



**REPORT OF THE AUDIT COMMITTEE OF TATA COMMUNICATIONS LIMITED RECOMMENDING
THE DRAFT SCHEME OF ARRANGEMENT AND RECONSTRUCTION**

Committee Members Present:

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| 1. | Ms. Renuka Ramnath | Chairperson |
| 2. | Dr. Uday B. Desai | Member |

By Invitation:

Mr. G. Narendra Nath	Director
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1. Background

The proposal to approve scheme of arrangement and reconstruction between the Tata Communications Limited (“Company” or “Transferor Company”) and Hemisphere Properties India Limited (“HPIL” or “Transferee Company”) and their respective shareholders and creditors pursuant to Sections 230 – 232, other relevant provisions of the Companies Act, 2013, and Explanation 5 to Section 2(19AA) of the Income Tax Act, 1961 and other relevant provisions of the Income Tax Act, 1961 (“Scheme”) was placed before and considered by the Audit Committee at its meeting held on 13 December, 2017 at Mumbai. The Scheme provides for Demerger (*as defined in the Scheme*) by way of reconstruction or splitting up of the Company by way of transfer of the Surplus Land (*as defined in the Scheme*) of the Company to the Transferee Company and the consequent issue of equity shares by the Transferee Company to the shareholders of the Company as on Record Date (*as defined in the Scheme*), followed by transfer of specified equity shares allotted to Panatone Group Companies (*as defined in the Scheme*) in the manner set out in the Scheme and various other matters consequential to or otherwise integrally connected with the above, in the manner provided for in the Scheme.

The Chairperson placed before the Audit Committee the draft Scheme for the Audit Committee to consider and recommend, if thought fit, to the Board of Directors of the Company (“Board”) in terms of SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 on ‘Schemes of Arrangement by Listed Entities and Relaxation under Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957’ (“SEBI Scheme Circular”).

2. Report

This Report of the Audit Committee is being issued to comply with the requirements of the SEBI Scheme Circular.

The Audit Committee of the Board has discussed and has made this report after perusing the following necessary documents:

- (i) The draft Scheme, initialled by the Chairperson for the sake of identification;
- (ii) The valuation report(s) dated 13 December, 2017 issued by M/s. MSKA & Associates, independent chartered accountants (who are the valuer for the Company), which sets out their recommendation on the share entitlement ratio for the Scheme; and

TATA COMMUNICATIONS

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- (iii) The fairness opinion dated 13 December, 2017 issued by M/s. SBI Capital Markets Limited, SEBI registered merchant banker, on fairness of the valuation done by the valuer for the Company.

A presentation was then made to the Audit Committee setting out the background, rationale and salient features of the Scheme. The Audit Committee noted the background and salient features of the proposed Scheme as under:

Background and rationale for the Scheme

In 2002, the Government of India had conducted a disinvestment exercise in respect of 25% of its equity holding in the Company wherein the terms of the bid for the disinvestment required the bidders to take into account the value of the land which would remain with the Company and to exclude the value of certain surplus lands of the Company. Panatone Finvest Limited (“Panatone”), current promoter of the Company, was the successful bidder in this disinvestment process.

Subsequently, a share purchase agreement dated February 6, 2002 was executed between the Government of India and amongst others, Panatone and the Company (“SPA”), for the sale of equity shares of the Company to Panatone and a shareholders’ agreement dated February 13, 2002 was also executed between the Government of India and, amongst others, Panatone (“SHA”). The terms and conditions of the SPA and SHA, *inter alia*, required such surplus lands of the Company to be hived off or demerged into a separate company (i.e., in this case, the Transferee Company). Further, in accordance with the terms of the said SPA, the SHA and the letter of offer issued by Panatone dated March 27, 2002 (“Letter of Offer”), Panatone is required to gift, sell or transfer, as the case may be, without further consideration, the shares of the Transferee Company, as allotted to Panatone under the Scheme to: (a) the Government of India, to the extent of 25% of the Transferee Company’s issued shares; and (b) the shareholders of the Company who tendered equity shares to Panatone pursuant to the Letter of Offer, to the extent their tender was accepted by Panatone, but not exceeding the maximum extent of 20% of the total issued capital of the Transferee Company.

Salient features of the Scheme

The Board was further informed of the salient features of the Scheme: .

- (i) Appointed Date in terms of the Scheme shall be 30 March, 2018;
- (ii) Effective Date means the last of the dates on which the conditions and matters referred to in Clause 7.12 of the Scheme have been fulfilled or waived;
- (iii) With effect from the Appointed Date and upon the Scheme becoming effective, the Company shall, pursuant to Section 232(4) of the Act and Explanation 5 to Section 2(19AA) of the Income Tax Act, 1961 and other relevant sections of the Income Tax Act, 1961, be split up or reconstructed by way of transfer of the Surplus Land to the Transferee Company so as to invest in the Transferee Company the rights, title and interest (if any) of the Company in the Surplus Land and the Company will thereupon stand reconstructed or split-up into separate companies. Further, with effect from the Appointed Date and upon the Scheme becoming effective, by way of reconstruction or splitting up of the Company, all the assets and liabilities pertaining to the Surplus Land stand transferred to and vested in the Transferee Company at their respective book values as appearing in the



books of the Company immediately before the Appointed Date, and shall become the property and an integral part of the Transferee Company.

