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XYZ Private Limited

Actuarial Valuation Report as at 31st December 2014
Postretirement Benefit - Gratuity Plan
Financial Accounting Standards Board ''Accounting Standard Codification No. 715 - 30''

Content

1 Report Highlights and Certification

1.1 Overview

I have been requested by XYZ Private Limited (the 'Company') to assist them with the preparation of financial reports in accordance with US Accounting Standards and the employer's related disclosures pertaining to the ''Accounting Standard Codification No. 715 - 30'' issued by Financial Accounting Standards Board for defined benefit plans relating to the Gratuity scheme for the period ending 31-12-2014.

The results set out in the Report are based on requirements of ASC 715 - 30 and its application to the Plan. They have been prepared for specific requirements of ASC 715 - 30 and should not be used for any other purpose. In particular, this report does not constitute a formal funding actuarial valuation of the Plan and does not present any recommendation of the contributions or funding levels. The Report is based on my understanding of the ASC 715 - 30 and its application to the scheme. This Report may not be used or relied upon by any other party or for any other purpose. I am not responsible for the consequences of any unauthorized use.

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

The valuation report is a summary of the Plan's financial position at a particular time; it does not predict the plan's future financial condition or its ability to pay benefits in the future.

The report is based on our understanding of the ASC 715 - 30 under US GAAP and its applivation to the scheme. The report has been prepared in accordance with applicable provisions, to the extent they are material, under the relevant Guidance Notes issued by the Institute of Actuaries of India current as the date of the report

All numbers in this report relating to the valuation dates earlier than the current valuation date have been produced from the previous actuarial reports provided by the Company.

All monetary amounts mentioned in this report are in Indian Rupees INR, unless mentioned otherwise.

1.2 Data and Benefit Plan

To prepare this report, I have **relied on the completeness and accuracy of the information provided** to me orally and in writing by or on behalf of the Company and its employees. I have reviewed the participant data for internal consistency and general reasonableness but I have not completed any detailed validation checks on the information provided. The Company is solely responsible for the validity, accuracy and comprehensiveness of this information; if the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information.

1.3 Valuation Assumptions

The **assumptions used in this Report are as selected by the company.** Any changes in actuarial assumptions are mentioned in this Report.

Actuarial assumptions, as discussed in the Report, may be changed from one valuation to the next because of changes in mandated requirements, plan's experience, changes in expectations about the future and other factors. To prepare this Report, actuarial assumptions, as described in this Report, are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this Report. However, future is uncertain and the plan's actual experience can differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different.

The decision about benefit changes, investment policy, funding methods should be made only after careful consideration of alternative future financial conditions and scenarios and not solely on the basis of this Report.

1.4 Professional Qualification

I am available to answer any questions on the material contained in the Report, or to provide explanations or further details as may be appropriate.

I am not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest that would impair the objectivity of my work.

December 15, 2014

Khushwant Pahwa (FIAI) **Date**

Membership Number: 04446
Fellow of Institute of Actuaries of India

KPAC

2 Summary of Results

The valuation results as at 31-12-2014 are summarised in the tables below:

2.1 Assets and Liability (Balance Sheet Position)

Particulars	As on				
	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
Projected Benefit Obligation	-	-	3,296,908	3,984,251	5,417,283
Fair Value of Plan Assets	-	-	-	-	-
Funded Status	**-**	**-**	**(3,296,908)**	**(3,984,251)**	**(5,417,283)**
Accumulated Benefit Obligation	-	-	2,512,957	3,188,141	2,800,841

2.2 Amount Recognized in the Net Periodic Benefit Cost during the year

Particulars	For the period ending				
	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
Amount Recognized in the Net Periodic Benefit Cost	-	-	1,497,001	1,014,149	1,129,045

2.3 Amount Recognized in the Other Comprehensive Income during the year

Particulars	For the period ending				
	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14
Amount recognized in the Other Comprehensive Income	-	-	(87,794)	(326,806)	902,833

2.4 The Company's best estimate of Contribution during the next year

-

* Please note that the scheme is managed on unfunded basis, hence the next year contribution is nil.

