Annexure - 3

S.R. BATLIBOI & Co. LLP
Chartered Accountants

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (West)
Mumbai-400 028, India
Tel : +91 22 6192 0000
Fax : +91 22 6192 1000

Dated: 2 November 2015

To
The Audit Committee

Reliance Communications Limited
H Block, 1st Floor,
Dhirubhai Ambani Knowledge City,
Navi Mumbai – 400710, Maharashtra, India
H Block, 1st Floor,

Sub: Recommendation of share entitlement for the proposed demerger of the Undertaking of Sistema Shyam TeleServices Limited ('SSTL') into Reliance Communications Limited ('RCL')

Dear Sir / Madam,

We refer to the engagement letters wherein Sistema Shyam TeleServices Limited (hereinafter after referred to as 'SSTL') and Reliance Communications Limited (hereinafter after referred to as 'RCL' or "Company") have requested S.R. Batliboi & Co. LLP (hereinafter referred to as 'SRBC', 'we', or 'us') to recommend a share entitlement for the proposed demerger of the 'Telecom Undertaking' of SSTL (hereinafter referred to as 'Undertaking') into RCL.

RCL and SSTL are together hereinafter referred to as the 'Companies'.

SCOPE AND PURPOSE OF THIS REPORT

RCL is a listed company headquartered in Mumbai, India. RCL provides telecommunication services to individuals, enterprise, and carrier customers in India and internationally. The Company offers voice and data wireless services, wireline broadband services, tower infrastructure services and ethernet services etc. For the year ended 31 March 2015, the total revenue of RCL is ₹21,770 crores and the profit for the year is ₹714 crores on a consolidated basis.

SSTL is a telecom company headquartered in Gurgaon, India. SSTL primarily provides a range of voice and data card services. SSTL is a subsidiary of the Russia based Sistema Joint Stock Financial Corporation. For the year ended 31 March 2015, the total revenue of SSTL is ₹1,429 crores and the loss for the year is ₹1,654 crores.

We understand that the Management of the Companies are contemplating a demerger of the Undertaking of SSTL into RCL ('Proposed Demerger' or 'Transaction') through a Scheme of Arrangement under the provisions of Section 391-394 of the Companies Act, 1956 ('Scheme of Arrangement'). As consideration for this Proposed Demerger, SSTL would be issued equity shares of RCL. Further, the Management of the Companies have agreed to contingent consideration arrangement in respect of the issue of one-time fee for making spectrum contiguous.

S.R. BATLIBOI & CO. LLP MUMBAI CHARTERED ACCOUNTANTS

Reliance Communications Limited

CERTIFIED TRUE COPY
FOR RELIANCE COMMUNICATIONS LIMITED

PRAKASH SHENOY
COMPANY SECRETARY

Recommendation of share entitlement for the proposed demerger of the undertaking of SSTL into RCL

We understand that the appointed date for the transaction will be the effective date.

For the aforesaid purpose, the Company has appointed SRBC to prepare a report to be placed before the Board of Directors/Audit Committee of the Company on the share entitlement for the Proposed Demerger of the Undertaking in to RCL.

We have been provided with unaudited financial information of SSTL up to 31 August 2015. We have considered the same in our analysis and made adjustments for further facts made known (past or future) to us till the date of our report.

We have relied on the above for the purposes of our analysis.

This report is our deliverable for the aforesaid purpose.

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.

S.R. BATLIBOI & CO. LLP * MUMBAI * CHARTERED ACCOUNTANTS

Reliance Communications Limited

SOURCES OF INFORMATION

In connection with this exercise, we have used the following information received from the Management/their representatives and / or gathered from public domain:

- With respect to SSTL
  - Annual reports of SSTL for 4 years ended 31 March 2015
  - Unaudited Balance sheet of SSTL as at 31 August 2015 with split of assets/liabilities proposed to be transferred / retained
  - Unaudited profit and loss statements for five months ended 31 August 2015
  - Preference share capital investment and redemption premium details
  - Audited financials of Shyam Internet Services Limited for year ended 31 March 2015
  - Details of brought forward unabsorbed business losses and depreciation
  - Financial projections of the Undertaking for four months ending 31 December 2015 and years ending 31 December 2016 to 31 December 2023. The forecasts capture Management's intent to roll out 4G/LTE services in the existing 9 circles. Although, extracts of carved out balance sheets was not provided, we received details of capital expenditure and working capital levels.
  - Historical circle-wise key operational parameters for the Undertaking
  - Note on the issue of possible one-time charge to make SSTL's spectrum continguous in 8 circles and estimate of possible probability adjusted payout to make the spectrum contiguous
  - Details of deferred spectrum liability
  - Details of value of surplus assets and other assets not getting transferred

- With respect to RCL
  - Annual report of RCL for year ended 31 March 2015 and other publicly available financial information
  - Consensus analyst estimates for RCL

During the discussions with the Management, we have also obtained explanations and information considered reasonably necessary for our exercise. The Company has been provided with the opportunity to review the draft report (excluding share entitlement) as part of our standard practice to make sure that factual inaccuracies / omissions are avoided in our final report.