- (iv) Upon the Scheme becoming effective and in consideration of the Demerger, the Transferee Company shall, issue and allot to each member of the Company whose name is recorded in the register of members as a shareholder of the Company on the Record Date, equity shares in the Transferee Company in accordance with the share entitlement ratio recommended by the valuers and approved by the board of directors of the Company and the Transferee Company.
- (v) Within 30 days of the Effective Date, Transferee Company shall apply for listing and/or trading of its equity shares issued pursuant to the Scheme on the BSE Limited and the National Stock Exchange of India Limited ("**Stock Exchanges**").
- (vi) Upon the Scheme becoming effective and as an integral part of the Scheme, such number of shares as are issued and allotted to Panatone, Tata Sons Limited and Tata Power Company Limited ("**Panatone Group Companies**") by the Transferee Company, pursuant to the Scheme, in respect of Panatone owning 25% of the subscribed equity capital of the Company, shall, upon the Transferee Company being listed on the recognized stock exchanges, be transferred to the Government of India, in order to give effect to the provisions of the SPA and SHA, within 30 business days of listing and trading of the shares of the Transferee Company.
- (vii) Upon the Scheme becoming effective and as an integral part of the Scheme, such number of shares as are issued and allotted to Panatone Group Companies by the Transferee Company, pursuant to the Scheme, in respect of Panatone Group Companies owning 20% of the subscribed equity capital of the Transferor Company, shall, upon the Transferee Company being listed on the recognized stock exchanges, be transferred, in order to give effect to the terms and conditions of the Letter of Offer, in a proportionate manner, to those public shareholders of the Company (or their legal heirs/successors) whose shares were acquired by Panatone pursuant to the open offer made vide the Letter of Offer ("**Eligible VSNL Shareholders**") in accordance with the terms set out in Part IV of the Scheme.
- (viii) The effectiveness of the Scheme is conditional upon the fulfillment or waiver of actions specifically identified in the Scheme, which, *inter alia*, includes: (a) the Scheme being approved by the respective requisite majorities of various classes of the members and / or creditors of each of the Company and the Transferee Company, as required under the Companies Act, 2013 ("**Act**"); (b) the Scheme being approved by the majority of public shareholders of the Company (through e-voting) as may be required under the SEBI Scheme Circular; (c) the Scheme being sanctioned by the NCLT, Mumbai and the Central Government respectively under the provisions of the Act; (d) the approval of SEBI in terms of the SEBI Scheme Circulars being obtained upon this Scheme being sanctioned by the NCLT, Mumbai and the Central Government respectively; (e) the certified copies of the order of NCLT, Mumbai and Central Government sanctioning the Scheme being filed with the jurisdictional Registrar of Companies; and (f) all necessary regulatory and governmental approvals and registrations required pursuant to, in connection with or as a consequence of the Scheme, being obtained.
- (ix) In the event of the Scheme failing to take effect by March 31, 2019 or such later date as may be agreed by the respective Board of Directors of the Company and the Transferee



Company, the Scheme shall become null and void and in that case no rights and liabilities whatsoever shall accrue to or be incurred inter-se by the Company or Transferee Company or their shareholders or creditors or employees or any other person.

Share Exchange and Entitlement Ratio

The sealed envelope handed over by M/s. MSKA & Associates, valuers for the Company, containing copy of the valuation report(s), was then un-sealed and the consideration, share entitlement ratio for the Scheme was read out to the Committee. M/s. MSKA & Associates, the valuers for the Company, recommended following consideration, share entitlement ratio:

1 (One Only) equity shares of the Transferee Company of face value INR 10 (Rupees Ten only) each credited as fully paid up to be issued and allotted for every 1 (One) equity share of face value INR 10 (Rupees Ten only) each fully paid up held by a member in the Company as on the Record Date.

The Audit Committee was informed that the Scheme will be placed before the shareholders of the Company for approval by the majority of the public shareholders of the Company as defined under the Securities Contracts (Regulation) Rules, 1957 and the promoters will not participate in the voting. The voting in relation to such public shareholder approval will be permitted by e-voting. In light of this, the Audit Committee was informed that the auditor's undertaking in terms of paragraph I(A)(9)(c) of Annexure 1 of the SEBI Scheme Circular is not required in respect of the Scheme.

3. Recommendation of the Audit Committee

The Audit Committee has considered and noted the aforementioned documents, presentations and the Draft Scheme, and recommends the Draft Scheme to the Board, *inter alia*, taking into consideration the valuation report prepared by M/s. MSKA & Associates and (iii) the fairness opinion obtained from M/s. SBI Capital Markets Limited.

For and on behalf of the Audit Committee
of the Board of Directors of
Tata Communications Limited

Renuka Ramnath
Chairperson, Audit Committee

Date: 13 December 2017

Place: Mumbai