3 Benefits and Methodology

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures. The calculations in this report are consistent with my understanding of ASC 715 - 30.

3.1 The Benefit Valued

The benefit valued in this Report are summarised below:

Type of Plan	Postretirement Benefit
Employer Contribution	100%
Employee Contribution	Nil
Salary for calculation of Gratuity	Last drawn salary
Normal Retirement Age	58 Years
Vesting period	5 Years
Benefit on normal retirement	Same as per the provisions of the Payment of Gratuity Act, 1972 (as amended from time to time).
Benefit on early retirement / termination / resignation / withdrawal	Same as normal retirement benefit based on the service upto the date of exit.
Benefit on death in service	Same as normal retirement benefit and no vesting period condition applies.
Limit	Indian Rupees INR 1000000
Gratuity formula	15/26 * Last drawn salary * Number of completed years

3.2 Actuarial Valuation Method

The valuation has been carried out using the Project Unit Credit Method as per ASC 715 - 30 to determine the Present Value of Obligations, Accumulated Benfit Obliagtion and the related Current Service Cost and, where applicable, Prior Service Cost.

3.3 Recognition of Actuarial Gains / Losses

The disclosures in the report have been prepared on the basis that all gains and losses are immediately recognized in accumulated other comprehensive income and subsequently, accumulated gains and losses over and above the 10% corridor are recognized, systematically over the expected working lives of the employees, as an income or expense component of net periodic benefit cost.

4 Actuarial Assumptions

I have used actuarial assumptions selected by the Company. The assumptions used in the valuation are given below:

4.1 Financial Assumptions

The weighted average financial assumptions used **to determine the Benefit Obliagtions** in the valuation are shown in the table below:

Particulars	As on	
	31-Dec-13	31-Dec-14
Discount rate (per annum)	9.80%	8.00%
Salary growth rate (per annum)	10.00%	10.00%

The weighted average financial assumptions used **to determine the Net Periodic Benefit Cost** in the valuation are shown in the table below:

Particulars	As on	
	31-Dec-14	31-Dec-15
Discount rate (per annum)	9.80%	8.00%
Salary growth rate (per annum)	10.00%	10.00%
Expected rate of return on plan assets (per annum)	-	-

4.2 Demographic Assumptions

Particulars	As on	
	31-Dec-13	31-Dec-14
Mortality Rate (% of IALM 06-08)	100%	100%
Withdrawal rates, based on age: (per annum)		
Up to 30 years	25.00%	22.06%
31 - 35 years	25.00%	8.82%
36 - 40 years	25.00%	2.94%
41 - 45 years	25.00%	0.00%
41 - 50 years	25.00%	1.47%
Above 50 years	25.00%	0.00%

Table of sample mortality rates from Indian Assured Lives Mortality 2006-08

Mortality (per annum)		
Age	**Male**	**Female**
20 years	0.089%	0.089%
30 years	0.106%	0.106%
40 years	0.180%	0.180%
50 years	0.495%	0.495%
60 years	1.153%	1.153%
70 years	2.585%	2.585%

Please refer section 7 (7.2) and 8 (8.1) to see how the assumption are derived.

