Secretarial Division

ACC

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9th April 2018

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra – Kurla Complex
Mumbai 400 051
Scrip Code:ACC

Dear Sirs

Sub.: FAQ's on Master Supply Agreement proposed in the Postal Ballot Notice dated 26th February 2018

We invite your kind attention to our letter dated 12th March 2018 wherein we had enclosed a copy of the Postal Ballot Notice seeking the consent of the Members by Ordinary Resolution for entering into a Master Supply Agreement with Ambuja Cements Limited.

Further to the above Postal Ballot Notice, please find attached the Frequently Asked Questions (FAQs) on the above subject for the information of the investors.

Yours faithfully
For ACC Limited

Ramaswami Kalidas
Company Secretary & Head Compliance
FCS: 2440

Encl.:

ACC

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FREQUENTLY ASKED QUESTIONS & ANSWERS ON THE NOTICE OF POSTAL BALLOT DATED FEBRUARY 26, 2018

Re: MASTER SUPPLY AGREEMENT BETWEEN THE COMPANY AND AMBUJA CEMENTS LIMITED

1. RATIONALE

1.1. What is the rationale behind the current arrangement of Master Supply Agreement?

The Boards are of the view that the merger is commercially in the long term interest of all stakeholders, and remains the ultimate goal. In the meantime, the Boards have agreed that a Master Supply Agreement be put in place that will help unlock synergies, efficiencies on optimization of the cost to service market and yield environmental sustainability benefits for both businesses without effecting a change in the corporate structures of either entity. This will create an enabling framework for each company to procure from the other, materials and services on mutually agreed terms set out in the Master Supply Agreement and further determined based on the Operational Guidelines which will be mutually agreed between the MD & CEO of ACC and Ambuja.

The transactions placed under the Master Supply Agreement shall be undertaken with the objective of ensuring incremental benefits to each company in aggregate in each financial year in comparison to operations without this Master Supply Agreement, though the benefits to each company may vary. The stated benefit will be an improvement over the status quo of both the companies. Thus shareholders of both the companies will positively benefit.

2. IMPACT ON MERGER

2.1. How will the execution of Master Supply Agreement between Ambuja and ACC impact the proposed merger between the two companies? Will companies still pursue a merger?

The current regime on transfer of mineral concessions is still evolving . Given the challenges of achieving such transfer across 19 states, it was found prudent not to pursue the same at this point of time, even though the merger is commercially in the interest of all stakeholders, and remains the ultimate goal.

Meanwhile, the Boards have agreed that a Master Supply Agreement be put in place that will help unlock synergies, efficiencies and yield environmental sustainability benefits for both businesses without effecting a change in the corporate structure of either entity.

3. SCOPE

3.1. What is the scope of the proposed Master Supply Agreement?

ACC and Ambuja will enter into the Master Supply Agreement, subject to obtaining shareholder approval for the same, to supply clinker, cement, raw materials (fuels, fly ash, slag, etc.) and spare parts to each other; and for undertaking toll grinding, from/in the plant that is most suited to service a given market.

ACC Limited MUMBAI

The Master Supply Agreement covers all of India.

4. BENEFITS

4.1. What are the benefits that the company expects out of the proposed Master Supply Agreement?

We believe that the proposed Master Supply Agreement will allow ACC and Ambuja to achieve synergies, economies of scale and environmental sustainability benefits.

This proposed Master Supply Agreement will enable both companies to benefit incrementally by realizing incremental sales volumes and minimizing logistical cost of delivery to a given market.

The management of both the companies expects the Master Supply Agreement to, subject to market circumstances, demand and supply, seasonal and geographical variations and other external conditions; generate benefits of approx. 3% - 5% of Profit Before Tax (PBT) of respective companies.

The transactions placed under the Master Supply Agreement shall be undertaken with the objective of ensuring incremental benefits to each company in aggregate in each financial year in comparison to operations without this Master Supply Agreement, though the benefits to each company may vary. The stated benefit shall be an improvement over the status quo of both the companies.

4.2. How will the benefits be shared?

Each company will benefit incrementally from the proposed Master Supply Agreement. The objective will be to strive for equitable sharing of the benefits on an annual basis, but the same may vary depending upon market forces such as demand, supply, pricing and cost.

4.3. Given that PBT of both companies is different and management will strive for equitable sharing of benefits, would the arrangement be more earnings accretive for one specific company compared to the other?

The management will strive for equitable sharing of benefits between the two companies. The quantum of benefits and incremental turnover realized by each company may vary based on time, market conditions and opportunities. Broadly, the managements of both the companies expect the Master Supply Agreement to generate benefits of approx. 3% - 5% of PBT of respective companies. However, the Master Supply Agreement contemplates an arrangement that has not been tested before at this scale. While each company shall seek to maximize the benefits for their respective shareholders, no company can guarantee the quantum of financial benefits that shall be realized from the Master Supply Agreement.

5. OPERATIONALISATION

5.1. How will the proposed Master Supply Agreement be operationalized?

The Master Supply Agreement is an enabling framework that sets out the key terms and conditions, including the guiding principles and the Pricing formulae, basis which Ambuja and ACC shall be entitled to undertake series of transactions for supply of clinker, cement, raw materials (fuels, fly ash, slag, etc.) and spare parts to each other;

and for undertaking toll grinding, from/in the plant that is most suited to service a given market.

