

REPORT OF AUDIT COMMITTEE OF MAHINDRA FORGINGS LIMITED

Members

Mr. V. K. Chanana - Chairman
 Mr. Zhooben Bhiwandiwalla
 Mr. Daljit Mirchandani
 Mr. Fali P. Mama
 Mr. Nikhilesh Panchal

In Attendance:

Mr. Krishnan Shankar - Company Secretary & Head - Legal
 Mr. Ajay Mantry - Chief Financial Officer

1. Background

The Company placed before the Audit Committee the draft scheme of Merger (Scheme of Merger) in respect of the proposed merger of Mahindra Composites Limited with the Company for recommendation of the Scheme of Merger by the Audit Committee to the Board of Directors as required vide Circular CIR/CFD/DIL/5/2013 issued on 4 February 2013 read with Circular CIR/CFD/DIL/8/2013 issued on 21 May 2013 ("Circulars"), both issued by the Securities and Exchange Board of India ("SEBI").

The report of the Audit Committee is made in order to comply with requirements of the Circulars and after considering following necessary documents:

- i. Draft of the Scheme of Merger; and
- ii. Valuation Report prepared by M/s S.R. Batliboi & Co., LLP and M/s N.M. Rajji & Co., Chartered Accountants dated 15th June, 2013 (together with the suggestions of the Valuers on the Share Swap/Exchange Ratio)

2. Proposed Scheme of Merger

The Committee noted that the Mahindra group of companies and the CIE group of companies have agreed to the consolidation of the forgings business globally by amalgamating the forgings business carried out by the CIE Group Companies (i.e. CIE



Automotive S.A. ("CIE"), CIE Berriz, S.L. ("Berriz"), CIE Autometal S.A. ("CIE Autometal"), Autometal S.A. ("Autometal"), Participaciones Internacionales Autometal, S.L.U. ("PIA 1"), Participaciones Internacionales Autometal, DOS, S.L. ("PIA 2"), PIA 3, CIE Legazpi, S.A. ("CIE Forgings 1"), CIE Galfor, S.A. ("CIE Forgings 2") and UAB CIE LT Forge ("CIE Forgings 3")) and the Mahindra Systech Companies (i.e. The Company, Mahindra Ugine Steel Company Limited (MUSCO), Mahindra Hinoday Industries Limited (MHIL), Mahindra Gears International Limited (MGIL), Mahindra Investments (India) Private Limited (MIPL) and Mahindra Composites Limited ("MCL")), by way of the following:

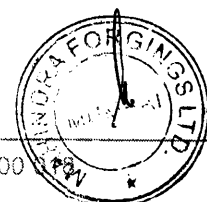
- (i) Sale by M&M of its shareholding in certain Mahindra Systech Companies, i.e., the Company, MHIL and MCL, to PIA 2;
- (ii) Simultaneous with the above sale, acquisition by Mahindra Overseas Investment Company Mauritius Limited ("MOICML") or its subsidiary, of, and issue by CIE to MOICML, of shares in CIE.
- (iii) Merger of MUSCO, MHIL, MIPL, MGIL, and Participaciones Internacionales Autometal Tres, S.L. with the Company as per the terms of the Integrated Scheme of Merger

Subsequent to the completion of the above acquisitions and the Integrated Scheme of Merger becoming effective, MCL will merge with the Company.

The Committee also noted that the Company had appointed ICICI Securities Limited as merchant banker for the purposes of providing the fairness opinion on the valuation report of the Valuers.

The copies of the fairness report dated 15th June 2013, issued by ICICI Securities Limited opining on the fairness of the share exchange ratio determined by S.R. Batliboi & Co., LLP and M/s. N.M. Rajji & Co., Chartered Accountants were placed before the Audit Committee along with the copies of valuation reports.

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A detailed presentation was made to the Audit Committee by the Valuers elaborating on the valuation aspects of the proposed Scheme of Merger and the Share Swap/Exchange Ratio.

The Committee noted that the Appointed Date of the Scheme of Merger is 1st October 2013.

The Committee noted that the share swap/exchange ratio determined by M/s S.R. Batliboi & Co., LLP and M/s N.M. Raiji & Co., Chartered Accountants in their respective valuation reports dated 15th June, 2013, is 90 (Ninety) fully paid-up Equity Share of Rs.10 each of the Company will be issued for every 100 (One Hundred) Equity Shares of Rs.10 each held by the shareholders in MCL.

The Committee noted that the merger of MCL into the Company through the Scheme of Merger will be advantageous and beneficial to the shareholders, stakeholders and employees of the Company.

3. Recommendation of the Audit Committee

The Audit Committee recommends the Draft Scheme of Merger, inter-alia taking into consideration the Valuation Report of M/s S. R. Batliboi & Co., LLP and M/s N.M. Raiji & Co., Chartered Accountants dated 15th June, 2013 and fairness report dated 15th June 2013 issued by ICICI Securities Limited, for favorable consideration by the Board, Stock Exchanges and Securities Exchange Board of India.

x 
Chairman

Date: 15th June, 2013

Place: Mumbai



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