

Pioneer Distilleries limited
Subsidiary of United Spirits Limited

Registered Office:
UB Tower, Level 10
#24 Vittal Mallya Road,
Bengaluru 560 001
Tel: +91 80 2221 0705
Fax: +91 80 3985 6862
info@pioneerdistilleries.com

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE OF PIONEER DISTILLERIES LIMITED RECOMMENDING THE SCHEME OF AMALGAMATION AND ARRANGEMENT AMONGST PIONEER DISTILLERIES LIMITED (THE "COMPANY") AND UNITED SPIRITS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS, AT THE MEETING HELD ON DECEMBER 2, 2019

1. Background

A meeting of the Audit and Risk Management Committee of the Company was held on December 2, 2019 to consider and recommend the proposed scheme of amalgamation and arrangement amongst the Company and United Spirits Limited ("USL") (the "Scheme") under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 and the rules thereof.

In terms of the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 on scheme of arrangements by listed entities issued by the Securities Exchange and Board of India ("SEBI" and the circular, as amended from time to time, "SEBI Circular"), a report from the audit committee is required recommending the draft Scheme, taking into consideration, inter alia, the valuation report. This report of the Audit and Risk Management Committee is made in order to comply with the requirements of the SEBI Circular.

In this regard, the Audit and Risk Management Committee considered, inter alia, the following:

- (i) draft Scheme duly initialed by the Company Secretary of the Company for the purpose of identification;
- (ii) valuation report dated December 2, 2019 prepared by SRBC & Co LLP, an independent chartered accountant and valuation report dated December 2, 2019 prepared by Manuj Singhal, registered valuer, setting out the recommended share exchange ratio (the "Valuation Reports");
- (iii) fairness opinion dated December 2, 2019 prepared by Saffron Capital Advisors Private Limited, a SEBI registered merchant banker, providing the fairness opinion on the share exchange ratio ("Fairness Opinion"); and
- (iv) a draft certificate from the statutory auditors of the Company, Price Waterhouse & Co. Chartered Accountants LLP, confirming that the draft Scheme is in compliance with the applicable Accounting Standards notified under the Companies Act, 2013 and other generally accepted accounting principles ("Auditors' Certificate").



2. Proposed Scheme of Amalgamation and Arrangement

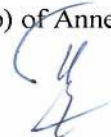
The Audit and Risk Management Committee discussed and noted the rationale and the benefits of the Scheme which are as follows:

- (i) simplification of the corporate structure and consolidation of the group's business;
- (ii) realising business efficiencies, inter alia, through optimum utilisation of resources due to pooling of management, expertise and other resources of the companies and to achieve economies of scale;
- (iii) overcoming limitations on raising capital for PDL, ensuring improved allocation of capital and optimum cash flows contributing to better utilisation of capacity and the overall growth of the combined entity;
- (iv) creation of a larger asset base and facilitation of access to better financial resources;
- (v) savings on compliance / interest costs;
- (vi) uninterrupted operations of the Company's plant in order to stabilize its business;
- (vii) integration of the Company's operations with USL resulting in benefits arising out of synergies, especially since USL is in the same line of business as the Company; and
- (viii) enhanced shareholder value pursuant to economies of scale and business efficiencies.

The Company has been incurring losses in the recent past and its entire net worth has eroded. USL, holding 75% of the equity capital of the Company, has to account to the extent of 75% of the losses of the Company while consolidating its accounts. Continuity of the Company without the active support of USL would be very difficult. Amalgamation of the Company with USL would be beneficial to both the companies, including with respect to ease of getting uninterrupted financial and technical support and USL getting full benefit of the Company's manufacturing facilities.

The Audit and Risk Management Committee reviewed and noted the Valuation Reports, and noted that upon coming into effect of the Scheme and in consideration for the amalgamation, USL shall, without any further application or deed, issue and allot its equity shares, credited as fully paid up, to all the equity shareholders holding fully paid up equity shares of the Company whose names appear in the register of members of the Company and / or whose names appear as the beneficial owner of the shares of the Company in the records of the depository, (except to USL itself) as on the record date, to be fixed for the purpose of reckoning names of equity shareholders of the Company ("**Transferor Company Shareholders**") in the following ratio: 1 (*one only*) *fully paid up equity shares of face value Rs. 2 (Rupees two only) each of USL, to be issued for every 4.7 (four and decimal 7) fully paid up equity shares of face value Rs. 10 (Rupees ten only) each held by the Transferor Company Shareholders.* The equity shares held by USL in the Company shall stand cancelled as an integral part of the Scheme and no equity shares of USL shall be allotted in respect of such equity shares. The 62,400 forfeited shares of the Company shall stand extinguished and cancelled and an amount of Rs. 3,12,000 shall be transferred to the head 'Capital Reserve' in the financial statement of USL.

Further, the Fairness Opinion confirmed that the share exchange ratio is fair to the equity shareholders of the Company. Further, the Auditors' Certificate confirmed that the accounting treatment as specified in the draft Scheme is in compliance with the applicable Accounting Standards notified under the Companies Act, 2013 and other generally accepted accounting principles. The Audit and Risk Management Committee noted that the draft Scheme will require the approval of the public shareholders of the Company in terms of clause I.A.9(b) of Annexure I

of the SEBI Circular and, therefore, an undertaking by the Company's auditors and the approval of the Board of Directors of the Company under clause 1.A.9(c) of Annexure I of the SEBI Circular will not be required.

After considering the draft Scheme, the Valuation Reports, the Fairness Opinion and the Auditors' Certificate, the members of the Audit and Risk Management Committee are of the opinion that the implementation of the proposed Scheme is in the best interest of the Company and its shareholders, creditors and other stakeholders.

3. Recommendation of the Audit and Risk Management Committee

The Audit and Risk Management Committee, having considered the aforementioned documents as placed before the Committee, including the Valuation Reports, the Fairness Opinion and the Auditors' Certificate, does hereby recommend the draft Scheme for favourable consideration by the Board of Directors of the Company, BSE Limited, National Stock Exchange of India Limited and SEBI.

Date: December 2, 2019
Place: Bengaluru

**For and on behalf of
Audit and Risk Management Committee of
Pioneer Distilleries Limited**



**R Krishnamurthy
Chairman, Audit and Risk Management Committee
DIN: 06940830**

