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14 April 2021

The Audit Committee / The Board of Directors
Bharti Airtel Limited
Airtel Centre, Plot No. 16, Udyog Vihar,
Phase-IV, Gurgaon,
Haryana - 122015, India

Sub: Fairness opinion on the fair share entitlement ratio recommended by the independent valuer for proposed demerger of India telecom business of Bharti Airtel Limited into Airtel Limited, forming part of the composite scheme of arrangement between Bharti Airtel Limited, Airtel Limited and other parties as per the Scheme

Dear Sir/Madam,

We refer to our engagement letter whereby Ernst & Young Merchant Banking Services LLP (hereinafter referred to as "we" or "EY") was appointed by Bharti Airtel Limited ("Airtel" or the "Company") and Airtel Limited to provide a fairness opinion on the fair share entitlement ratio recommended by the independent valuer for the proposed demerger of its India telecom business ("Telecom Business Undertaking") into Airtel Limited ("Resulting Company"), a wholly owned subsidiary of Airtel.

SCOPE AND PURPOSE OF THIS REPORT

We understand that Company is evaluating demerger of its Telecom Business Undertaking into Airtel Limited ("Proposed Transaction"). The demerger is proposed to be carried out through a Scheme of Arrangement ("Scheme") in accordance with Sections 230 to 232 and other applicable provisions of the Companies Act, 2013, as may be applicable.

The shareholders of Airtel would receive non-cumulative, non-participating, compulsorily and fully convertible preference shares ("CCPS") in Airtel Limited in proportion to their shareholding in Airtel (not in exchange of, but in addition to shares in Airtel) at a share entitlement ratio recommended by Independent Valuer, GT Valuation Advisors LLP ("GT" or "Independent Valuer"). In this connection, management of the Company ("Management") has engaged EY to submit a report on fairness opinion on the share entitlement ratio as recommended by Independent Valuer ("Purpose").

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This report is our deliverable in respect of the above engagement.

Telecom Business Undertaking consists of telecom business of Airtel including activities, operations, assets, rights, past credentials, spectrum, approvals, licenses, intellectual property, records, specified tax benefits and all its debts, outstanding liabilities, litigations, duties, obligations and employees pertaining to the telecom business. This primarily constitutes the cellular and broadband business in 20 circles. The Management has informed us that Telecom Business Undertaking's operating financial performance can be broadly derived from the historical standalone profit & loss statement of Airtel since most of the residual assets appear as downstream investments whose operating performance gets captured only in the consolidated financials.

The Scheme envisages that the demerger would enable sharper focus on the telecom business, resulting in logistics alignment, creation of efficiencies and optimization of capital and operational expenditure. Further, it will result in segregation of the Telecom Business Undertaking from residual/non-telecom business.

Under the Scheme, it is envisaged that the shareholders of Airtel shall be issued consideration in the following manner:

- The Resulting Company shall issue and allot CCPS of face value of INR 100 each fully paid-up to the equity shareholders of Airtel. Each CCPS would be convertible into 10 (ten) fully paid-up equity share of Airtel Limited of face value of INR 10 each.
- Any shareholder entitled to fractional CCPS shall receive cash in lieu of CCPS on the basis of fair market value as on the Effective Date to be computed, by a registered valuer.
- Any shareholder entitled to CCPS less than 10 (or a lower number as per threshold to be determined later) shall receive cash in lieu of CCPS on the basis of fair market value as on the Effective Date to be computed by the registered valuer.
- Payment of cash to equity shareholders of the Demerged Company who are (i) persons resident outside India, and (ii) who hold such equity shares under the repatriable route of foreign investment shall be made in the manner as set out in the scheme.
- In absence of cash payouts in lieu of CCPS for the aforesaid shareholders, total CCPS issued would have represented 0.25% of the total shareholding of Airtel Limited on a fully diluted basis.
- An exit mechanism will be provided to all the CCPS holders for 3 years from the effective date based on periodic valuations (with a validity of 6 months) to be done. The valuation would be done on or prior to the Record Date and updated half yearly thereafter by a registered valuer.