S.R. BATLIBOI & CO. LLP * CHARTERED ACCOUNTANTS * MUMBAI

Reliance Communications Limited

SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

Provision of valuation opinions and consideration of the issues described herein are areas of our regular 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.

This report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the date of this report and (iii) are based on the uaudited balance sheet as at 31 August 2015 of the Undertaking. A valuation of this nature is necessarily based on the prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.

The recommendation(s) rendered in this report only represent our recommendation(s) based upon information till date, furnished by the Management (or its representatives) and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice, (our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors). We have no obligation to update this report.

In the course of the valuation, we were provided with both written and verbal information, including market, technical, financial and operating data. In accordance with the terms of our engagements and as is customary in valuations, we have assumed and relied upon, without independent verification, the accuracy of information made available to us by the Companies. We have not audited, reviewed or otherwise investigated the financial information provided to us. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in the financial statements. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusions are based on the assumptions and information given by/on behalf of the Companies. The Management has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the Companies and their impact on the report. Also, we assume no responsibility for technical information furnished by the Companies. However nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the report. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose

The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. Further, except as specifically stated to the

Reliance Communications Limited

contrary, this valuation report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in the financial statements of the Companies.

This report does not look into the business/ commercial reasons behind the Transaction nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the Transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available. We express no opinion or recommendation as to how the shareholders of the Companies should vote at any shareholders' meeting(s) to be held in connection with the Transaction.

No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.

We must emphasize that realisations of free cash flow forecast used in the analysis will be dependent on the continuing validity of assumptions on which they are based. Our analysis, therefore, will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relate to future, actual results are likely to be different from the projected results because events and circumstances do not occur as expected, and the differences may be material.

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

We owe responsibility to only the RCL and nobody else. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other to the Companies.

We do not accept any liability to any third party in relation to the issue of this Report. It is understood that this analysis does not represent a fairness opinion.

This valuation report is subject to the laws of India.

Neither the valuation 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 of Arrangement, without our prior written consent.

S.R. BATLIBOI & CO. LLP MUMBAI CHARTERED ACCOUNTANTS

Reliance Communications Limited

SHARE CAPITAL

Reliance Communications Limited

The issued, subscribed and paid up equity share capital of RCL as at 30 September 2015 is ₹1,244 crores consisting of 2,488,979,745 equity Shares of ₹ 5 each fully paid up. The shareholding pattern is as follows:

Shareholding pattern as at 30 September 2015	No of shares	% shareholding
Promoter & Group	**1,48,59,75,844**	**59.7%**
Total Non Promoter		
Non Promoter (Institutions)	72,71,24,701	29.2%
Non Promoter (Others)	26,72,17,420	10.7%
Custodians (Against Depository Receipts)	86,61,780	0.4%
Total	**2,48,89,79,745**	**100.0%**

Source: BSE filing (As at September 30, 2015)

Sistema Shyam TeleServices Limited

The issued, subscribed and paid up equity share capital of SSTL as at 30 September 2015 is ₹ 3,194 crores, consisting of 3,193,920,000 equity shares of face value of ₹ 10 each fully paid up. The shareholding pattern is as follows:

Shareholding pattern as at 30 September 2015	No of shares	% shareholding
Promoter & Group	**2,53,65,02,776**	**79.4%**
Promoters - Indian (Shyam Group)	72,62,13,376	22.7%
Promoters - Foreign (Sistema JSFC)	1,81,02,89,400	56.7%
Total Non Promoter	**65,74,17,224**	**20.6%**
Total	**3,19,39,20,000**	**100.0%**

Source: Management

S.R. BATLIBOI & CO. LLP ★ CHARTERED ACCOUNTANTS ★ MUMBAI

Reliance Communications Limited ★

APPROACH - BASIS OF DEMERGER

We understand from the Management that the proposed Scheme of Arrangement contemplates the demerger of the Companies pursuant to the Scheme under sections 391 to 394 of the Companies Act, 1956. Arriving at the fair share entitlement for the Proposed Demerger of the Undertaking into RCL would require determining the fair value of RCL in terms of the fair value of the Undertaking. These values are to be determined independently without considering the current merger Transaction.