The Master Supply Agreement shall be implemented through "Operational Guidelines" which will be mutually agreed between the MD & CEO of ACC and Ambuja.

While the operationalization of Master Supply Agreement will be based on subjective determination of the Management, the guiding principles for placing and accepting orders under the Master Supply Agreement shall be as follows:

(a) the transactions under the Master Supply Agreement must result in incremental benefits to each company in comparison to operations without the Master Supply Agreement. This shall be achieved through:

   (i) optimization of the cost to service market by using each other's plant capacities where relevant;

   (ii) maximize utilization of assets to generate additional sales for each company in a financial year; and

   (iii) utilization of spare inventory (raw materials and spare parts), as needed;

(b) each company will sell the cement purchased from the other company under its own brands; and

(c) goods and services supplied under the Master Supply Agreement must meet the quality standards of the buying company.

5.2. When will the proposed Master Supply Agreement come into effect / expected to be operationalized?

The proposed Master Supply Agreement can be put in place / operationalized soon after receipt of the shareholder approval.

6. COMMERCIAL TERMS

6.1. What are the commercial terms under which the transactions under the proposed Master Supply Agreement shall be undertaken?

The key commercial terms including the price at which each company will purchase and sell clinker, cement, raw materials and spare parts as well as the price of toll grinding are set out in the Master Supply Agreement and the Postal Ballot Notice to the shareholders.

(a) Though the benefits to each company may vary, each Company will proceed with the transactions only if the transactions in aggregate create incremental value for each company in each financial year in comparison to operations without the Master Supply Agreement.

(b) The objective is to strive for equitable sharing of the incremental benefits on an annual basis, but the same may vary depending upon market circumstances such as demand, supply, pricing and cost.

(c) The pricing mechanism shall be as envisaged under the Master Supply Agreement .

ACC Limited Secretarial Dept. MUMBAI

(d) Each company will sell the cement purchased from the other company under its own brands.

(e) Goods and services supplied under the Master Supply Agreement must meet the quality standards of the buying company.

(f) Each individual transaction shall be undertaken based on individual purchase orders

(g) The arrangement is a non-exclusive arrangement

(h) Either Party is entitled to unilaterally terminate the agreement with 3 months prior written notice

6.2. What is the rationale of the Master Supply Agreement not having a fixed term?

While the merger is commercially in the long term interest of all stakeholders, and remains the ultimate goal, a Master Supply Agreement is proposed to be put in place to unlock synergies, efficiencies on optimization of the cost to service market and yield environmental sustainability benefits for both businesses without effecting a change in the corporate structure of either entity. .

The Master Supply Agreement does not have a fixed term as each company has the right to unilaterally terminate the same Master Supply Agreement by giving three months prior written notice to the other party. Further, the Agreement is also on a non-exclusive basis. Additionally, transactions contemplated under the Master Supply Agreement will be undertaken only if the transactions create incremental benefits to each company in aggregate in each financial year in comparison to operations without this Master Supply Agreement.

In view of the above, the management does not deem it necessary to restrict the term of the Master Supply Agreement to any pre-determined date. The absence of a time frame to the arrangement also provides it with the necessary flexibility.

7. COMPLIANCE

7.1. How do both the parties ensure that the Master Supply Agreement is followed in letter & spirit?

MD & CEO of ACC and Ambuja will also mutually agree upon the Operational Guidelines which will be followed at all times to ensure operational compliance with the Master Supply Agreement.

Further, the MD & CEO from ACC and Ambuja will assess the feasibility and value creation of the transaction to ensure the transactions satisfy the Guiding Principles under the Master Supply Agreement.

Additionally, transactions contemplated under the Master Supply Agreement, shall be reviewed and reported as prescribed under the law.

8. SHAREHOLDER APPROVAL

8.1. Why is the approval of shareholders required under Section 188 of Companies Act, 2013 and Regulation 23 of the SEBI Listing Regulations, 2015?

. The proposed Master Supply Agreement is an enabling framework for transactions between Ambuja and ACC, and multiple transactions are proposed to be undertaken between the two companies under such framework of the proposed Master Supply Agreement. Therefore, as a matter of abundant caution and good corporate governance, approval of shareholders of the company pursuant to Section 188 of the Companies Act is being sought for the Master Supply Agreement and for the transactions to be entered into pursuant thereto.

Additionally, in the context of the materiality threshold prescribed under the Regulation 23 of the Listing Regulations (i.e. 10% of the consolidated turnover of the company) for obtaining shareholder approval; while the aggregate value of the transactions contemplated under the Master Supply Agreement cannot be determined in advance, the two companies are seeking consent of the shareholders for an enabling framework which will allow the companies to undertake transactions with its related party which may or may not exceed the above mentioned threshold under the Listing Regulations.

8.2. What is the exact process that is being followed for obtaining shareholder approval?

Both companies have issued postal ballot notices to their shareholders to obtain their approval through postal ballot. The shareholders have the facility for e-voting from a platform which will be provided by the companies. In addition, shareholders can also cast their votes physically and send their ballots to the company in the pre-paid envelopes. Once shareholders' approval has been obtained, the proposed Master Supply Agreement will be entered into and operationalized.