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- Each of the outstanding CCPS shall automatically and mandatorily be converted into equity shares of the Resulting Company on earlier of: (i) the date falling on the 10th anniversary of the issuance of CCPS; or (ii) the date on which the CCPS are required by Applicable Law to be mandatorily converted into equity shares.
- The CCPS shall carry a dividend rate of 0.01%, denominated in INR.
- We understand that there are Foreign Currency Convertible Bonds ('FCCBs') issued by Airtel, which if converted into equity shares before the record date then the share entitlement ratio will be modified such that the total number of CCPS to be issued as per revised ratio does not exceed the total number of CCPS that BAL's shareholders might be entitled to as per the present entitlement ratio, as if no dilution would have happened because of FCCB holders.

The Scheme is a consolidated scheme with some other transactions (merger of three directly/indirectly wholly owned subsidiaries into Airtel), which is not impacting this report.

The Management has confirmed that the most recent carved financials are available as at 31 December 2020. Additionally, the Management has also informed us that there has been no material change in Telecom Business Undertaking between 31 December 2020 and 31 March 2021 ("Valuation date"). We have considered the same for the purpose of Valuation.

Further, the Management has represented to us that till the demerger becomes effective, there would not be any change in shareholding pattern of Airtel Limited [It is clarified that this clause does not restrict the proposed infusion of 498,740,000 equity shares of INR 10 each fully paid-up into Airtel Limited by Airtel and/or its direct or indirect wholly owned subsidiaries before the effective date].

This report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

This report has been issued only for the purpose of facilitating the proposed transfer and should not be used for any other purpose.

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SOURCES OF INFORMATION

In connection with this exercise, we have received the following information from the Management:

- Independent Valuer's report
- Publicly available information for Airtel
- Unaudited Carved-out financial statements of Telecom Business Undertaking for 9 months period ended 31 December 2020
- Financial projections of Telecom Business Undertaking from 1 January 2021 to 31 March 2023
- Draft Scheme of Arrangement
- Background information including details of surplus assets and contingent liabilities provided through emails or during discussions.

We have also obtained further explanations and information considered reasonably necessary for our exercise, from the Management.

It may be mentioned that the Management have been provided an opportunity to review factual information in our draft report as part of our standard practice to make sure that factual inaccuracies/omissions/etc. are avoided in our final Report.

PROCEDURES ADOPTED

- Discussions with the Management for understanding the business and fundamental factors that affect the earning-generating capability of Telecom Business Undertaking.
- For the Telecom Business Undertaking, projected financial statements were reviewed and discussed with the Management to obtain requisite explanations on assumptions supporting the projections.
- Reviewed the fair share entitlement ratio arrived by the Independent Valuer and had discussion to seek clarifications.
- Undertook alternative calculations.

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STATEMENT OF LIMITING CONDITIONS

Provision of fairness opinions and consideration of the issues described herein are areas of our regular valuation practice. The services do not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

The user to which this fairness opinion is addressed should read the basis upon which the Report has been prepared and be aware of the potential for later variations in value due to factors that are unforeseen at the Report Date. Due to possible changes in market forces (including prevailing quoted prices) and circumstances, this opinion can only be regarded as relevant as at the Report Date.

This document has been prepared for the purposes stated herein and should not be relied upon for any other purpose. Our Report is restricted for the purpose indicated in the engagement letter. This restriction does not preclude Airtel from providing a copy of the report to third-party advisors whose review would be consistent with the intended use. We do not take any responsibility for the unauthorized use of this Report.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the client existing business records. Accordingly, we express no audit opinion or any other form of assurance on this information. The valuation has been performed on the provisional unaudited carved out balance sheet of the Telecom Business Undertaking provided by Management as of 31 December 2020. We have been informed that the business activities of the Companies have been carried out in the normal and ordinary course between 31 December 2020 and the Report date and that no material changes have occurred in their respective operations and financial position between 31 December 2020 and the Report date.

In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or wilful default on part of the client or companies, their directors, employees or agents.

Airtel and its Management warranted to us that the information they supplied was complete, accurate and true and correct to the best of their knowledge. We have relied upon the representations of Airtel, their Management and other third parties, if any, concerning the financial data, operational data and other information, except as specifically stated to the contrary in the report.

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Providing fairness opinion is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgement. In the ultimate analysis, our opinion will have to be tempered by the exercise of judicious discretion and judgment taking into accounts all the relevant factors. There is, therefore, no indisputable single share entitlement ratio. The final responsibility for the determination of the share entitlement ratio at which the proposed demerger shall take place will be with the Board of Directors of the Companies who should take into account other factors such as their own assessment of the proposed demerger and input of other advisors.