There are several commonly used and accepted methods for determining the fair value of the Undertaking, which have been considered in the present case, to the extent relevant and applicable, including:

1. Market Price method
2. Comparable Companies Quoted Multiples method
3. Discounted Cash Flows method
4. Net Asset Value method

It should be understood that the valuation of any business / company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the companies, and other factors which generally influence the valuation of business / companies and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation 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.

Market Price (MP) Method

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in the case of a demerger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

In the present case, the shares of RCL are listed on BSE and NSE and there are regular transactions in their equity shares with reasonable volumes. In these circumstances, the volume weighted average share price observed on NSE for RCL over a reasonable period has been considered for determining the value of RCL under the market price methodology.

Comparable Companies' Quoted Multiple (CCM) method

Under this method, value of the company is arrived at by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

Since RCL itself is listed, we have not considered the CCM method.

We have not used this methodology for the Undertaking due to the following reasons:

a) The Undertaking is currently making losses. Further, the Undertaking plans to shift its focus to 4G / LTE after a few years. Hence, present operations (or those in the near future) do not represent normalised sales and profitability for the Undertaking.
b) Listed Indian telecom players are mostly pan-Indian players and are much larger in size as compared to the Undertaking.

Discounted Cash Flows (DCF) Method

Under the DCF method the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm.

Using the DCF analysis involves determining the following:

Estimating future free cash flows:

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

Appropriate discount rate to be applied to cash flows i.e. the cost of capital:

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

For RCL, we used consensus analyst estimates to arrive at value as per DCF method.

We have been provided with forecasts of the Undertaking by SSTL Management. We understand that the business plan captures the cash flows from full / best possible use of all assets of the Undertaking. Value arrived above under DCF method for the Undertaking is adjusted for the value of surplus assets, deferred spectrum liability, present value of tax benefits and expected devolvement (probability adjusted) of contingent liabilities including those pertaining to one-time fees for making spectrum contiguous.

Reliance Communications Limited

Net Asset Value (NAV) Methodology

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the 'going concern' criteria or in case where the assets base dominate earnings capability. A Scheme of Arrangement would normally be proceeded with, on the assumption that the businesses will continue as going concerns and an actual realization of the assets is not contemplated. In such a going concern scenario, the relative earning power is of importance, with the values arrived at on the net asset basis being of limited relevance.

NAV methodology is not a true indicator of profit generating ability of the Undertaking. Hence, this method has not been considered.

BASIS OF DEMERGER

The basis of valuation would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove.

RCL was valued using MP method and DCF method. In order to arrive at our conclusion, we considered 2 scenarios: one where we considered only MP method for RCL and another where we considered equal weight to MP method and DCF method. The Undertaking has been valued using DCF method.
In the ultimate analysis, valuation will have to be tempered by the exercise of judicious discretion by the Valuers and judgment taking into accounts all the relevant factors. There will always be several factors, e.g. quality and integrity of the Management, present and prospective competition, yield on comparable securities and market sentiment, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognised in judicial decisions.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, we recommend that the fair entitlement for the Proposed Demerger of the Undertaking into RCL should be such that additional equity shares of 10.9% to 11.4% (rounded off) of existing share capital of RCL gets issued to SSTL. The aforesaid is after considering probability adjusted contingent liability for one time fees for making spectrum contiguous.

As mentioned earlier, the Management of the Companies have agreed to a contingent consideration arrangement in respect of the issue of one-time fee for making spectrum contiguous and combined usage with additional spectrum. We understand from the Management that if there is favourable decision within 6 months, a contingent consideration of approx. Rs. 1,950 crores (USD 300 million at Rs. 65/USD) becomes payable. However if it takes longer, a consideration of Rs. 1,300 crores (USD 200 million at Rs. 65/USD) becomes payable. As per Management, timing of a non-appealable order by an appropriate authority in such situations is difficult to predict and can take up to several years. Considering this, we believe that an adjustment of about one-third for time value factor, as considered above, is fair. Hence, the overall arrangement is fair.

S.R. BATLIBOI & CO. LLP MUMBAI CHARTERED ACCOUNTANTS

Reliance Communications Limited

It should be noted that we have not examined any other matter including economic rationale for the Transaction per se or accounting, legal or tax matters involved in the Transaction.

