

REPORT OF THE AUDIT COMMITTEE OF RELIANCE COMMUNICATIONS LIMITED ("COMPANY") RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN THE COMPANY AND SISTEMA SHYAM TELESERVICES LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS HELD ON MONDAY, THE 2ND NOVEMBER, 2015 AT 9.30 AM AT RELIANCE CENTRE, 3RD FLOOR, WALCHAND HIRACHAND MARG, BALLARD ESTATE, MUMBAI - 400001

Members Present:

- | | | |
|-----------------------|---|---|
| Prof. J. Ramachandran | - | Chairman (Independent Non-Executive Director) |
| Shri Deepak Shourie | - | Director (Independent Non-Executive Director) |
| Smt. Manjari Kacker | - | Director (Non Independent Non-Executive Director) |

In Attendance:

- | | | |
|----------------------|---|-------------------------|
| Shri Manikantan Iyer | - | Chief Financial Officer |
| Shri Prakash Shenoy | - | Company Secretary |

By Invitation:

- | | | |
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| Shri Punit Garg | - | President – Corporate Strategy and Regulatory Affairs
(Present for item No.3) |
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1. Background

- 1.1. A meeting of the Audit Committee of the Company was held on 2nd November, 2015 to consider and recommend the proposed demerger i.e. transfer and hive-off of the Transferred Undertaking of Sistema Shyam Teleservices Limited ("SSTL") into the Company w.e.f. the Effective Date as specified in the draft Scheme of Arrangement between the Company, SSTL and their respective shareholders and creditors, under provisions of Sections 391 to 394 of the Companies Act, 1956 and other applicable provisions of Companies Act, 2013.
- 1.2. This report of the Audit Committee is made in order to comply with the requirements of Circular No CIR/CFD/DIL/5/2013 dated 4th February, 2013 read with Circular No CIR/CFD/DIL/8/2013 dated 21st May, 2013 (which provides clarifications with respect to the aforementioned circular), both issued by the Securities and Exchange Board of India ("SEBI Circulars").
- 1.3. The following documents were placed before the Audit Committee:
 - (a) Draft Scheme, duly initialled by the Company Secretary of the Company for the purpose of identification;
 - (b) Share Entitlement Report dated 2nd November, 2015 prepared by S. R. Batliboi & Co. LLP, Independent Chartered Accountant, describing the methodology adopted by them in arriving at the Share Entitlement Ratio;
 - (c) Fairness Opinion dated 2nd November, 2015 prepared by Keynote Corporate Services Limited, a Category-I Merchant Banker providing the Fairness Opinion on the Share Entitlement Ratio as recommended by S. R. Batliboi & Co. LLP, Independent Chartered Accountant ("Fairness Opinion"); and

RELIANCE

- (d) Draft of the Merger Agreement proposed to be executed between the Company, SSTL, Sistema JSFC and ADA Entities.
- (e) Draft of the Earn Out Deed proposed to be executed between the Company, SSTL and STA Capital LLC

2. Proposed Scheme of Demerger

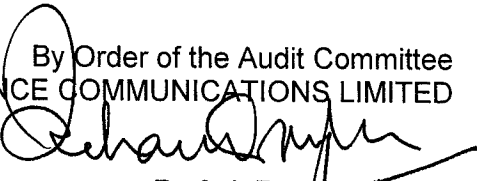
- 2.1. The Audit Committee noted the rationale and the benefits of the Scheme, which including, *inter-alia*, are as follows:
- (a) further expanding into the growing markets of India;
 - (b) creating value for shareholders by acquiring ready-to-use infrastructure;
 - (c) availability of increased resources and assets which can be utilised for strengthening customer base and servicing existing as well as new customers innovatively and efficiently;
 - (d) strong infrastructural capability to effectively meet future challenges in the ever-evolving telecom business;
 - (e) strategic fit for serving existing market and also to cater additional volume linked to new consumers;
 - (f) synergies in operational process and logistics alignment leading to economies of scale and creation of efficiencies by reducing time to market and benefitting customers as well as resulting in optimization of operation and capital expenditure;
 - (g) helping the Company in strengthening the assets base while also enhancing financial flexibility; and
 - (h) leading to increased competitive strength, cost reduction and efficiencies, productivity gains by pooling the financial, managerial and technical resources, personnel capabilities, skills, expertise and technologies of both the companies thereby significantly contributing to future growth and maximizing shareholders value.
- 2.2. The Audit Committee reviewed the Share Entitlement Ratio Report and noted that the recommendations made therein. Further, the Fairness Opinion confirmed that the Share Entitlement Ratio in the Share Entitlement Ratio Report is fair to the shareholders of the Company.
- 2.3. The Audit Committee also noted Draft Certificate obtained from the Statutory Auditors of the Company i.e. M/s. Chaturvedi & Shah, Chartered Accountants, on the accounting treatment prescribed in the Scheme.



3. Recommendation of the Audit Committee

Taking into consideration the provisions of the Share Entitlement Ratio Report, the Fairness Report and the benefits of the Scheme, the Audit Committee recommends the draft Scheme to the Board of Directors of the Company for its consideration and approval.

By Order of the Audit Committee
For and on Behalf of RELIANCE COMMUNICATIONS LIMITED



Prof. J. Ramachandran
Chairman, Audit Committee

Place: Mumbai
Date: 02.11.2015