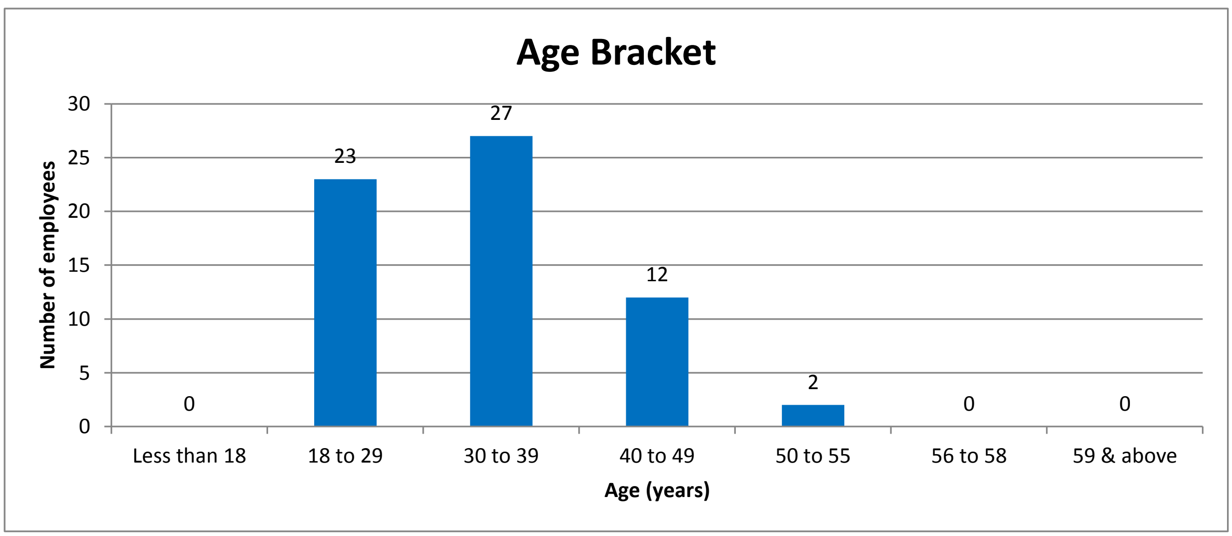
5 Membership Status

The benefit obligation for the period ending 31-12-2014 is based on the member data provided by the Company. The summary statistics for the data as follows:

5.1 Summary of Membership Status

Particulars	As on	
	31-Dec-13	31-Dec-14
Number of employees	77	64
Total monthly salary (Rs.)	2,591,300	2,579,400
Average past service (years)	2.28	2.78
Average age (years)	32.25	33.88
Average remaining working life (years)	N/A	24.13
Number of completed years valued	N/A	178

5.2 Age Analysis (as at 31-12-2014)



6 Valuation Results

The valuation results for the gratuity plan as at 31-12-2014 are produced in the tables below:

6.1 Changes in the Benefit Obligation

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Benefit Obligation as at the beginning	**3,296,908**	**3,984,251**
Service Cost	671,683	696,384
Interest Cost	312,843	403,038
Prior Service Cost	-	-
Plan Participant's Contribution	-	-
Plan Amendments	-	-
Plan Curtailments	-	-
Plan Settlements	-	-
Exchange Rate Changes	-	-
Acquisition Adjustments	-	-
Benefits Paid	-	(598,846)
Actuarial (Gain) / Loss on the Obligation	(297,183)	932,456
Benefit Obligation as at the end	**3,984,251**	**5,417,283**

6.2 Changes in the Fair Value of Plan Assets

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Fair Value of Plan Assets as at the beginning	**-**	**-**
Actual Return on Plan Assets	-	-
Employer's Contributions	-	-
Employee's Contributions	-	-
Acquisition Adjustment	-	-
Benefits Paid	-	-
Fair Value of Plan Assets as at the end	**-**	**-**

6.3 Reconciliation of Net Actuarial (Gain) / Loss

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Net Actuarial (Gain) / Loss as at the beginning	**(58,171)**	**(355,354)**
Amortization Credit / (Cost) for the period	-	-
Actuarial (Gain) / Loss - Plan Liabilities	(297,183)	932,456
Actuarial (Gain) / Loss - Plan Assets	-	-
Net Actuarial (Gain) / Loss as at the end	**(355,354)**	**577,102**