Respectfully submitted,

S.R. Batliboi & Co. LLP
Chartered Accountants
ICAI Firm Registration Number: 301003E

Per Ravi Bansal
Partner
Membership No: 49365
Place: Mumbai
Date: 2 November 2015

S.R. BATLIBOI & CO. LLP * CHARTERED ACCOUNTANTS * MUMBAI

Reliance Communications Limited

S.R. BATLIBOI & CO. LLP
Chartered Accountants

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (West)
Mumbai-400 028, India

Tel : +91 22 6192 0000
Fax : +91 22 6192 1000

2 November 2015

To,

Reliance Communications Limited
H Block, 1st Floor,
Dhirubhai Ambani Knowledge City,
Navi Mumbai – 400710, Maharashtra, India

Sub: Supplement to our report dated 2 November 2015 on "Recommendation of share entitlement for the proposed demerger of the Undertaking of Sistema Shyam TeleServices Limited ('SSTL') into Reliance Communications Limited ('RCL')".

Dear Sir,

This is with reference to the above given report. As desired by you, we have given working of our valuation analysis herein.

As explained in our report, the share entitlement for the proposed demerger of the 'Telecom Undertaking' of Sistema Shyam TeleServices Limited ('SSTL') (hereinafter referred to as 'Undertaking') into Reliance Communications Limited ('RCL') has been arrived at based on the various methodologies as indicated in our report and various qualitative factors relevant to each company and the business dynamics of the companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations as referred to in the report.

RCL was valued using MP method and DCF method. In order to arrive at our conclusion, we considered 2 scenarios: one where we considered only MP method for RCL and another where we considered equal weight to MP method and DCF method. The Undertaking has been valued using DCF method.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, we recommend that the fair entitlement for the Proposed Demerger of the Undertaking into RCL should be such that additional equity shares of 10.9% to 11.4% (rounded off) of existing share capital of RCL gets issued to SSTL.

S.R. BATLIBOI & CO. LLP
Chartered Accountants

The above including the attached valuation workings should be read in conjunction with our report dated 2 November 2015 and is subjected to scope limitations enunciated in the report.

Thanking You,

For S. R. Batliboi & Co. LLP
ICAI Firm registration number: 301003E
Chartered Accountants

per Ravi Bansal
Partner
Membership No.:49365

S.R. BATLIBOI & CO. LLP MUMBAI CHARTERED ACCOUNTANTS

Place: Mumbai
Date: 2 November 2015

Reliance Communications Limited

S.R. Batliboi & Co. LLP
Chartered Accountants

Working Note 1 – Valuation of the Undertaking

Currency (₹ Crs)	Notes	SSTL Demerged Undertaking	
		Weights	Value
Market Price method		NA	NA
DCF Method	1.1	100.0%	2,115.6
Weighted Average			**2,115.6**

Working Note 1.1 – Valuation of the Undertaking as per Discounted Cash Flow Method

Currency (₹ Crs)	Amount
Present value for explicit period	(782.5)
Present value of terminal period	5,903.2
Enterprise value	5,120.8
Add/Less adjustments*	(3,005.2)
Value	**2,115.6**

* includes present value of tax benefits, stub period, present value of spectrum liabilities, surplus assets, CENVAT credit and contingent liabilities including payout for making spectrum contiguous

Working Note 2 – Valuation of RCL

Currency (₹ Crs)	Notes	RCL – Scenario 1		RCL – Scenario 2	
		Weights	Value		Value
Market Price method	2.1	100.0%	18,531.7	50.0%	18,531.7
DCF Method	2.2	0.0%	20,242.8	50.0%	20,242.8
Weighted Average			**18,531.7**		**19,387.3**

Working Note 2.1 – Valuation of RCL as per Market Price Method

Currency: ₹ Crs	Price
Average share price (₹ / share) *	74.5
Number of equity shares (in Crs)	248.9
Equity value (₹ Crs)	**18,531.7**

* Based on volume weighted average of one month share prices ended 23 October 2015 on NSE.

Working Note 2.2 – Valuation of RCL as per Discounted Cash Flows Method

Currency (₹ Crs)	Amount
Present value for explicit period	16,481.4
Present value of terminal period	40,129.6
Enterprise value	56,611.1
Add/Less adjustments*	(36,368.3)
Equity value	**20,242.8**

* includes adjustments for net debt, investments and stub period

Reliance Communications Limited

CERTIFIED TRUE COPY
FOR RELIANCE COMMUNICATIONS LIMITED

PRAKASH SHENOY
COMPANY SECRETARY