

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 integrated scheme (Integrated Scheme of Merger) for merger of Mahindra Hinoday Industries Limited (MHIL), Mahindra Investments (India) Private Limited (MIPL), Mahindra Gears International Limited (MGIL), Mahindra Ugine Steel Company Limited (MUSCO) and Participaciones Internacionales Autometal Tres, S.L. ("PIA 3") into the Company as per the terms of the Integrated Scheme of Merger, for recommendation of the Integrated 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 Integrated Scheme of Merger, and
- ii. Valuation Report prepared by M/s S.R. Batliboi & Co., LLP and M/s N.M. Raiji & Co., Chartered Accountants dated 15th June, 2013 (together with the suggestions of the Valuers on the Share Swap/Exchange Ratio).

[Handwritten signature]
 x Mahesh



2. Proposed Integrated 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. MUSCO, MHIL, MGIL, MIPL, Mahindra Composites Limited ("MCL") and the Company), 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; and
- (iii) Subsequent to the completion of the above acquisitions, merger of MCL into the Company along with the aforesaid Integrated Scheme of Merger, resulting in creation of a combined entity to be renamed as "Mahindra CIE Automotive Limited".

The Committee also noted that the effectiveness of the Integrated Scheme of Merger was *inter alia* conditional upon and subject to the transfer of the following to M&M or its subsidiary (not being a Mahindra Systech Company or a subsidiary of such company) together with all liabilities thereto:

- a) MUSCO Real Estate, i.e., the colony land admeasuring approx 76 (seventy six) acres owned by MUSCO and situated at Khopoli, Maharashtra;

and

- b) MUSCO Investments, i.e., all the shares held by MUSCO in (a) Mahindra Sanyo Special Steel Private Limited (b) Mahindra Hotels & Resorts Limited; (c) Indian & Eastern Engineer Company Limited; (d) Mahindra & Mahindra Contech Limited; (e) Mahindra Construction Limited; (f) Orissa Sponge Iron Limited; (g) Dena Bank Limited; and (h) Kotak Mahindra Bank Limited,



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. Raiji & Co vide their valuation report dated 15th June 2013, were placed before the Audit Committee alongwith the copies of valuation reports of the Valuers both dated 15th June 2013.

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

The Committee noted that the Appointed Date of the Integrated 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., in their respective valuation reports dated 15th June, 2013, is as follows:

- (i) 284 (Two Hundred Eighty Four) equity share of Rs. 10/- (Rupees Ten) each of the Company for every 100 (One Hundred) equity shares of Rs. 10/- (Rupees Ten) each held by the shareholders of Mahindra Ugine Steel Company Limited;
- (ii) 110 (One Hundred Ten) equity share of the Company of Rs. 10/- (Rupees Ten) each for every 100 (One Hundred) equity shares of Rs. 10/- (Rupees Ten) each held by the shareholders of Mahindra Hinoday Industries Limited;
- (iii) 17 (Seventeen) equity share of Rs. 10/- (Rupees Ten) each of the Company for every 100 (One Hundred) equity shares of Rs. 10/- (Rupees Ten) each held by the shareholders of Mahindra Investments (India) Private Limited;
- (iv) 20 (Twenty) equity share of Rs. 10/- (Rupees Ten) each of the Company for every 100 (One Hundred) equity shares of Euro 1/- (Euro One) each held by the shareholders of Mahindra Gears International Limited;

[Handwritten signature]



127