6.4 Reconciliation of Prior Service Cost

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Net Prior Service Cost as at the beginning	**214,765**	**185,142**
Amortization of Prior Service Cost	(29,623)	(29,623)
New Prior Service Cost arises during the period	-	-
Net Prior Service Cost as at the end	**185,142**	**155,519**

6.5 Components of Accumulated Other Comprehensive Income

Particulars	As on	
	31-Dec-13	31-Dec-14
Transition (Assets) / Liabilities	-	-
Net Actuarial (Gain) / Loss	(355,354)	577,102
Net Prior Service Cost	185,142	155,519
Net Amount Recognized in the AOCI	**(170,212)**	**732,621**

6.6 Components of Net Periodic Benefit Cost

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Service Cost	671,683	696,384
Interest Cost	312,843	403,038
Amortization of Prior Service Cost	29,623	29,623
Amortization of Net Actuarial (Gain) / Loss	-	-
Expected Return on Plan Assets	-	-
Acquisition Adjustments	-	-
Plan Curtailments (Gain) / Loss	-	-
Plan Settlements (Gain) / Loss	-	-
Net Periodic Benefit Cost	**1,014,149**	**1,129,045**

6.7 Changes Recognized in Other Comprehensive Income

Particulars	For the period ending	
	31-Dec-13	31-Dec-14
Net Actuarial (Gain) / Loss arising during the period	(297,183)	932,456
New Prior Service Cost arising during the period	-	-
Amortization of Net Actuarial (Gain) / Loss	-	-
Amortization of Prior Service Credit / (Cost)	(29,623)	(29,623)
Transition (Assets) / Liabilities	-	-
Amount Recognized in OIC	**(326,806)**	**902,833**

6.8 Major categories of Plan Assets (as percentage of Total Plan Assets)

Particulars	As on	
	31-Dec-13	31-Dec-14
Government of India securities	-	-
State Government securities	-	-
High quality corporate bonds	-	-
Equity shares of listed companies	-	-
Property	-	-
Special Deposit Scheme	-	-
Funds managed by Insurer	-	-
Bank balance	-	-
Other Investments	-	-
Total	**-**	**-**

6.9 Bifurcation of the Net Amount Recognized in Financial Position

Particulars	As on	
	31-Dec-13	31-Dec-14
Current Liabilities	(1,136,000)	(112,693)
Non Current Liabilities	(2,848,251)	(5,304,590)
Non Current Assets	-	-
Net Amount Recognized in Financial Position	**(3,984,251)**	**(5,417,283)**

6.10 Projected Net Periodic Benefit Cost for Next Year

Particulars	For the period ending
	31-Dec-15
Service Cost	1,003,313
Interest Cost	406,103
Amortization of Prior Service Cost	29,623
Amortization of Net Actuarial (Gain) / Loss	2,884
Expected Return on Plan Assets	-
Acquisition Adjustments	-
Plan Curtailments (Gain) / Loss	-
Plan Settlements (Gain) / Loss	-
Net Periodic Benefit Cost	**1,441,923**

6.11 Expected Future Benefit Payments

Expected Benfit Payments for Period Ending	Amounts
December 31, 2015	112,693
December 31, 2016	115,091
December 31, 2017	119,468
December 31, 2018	103,085
December 31, 2019	2,012,971
Next five years	1,233,609

7 Glossary

7.1 Balance Sheet related terms

Benefit Obligation: It 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.

Accumulated Benefit Obligation: Discounted present value of benefit as at valuation date based on current salary.

Fair Value of Plan Assets: The assets out of which the obligations have to be settled, measured at their market value.

Unrecognised Prior Service Cost: It is the portion of past service cost that has not yet been recognised as a part of the expense.

Funded Status: This is the excess/(shortfall) of the fair value of plan assets over the Present Value of Obligation.

Current Liability (Short term): The liability estimated on an undiscounted basis which is expected to be paid out within twelve months of the current valuation date.

Non Current Libility (Long term): The liability which is not expected to be paid out within twelve months of the current valuation date.