We have assumed that the demerger will be consummated on the terms set forth in the Scheme and that the final version of the Scheme will not change in any material respect from the draft version we have reviewed for the purpose of this opinion.

We have also relied on data from external sources to conclude the fairness opinion. These sources are believed to be reliable and therefore, we assume no liability for the truth or accuracy of any data, opinions or estimates furnished by others that have been used in this analysis. Where we have relied on data, opinions or estimates from external sources, reasonable care has been taken to ensure that such data has been correctly extracted from those sources and /or reproduced in its proper form and context.

EY is not aware of any contingency, commitment or material issue which could materially affect the Telecom Business Undertaking's economic environment and future performance and therefore, the fair value of the Telecom Business Undertaking.

We do not provide assurance on the achievability of the results forecast by the Management as events and circumstances do not occur as expected; differences between actual and expected results may be material. We express no opinion as to how closely the actual results will correspond to those projected/forecast as the achievement of the forecast results is dependent on actions, plans and assumptions of Management.

The report assumes that the Telecom Business Undertaking complies fully with relevant laws and regulations applicable in its area of operations and usage unless otherwise stated, and that the Telecom Business Undertaking will be managed in a competent and responsible manner. Further, as specifically stated to the contrary, this Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigations and other contingent liabilities that are not recorded/reflected in the balance sheet provided to us.

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The Report does not address the relative merits of the proposed demerger as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

The fee for the Report is not contingent upon the results reported.

Neither the Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed Scheme, without our prior written consent. In addition, this Report does not in any manner address the prices at which equity shares of Airtel will trade following announcement of the proposed demerger and we express no opinion or recommendation as to how the shareholders of the Company should vote at any shareholders' meeting(s) to be held in connection with the proposed demerger.

The COVID-19 (SARS-CoV-2) ("Coronavirus" or "Virus" or "Covid") is presenting potentially significant impacts upon economic activity and certain businesses. At the Report Date, the Covid crisis is still ongoing and the future impact of the Coronavirus was not capable of being qualitatively or quantitatively assessed at this time. For carrying out the valuation, we have factored the impact of Covid in the valuation based on the information available till the Report Date, and based on our understanding of the likely impact on the Telecom Business Undertaking. However, this should not be considered as an accurate assessment of the future impact of the COVID-19 on the Telecom Business Undertaking, or any prediction regarding the future course of events that would arise due to the Covid crisis.

The fairness opinion is governed by concept of materiality.

We owe responsibility to only to the Board of Directors of Airtel that has appointed us under the terms of the engagement letter. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions or advice given by any other person.

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BACKGROUND

Airtel is a listed company domiciled in India. The Company is primarily engaged in the business of providing telecommunication services in India and abroad. The service portfolio of Airtel includes provision of wireless services, fixed line services, high speed home broadband, DTH services and enterprise services. The Company has operations in 18 countries across Asia and Africa. In India, the Company provides telecommunication services in 20 telecom circles directly and in 2 telecom circles via its subsidiary, Bharti Hexacom Limited. The equity shares of Airtel are listed on the Bombay Stock Exchange ("BSE") and National Stock Exchange ("NSE"). The registered office of Airtel is located at Airtel Centre, Plot No. 16, Udyog Vihar, Phase-IV, Gurgaon, Haryana – 122015. For the year ended 31 March 2020, Airtel reported consolidated revenue of INR 87,864 crore and comprehensive loss of INR 31,012 crore.

The shareholding pattern of the Company as at 31 March 2021 is given below:

Particulars	No. of shares held	% holding
Promoter & Group	3,06,75,81,205	55.86
Public	2,42,10,97,274	44.08
Employee benefit trust	33,48,789	0.06
Total	**5,49,20,27,268**	**100.0**

Note: Airtel has issued FCCBs, convertible to equity at the option of the FCCB holders. In case these FCCB holders exercise their right to convert, then Airtel's fully paid-up share capital will increase to 5,626.9 million.

Bharti Hexacom Limited along with Ni2i, payments bank, telesonic networks, Nxtra, Airtel digital, and captive tower infrastructure do not form a part of the Telecom Business Undertaking.

