

FUTURE RETAIL

REPORT OF THE AUDIT COMMITTEE OF FUTURE RETAIL LIMITED ('FRL' OR 'THE COMPANY') FOR DEMERGER OF RETAIL BUSINESS UNDERTAKING (AS DEFINED IN THE SCHEME) OF FRL INTO BHARTI RETAIL LIMITED ('BRL') AND DEMERGER OF RETAIL INFRASTRUCTURE BUSINESS UNDERTAKING OF BRL INTO FRL

Present

1. Mr. S. Doreswamy Chairman
2. Mr. V. K. Chopra Member
3. Ms. Bala Deshpande Member

1. Background

1.1 A meeting of the Audit Committee of Future Retail Limited ('the Company') was held on 4th May, 2015 to consider and recommend to the Board of Directors the Proposed Composite Scheme of Arrangement between Future Retail Limited ('the Company' or 'FRL') and Bharti Retail Limited ('BRL') and their respective shareholders and creditors under Sections 391-394 read with Sections 100-104 of the Companies Act, 1956 and Section 52 of the Companies Act, 2013 and any other applicable provisions of the Companies Act, 1956 and / or Companies Act, 2013 ('the Scheme').

1.2 The Scheme provides for:

1.2.1 Re-organization of paid up equity share capital of BRL pursuant to relevant provisions of the Companies Act, 1956 / Companies Act, 2013, as may be applicable;

1.2.2 Demerger of Retail Business Undertaking (*as defined in the Draft Scheme*) of FRL into BRL pursuant to relevant provisions of the Companies Act, 1956 / Companies Act, 2013, as may be applicable; and

1.2.3 Demerger of Retail Infrastructure Business Undertaking (*as defined in the Draft Scheme*) of BRL into FRL pursuant to relevant provisions of the Companies Act, 1956 / Companies Act, 2013, as may be applicable.

The Equity Shares and DVRs of Company are listed on BSE Limited (BSE) and National Stock Exchange of India Limited (NSE). In accordance with Clause 24(f) of the Listing Agreement, the Company will be filing the Scheme along with other necessary information / documents with both the mentioned exchanges.

1.3 This report of the Audit Committee is made in order to comply with the requirements of SEBI Circular No. CIR/CFD/DIL/2013 dated February 4, 2013 read with SEBI Circular No. CIR/CFD/ DIL/8/2013 dated May 21, 2013 (which provides clarifications with respect to the aforementioned circular both issued by the Securities and Exchange Board of India ('SEBI Circulars').



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1.4 This report is made in order to comply with the requirements of the SEBI Circulars after considering the following:

- a. Draft Composite Scheme of Arrangement, duly initialed by the Company Secretary of the Company for the purpose of identification;
- b. Share Entitlement Ratio Report dated May 4, 2015 issued by SSPA & Co., an Independent Chartered Accountants and Edelweiss Financial Services Limited, an Independent Category I Merchant Banker;
- c. Fairness Opinion dated May 4, 2015 issued by Keynote Corporate Services Limited, an Independent Category I Merchant Banker ('Fairness opinion') providing the fairness opinion on the share entitlement ratio recommended in the share entitlement ratio report prepared by SSPA & Co., Independent Chartered Accountants and Edelweiss Financial Services Limited, independent Category I Merchant Banker; and
- d. Audited financial statements of the Company and BRL for the year ending March 31, 2014, March 31, 2013 and March 31, 2012.

2. Proposed Scheme

2.1 The Audit Committee discussed and noted the rationale and benefits of the Scheme, which including, *inter-alia*, are as follows:

- FRL currently operates multiple retail formats in the Indian consumer market under different brand names including: Big Bazaar; FBB; Food Bazaar; Foodhall; Home Town and eZone. The retail business of FRL *inter-alia* includes retail operations and retail infrastructure operations.
- Currently, BRL operates retail business formats under the brand name 'easyday'. The retail business of BRL *inter-alia* includes the retail operations and the retail infrastructure operations.
- FRL and BRL are desirous of consolidating their retail businesses by consolidating the retail operations and retail infrastructure operations of both companies under separate entities.
- Demerger of the Retail Business Undertaking from FRL into BRL and demerger of the Retail Infrastructure Business Undertaking from BRL into FRL would help in achieving the desired operating structure and shall have the following benefits:
 - (a) consolidation of the retail operations of FRL and BRL;
 - (b) consolidation of the retail infrastructure operations of FRL and BRL;
 - (c) streamlining the operating structure;
 - (d) unlocking of value;
 - (e) emergence of a retail company focusing on retail operations having pan India retail footprint;
 - (f) emergence of a retail infrastructure company focusing on providing infrastructure support to retail businesses;
 - (g) attribution of appropriate risk and valuation to the Retail Business Undertaking and the Retail Infrastructure Business Undertaking based on respective risk-return profile and cash flows;
 - (h) more focused leadership and dedicated management;

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CIN: L52399MH1987PLC044954



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- (i) greater visibility on the performance of respective businesses;
- (j) synergies expected to bring in cost savings in the marketing, selling and distribution expenses; and
- (k) leveraging on the combined capabilities of both entities for further expansion.

2.2 The Audit Committee reviewed the Share Entitlement Ratio Report and noted that the said report recommended the following:

- in consideration of demerger of Retail Business Undertaking of FRL into BRL, every equity shareholder and DVR shareholder of FRL would receive 1(One) equity share of the face value of Rs. 2/- (Rupees Two) each credited as fully paid up of BRL for every 1(One) fully paid up equity share / DVR of the face value of Rs.2/- (Rupees Two) each, fully paid-up of FRL held by them;
- in consideration of demerger of Retail Infrastructure Business Undertaking of BRL into FRL, every equity shareholder of BRL would receive 1(One) equity share of the face value of Rs. 2/- (Rupees Two) each credited as fully paid up of FRL for every 1(One) fully paid up equity share of the face value of Rs.2/- (Rupees Two) each, fully paid-up of BRL held by them;

2.3 Further, the Fairness Opinion confirmed that the Share Entitlement Ratio in the Share Entitlement Ratio Report is fair to the Company, BRL and their respective shareholders.

2.4 The equity shares of BRL are proposed to be listed on BSE Ltd and National Stock Exchange of India Limited.

3. Recommendation of the Audit Committee

The Audit Committee recommends the draft Scheme, inter-alia taking into consideration the Share Entitlement Ratio Report and the Fairness Opinion Report, for favorable consideration by the Board of Directors of the Company, Stock Exchange(s) and SEBI.

By Order of the Audit Committee

For and on behalf of

FUTURE RETAIL LIMITED



S. Doreswamy

Chairman of the Audit Committee

DATE: 4th May, 2015

PLACE: Gurgaon



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