7.2 Profit and Loss Account related terms

Net Periodic Benefit Cost: The expense to be recognized in the profit and loss account of the company.

Net Amount Recognized: The amount of provisions required to be held in the balance sheet of the company as at the valuation date.

Interest Cost: It is the increase during the period in the benefit obligation which arises because the benefits are one period closer to settlement.

Service Cost: It is the increase in the benefit obligation resulting from employee service in the current period.

Prior Service Cost: It is the change in the benefit obligation for employee service in the prior periods, resulting in the current period from the introduction of, or changes to, post retirement benefits or other long-term employee benefits.

Actuarial Gain/Loss: It comprises of the following two components:
i) Experience Adjustments: The effect of differences between the previous actuarial assumptions and what has actually occurred.
ii) The effect of **changes in actuarial assumptions**.

Curtailment Cost: It is the cost that arises due to an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits of some or all of their future services.

Settlement Cost: It is the cost that arises due to an event where an enterprise enters into a transaction that eliminates all further obligations for part or all of the benefits provided under the above benefit plan.

Expected Rate of Return: The expected return on assets over the accounting period, based on an assumed rate of return. The same is dertermined by considering the yield earned in past as well as current prevailing yield.

Actual Rate of Return: The return earned by the accumulated fund assets in a year due to interest, dividends, and realized and unrealized changes in fair market value of plan assets.

7.3 Method and Assumptions related terms

Discount Rate: Discount rate is the rate which is used to discount future benefit cashflows to determine the present value of the obligation at the valuation date. The rate is based on the prevailing market yields of Indian government bonds at the valuation date for the expected term of the obligation.

Salary Escalation Rate: The rate at which salaries are expected to escalate in future. It is used to determine the benefit based on salary at the date of separation.

Attrition Rate: The reduction in staff/employees of a company through normal means, such as retirement and resignation. This is natural in any business and industry.

Mortality Rate: Mortality rate is a measure of the number of deaths (in general, or due to a specific cause) in a population, scaled to the size of that population, per unit of time.

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. The Projected Unit Credit Method requires an enterprise to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of obligations).

8 Frequently Asked Questions

8.1 How to determine the salary growth rate?

Salary growth rate is one of the important assumptions used in valuation of gratuity benefit. It should take into account inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Salary growth rate can be typically seen as comprising of three components:

1) **Inflation Component:** The most basic component of salary growth rate is the 'cost-of-living' increase given by the entity to the employees. Typically, this component is, over a long term, closely linked to the Consumer Price Inflation (CPI) Index.

   Also, since inflation is a common theoretical component of both long-term salary and long-term interest rates, salary growth rate is expected to be closely linked to the discount rate used in valuation. In other words, it can be argued that an increase in discount rate should result in a consistent increase in the inflation component of the Salary Growth Rate.

2) **Productivity Component:** The productivity component of the salary growth rate represents labour's share of company-based (or group-based) productivity gains (or economies of scale). This component is typically higher in case of companies / industries that are new and experiencing high growth whilst lower in case of companies / industries that have achieved scale and growth is stable.

3) **Merit Component:** The merit component denotes the individual-based productivity gains achieved by the employee over his working career. This component typically manifests itself in the increase in salaries given on promotions but can also be given to employees in terms of higher than average increase in salaries (without promotions).

Common practice in determining salary growth rate assumption is to choose expected long-term rate rather than currently observed rates. However, discrepancy between the assumption and current trends must be observed and where such a discrepancy is expected to persist for some time, the Company may use a non uniform projection year based assumption (for e.g. 10% p.a. in next 3 years and 8% p.a. thereafter).