Airtel Limited has been incorporated on 16 March 2021. Its share capital consists of 10,000 equity shares of INR 10 each, fully owned by Airtel Digital Limited, a direct/indirect wholly owned subsidiary of Airtel at the Report Date. However, we understand that as part of the current scheme, Airtel Digital Limited will be merged with Airtel thereby, making Airtel Limited a wholly owned subsidiary of Airtel as at the effective date.

As per the Scheme and as confirmed by the Management, Airtel Limited would issue and allot additional 498,740,000 equity shares of INR 10 each fully paid-up at face value before the effective date.

This Report is contingent on the aforementioned condition and any change to this would require this Report to be updated.

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APPROACH - BASIS OF FAIRNESS OPINION

To determine the value of the Telecom Business Undertaking, we have considered following approaches:

A. Market approach

The Market approach measures value based on what other purchasers in the market have paid for assets that can be considered reasonably similar to those being valued.

a) **Market Price Method**

The market price of an equity share quoted on a stock exchange is normally considered as fair value when the shares are regularly traded.

In the present case, since the Telecom Business Undertaking is a segment and the share price of the Company captures value of the other businesses as well, the Market Price Method has not been adopted.

b) **Comparable Companies' Multiple (CCM) method and Comparable Transactions' Multiple (CTM) method**

Under this method, equity value is arrived at by using multiples derived from valuations of comparable companies or comparable transactions, as manifested through either stock market valuations of listed companies or transaction valuations of comparable companies, which were considered to be taken place between informed buyers and informed sellers.

We have used CCM method for the valuation of Telecom Business Undertaking.

B. Income approach

The income approach determines the value of a business based on its ability to generate desired economic benefit for the owners.

Discounted Cash Flows (DCF) method:

Under the DCF method the projected free cash flows are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the enterprise value. Typically, investors expect a premium to invest in equity vis-à-vis debt instruments considering higher risk associated with equity investments.

We have used DCF method based on the business plan provided by the Management.

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C. Asset approach

The asset approach seeks to determine the value based on the value of its assets. The value under Asset approach is not appropriate to value companies on a going concern basis.

Our choice of methodology(ies) of valuation in our alternative workings has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature in this sector.

VALUER'S RECOMMENDATION

Considering the Transaction and background elaborated in their report, Valuer has recommended share entitlement ratio of 1 (one) CCPS of Airtel Limited of ₹100 each fully paid-up for every 43,936 (forty three thousand nine hundred and thirty six) equity shares of Airtel of ₹5 each fully paid-up to be fair.

OUR OPINION

Our independent workings indicate that value of the Telecom Business Undertaking provided by the Independent Valuer is within a reasonable range.

Resulting company is a recently incorporated entity with no business operations. It is currently an indirect 100% subsidiary of Airtel.

In this case, as per Management, it is desirable that the Resulting Company should continue to be owned predominantly by Demerged Company. However, the overall economic interest of the shareholders would not get impacted if one distributes CCPS in any ratio as long as the CCPS issued to Airtel shareholders are in the same proportion as their shareholding of Airtel, along with fair mechanism that gives liquidity option to CCPS holders to realize future fair value of their entitlement. The Scheme proposes providing exit option for 3 years with periodic fair valuations, which is fair from a liquidity standpoint.

In this case, the Independent Valuer has recommended to issue 1 (one) CCPS of Airtel Limited to shareholders of Airtel for every 43,936 (forty three thousand nine hundred and thirty six) shares of Airtel. As explained earlier, economic interest would not get impacted since the issue of shares to shareholders of Airtel will be in the same proportion as their shareholding in Airtel.

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The CCPS post conversion would provide maximum 0.25% stake in Airtel Limited. The shareholders of Airtel would continue to hold balance value of the Telecom Business Undertaking through their direct holding in Airtel.

Thus, based on Independent Valuer's report, our alternative calculation and on consideration of all the relevant factors and circumstances, we believe that the ratio recommended by the Independent Valuer is fair.

It should be noted that we have examined only the fairness of the share entitlement ratio as recommend by the Independent Valuer from financial perspective only and have not examined any other matter including economic rationale of the transfer per se or accounting and tax matters involved in the Proposed Transaction.

Yours faithfully,

Amish Mehta
Partner
Ernst and Young Merchant Banking Services LLP