Provident Fund Plan (See Note Below)
Opening balance of the fair value of the plan assets as at 01-04-2006	147.77	768.86
Add: Expected Return on plan assets	11.08	62.71
Add/(Less): Actuarial gains (losses)	(2.91)	5.16
Add: Contribution by the employer	9.26	32.19
Add: Contribution by plan participants	--	68.15
Less: Benefits paid	(12.27)	(97.21)
Add: Business combinations	--	--
Less: Settlements	--	--
Closing balance of the plan assets as at 31-03-2007	152.93	839.86

Note: The fair value of the plan assets under the Trust-Managed Provident Fund plan has been determined at amounts based on their value at the time of redemption, assuming a constant rate of return to maturity.

The company expects to fund Rs.49.62 crore towards its gratuity plan and Rs.34.85 crore towards its Trust-managed provident fund plan during the year 2007-08. **(Para 120 {o})**.

- (e) The broad categories of plan assets as a percentage of total plan assets as at 31-03-2007, are as follows : **(Para 120 {h})**.

Particulars		Gratuity Plan	Trust-Managed Provident Fund Plan (See Note Below)
1.	Government of India Securities	34%	20%
2.	State Government Securities	--	13%
3.	Corporate Bonds	36%	5%
4.	Equity Shares of Listed Companies	1%	--
5.	Fixed Deposits under Special Deposit Scheme framed by Central Government for Provident Funds	22%	33%
6.	Insurer Managed Funds	3%	--
7.	Public Sector Unit Bonds	--	29%
8.	Others	4%	--

Basis used to determined the overall expected return: **(Para 120 {j})**.

The Trust formed by the Company manages the investments of Provident Fund and Gratuity Fund. Expected rate of return on investments is determined based on the assessment made by the Company at the beginning of the year on the return expected on its existing portfolio, along with the estimated incremental investments to be made during the year. Yield on the portfolio is calculated based on a suitable mark-up over the benchmark Government securities of similar maturities.

(f) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages): **(Para 120 {l})**

1. Discount rate as at 31-03-2007 8.23%
2. Expected return on plan assets as at 31-03-2007 7.50%
3. Annual increase in healthcare costs (see note below) 5.00%
4. Salary growth rate:
 - a) Gratuity scheme 6%
 - b) Company pension scheme 7%
5. Attrition rate :
 - a) For post-retirement medical benefits and Company's pension scheme, the attrition rate varies from 2% to 8% for various age groups.
 - b) For gratuity scheme the attrition rate varies from 1% to 7% for various age groups.
6. The estimates of future salary increases, considered in actuarial valuation, take into account inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.
7. The obligation of the company under the post-retirement medical benefit plan is limited to the overall ceiling limits. At present, healthcare cost, as indicated in the principal actuarial assumption given above, has been assumed to increase at 5% p.a.
8. A one percentage point change in assumed healthcare cost trend rates would have the following effects on the aggregate of the service cost and interest cost and defined benefit obligation: **(Para 120 {m})**.

Particulars	Effect of	
	1% increase	1% decrease
Effect on the aggregate of the service cost and interest cost	0.67	(0.54)
Effect on defined benefit obligation	3.05	(2.50)

(g) The amounts pertaining to defined benefit plans are as follows : **(Para 120 {n})**.

Rs.crore	
Particulars	As at 31-03-2007
1. Post-Retirement Medical Benefit Plan (Unfunded) Defined Benefit Obligation	46.36
2. Gratuity Plan Defined Benefit Obligation	203.45
Plan Assets	152.93
Surplus / (deficit)	(50.52)
3. Post-Retirement Provident Fund Defined Benefit Obligation	118.56
4. Trust-Managed Provident Fund Plan Defined Benefit Obligation	827.24
Plan Assets	839.86
Surplus/(deficit)	12.62

Note: The current year ended March 31, 2007 being the first year of adoption of AS 15 Revised-Employee Benefits, the figures for the previous year are not applicable.

(h) General descriptions of defined benefit plans : **(Para 119 and 120 {b})**.

1. Gratuity Plan :

The Company operates gratuity plan wherein every employee is entitled to the benefit equivalent to fifteen days salary last drawn for each completed year of service. The same is payable on termination of service, or retirement, whichever is earlier. The benefit vests after five years of continuous service. The Company's scheme is more favorable compared to the obligation under Payment of Gratuity Act, 1972.

2. Post-retirement Medical Benefit Plan :

The Post-retirement Medical Benefit Plan provides for reimbursement of health care costs to certain categories of employees post their retirement. The reimbursement is subject to an overall ceiling sanctioned at the time of retirement. The ceiling is based on cadre of the employee at the time of retirement.

3. Company's Pension Plan :

In addition to contribution to State managed Pension plan (EPS scheme), the Company operates a pension scheme, which is discretionary in nature, for certain cadre of employees wherein a pre-determined percentage of salary is provided as pension, post retirement. The quantum of pension depends on the cadre of the employee at the time of retirement.

4. Trust Managed Provident Fund Plan :

The Company manages Provident Fund plan through a Provident Fund Trust for its employees which is permitted under The Employees' Provident Fund and Miscellaneous Provisions Act, 1952. The plan envisages contribution by employer and employees and guarantees interest at the rate notified by the Provident Fund Authority. The contribution by employer and employee, together with interest, are payable at the time of separation from service or retirement, whichever is earlier. The benefit under this plan vests immediately on rendering of service.