8.2 What does significant actuarial gain / loss on liability represent?

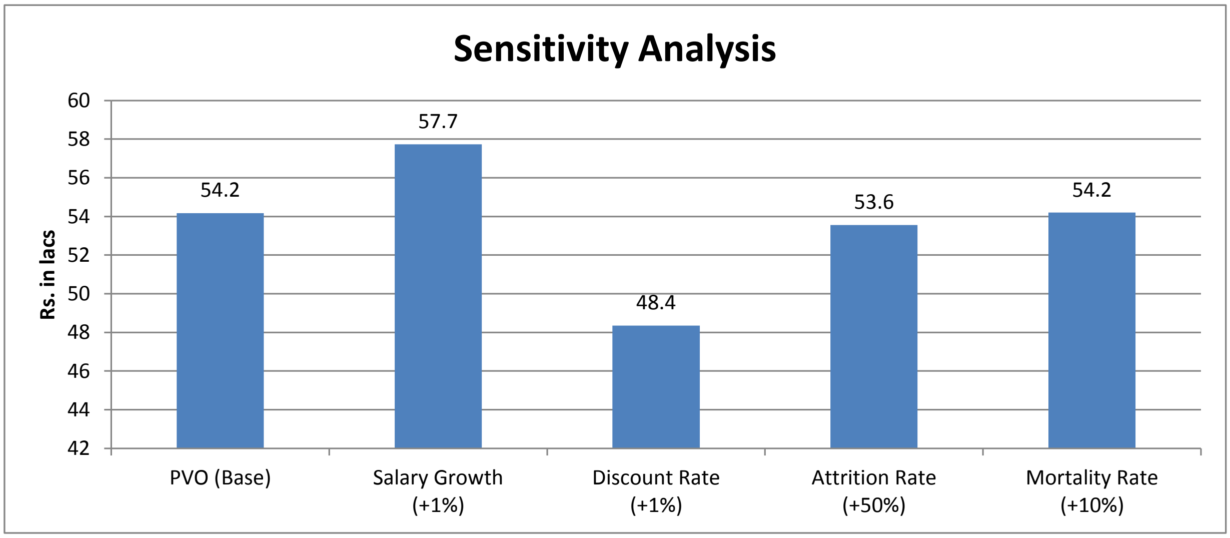
Significant actuarial gain / loss in movement of present value of obligation represents either or both:

1) **Significant change in assumptions:** This can be a change in **financial** (e.g. discount rate or salary growth rate) or **demographic** (e.g. attrition) assumptions used in closing valuation vis-a-vis opening valuation. For example, a decrease in discount rate or an increase in salary growth rate results increase in the liability, giving rise to actuarial loss.

2) **Experience variance:** This represents that actual experience during the period was different from the assumptions used in the previous actuarial valuation. For example, if the assumed salary growth rate was 5% p.a. whereas the salary growth rate actually given to employees during the period was 10%, a significant experience loss would arise. **A persistent and significant experience variance represents that the assumptions used in valuations are not in line with actual experience.** A persistent and significant experience loss may be a cause of concern.

9 Additional Information Sheet

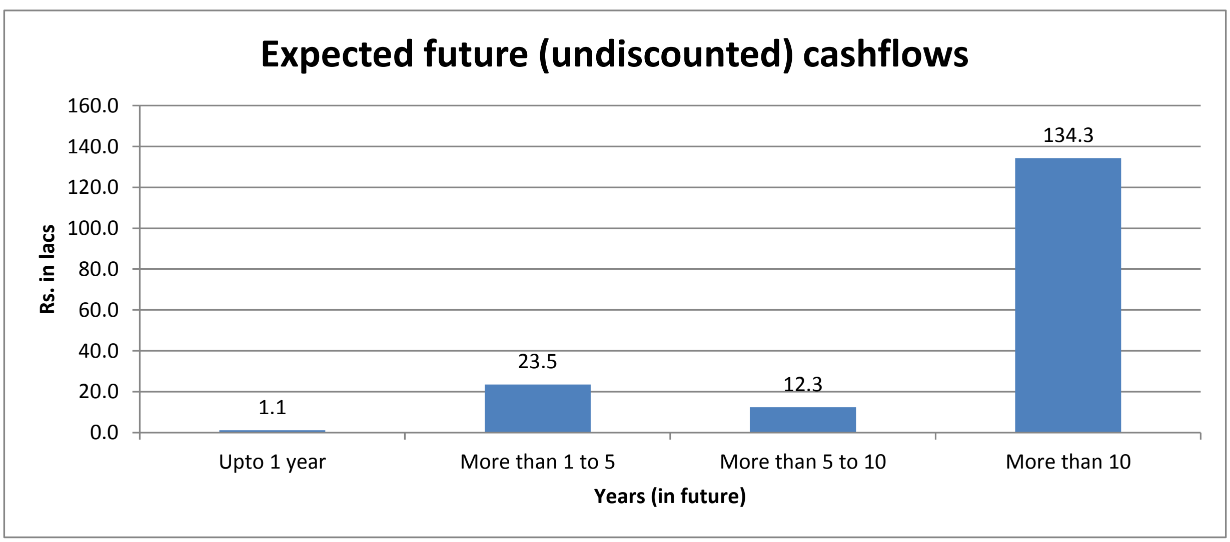
9.1 Sensitivity of Benefit Obligation to key assumptions



9.2 Nature of Liability

Duration of Liability (weighted by discounted cashflows)	13 years

Expected future (undiscounted) cash flows:

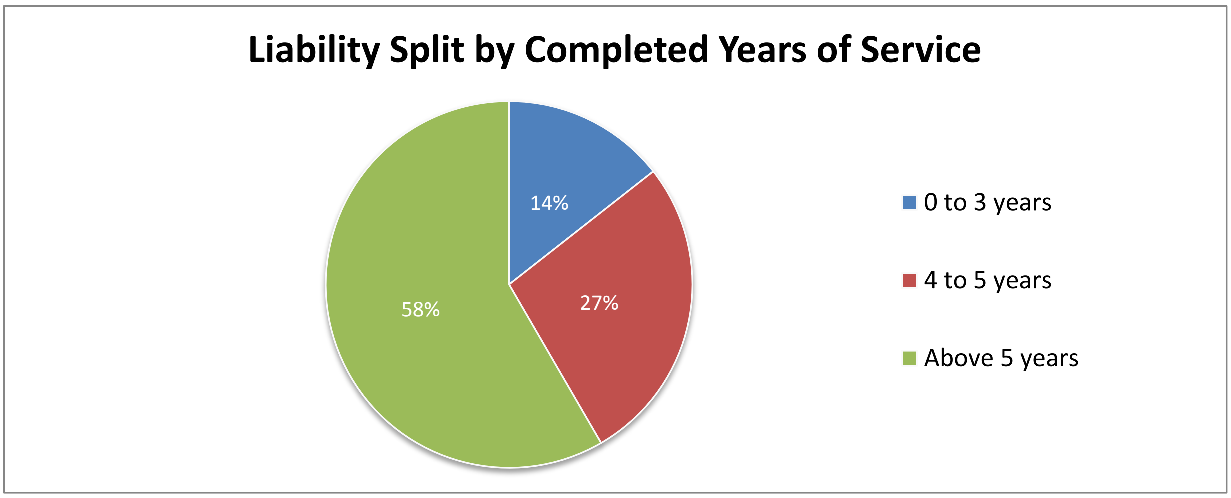


9.3 Windup Liability / Discontinuance Liability

Particulars	31-Dec-14
Discontinuance Liability *	5,976,904
Benefit Obligation	5,417,283
Ratio (Benefit Obligation / Discontinuance Liability)	91%

* **Discontinuance liability** is the amount that would be payable to the employees if all the obligations were to be settled immediately. It has been calculated ignoring the vesting criteria.

9.4 Gratuity Liability Split by Completed Years of Service



9.5 Gratuity Liability Split by Age