

DISCLOSURE PURSUANT TO THE PROVISIONS OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (SHARE BASED EMPLOYEE BENEFITS) REGULATIONS, 2014

- a. Relevant disclosures in terms of the “Guidance Note on Accounting for Employee Share-based Payments” issued by ICAI has been made in Notes to Accounts attached to the Annual Report.
- b. Diluted EPS on issue of shares pursuant to the Schemes

| | |
|--|--|
| Diluted earnings per share pursuant to the issue of share on exercise of options calculated in accordance with AS - 20, “Earnings Per Share” | Diluted earnings per share of the company calculated after considering the effect of potential equity shares arising on account of exercise of options is ₹18.69 |
|--|--|

The details of stock options as on 31st March 2016 under the Employee Stock Option Scheme 2013 (“ESOS 2013”); Employee Stock Option Scheme 2013-A (“ESOS 2013-A”) and Employee Stock Option Scheme 2013-B (“ESOS 2013-B”) are given below:

A. Summary of Status of ESOS Granted

The description of the existing scheme is summarized as under:

| Sr. No. | Particulars | ESOS 2013 | ESOS 2013 - A | ESOS 2013 - B |
|---------|----------------------------------|--|---|--|
| 1 | Date of shareholders’ approval | 8 th April 2013 | 22 nd August 2013 | 22 nd August 2013 |
| 2 | Total number of options approved | 10,00,000 | 84,44,528 | 5,22,194 |
| 3 | Vesting requirement | The options shall vest over a period of 5 years in a phased manner | The options would vest not earlier than 1 year and not later than 2 years from the date of grant of Options | The options shall vest over a period of 5 years in a phased manner |
| 4 | Exercise Price (₹) | 197.50 | 2 | 220.78 |
| 5 | Maximum term of Options Granted | 10 years | 6 - 7 years | 10 years |
| 6 | Sources of Shares | Primary | Primary | Primary |
| 7 | Variation in terms of options | Not Applicable | Not Applicable | Not Applicable |

The movement of options during the year are as follows:

| Sr. No. | Particulars | ESOS 2013 | ESOS 2013 - A | ESOS 2013 - B |
|---------|---|-----------|---------------|---------------|
| 1 | No. of Options outstanding at the beginning of the year | 10,00,000 | 22,31,027 | 5,22,194 |
| 2 | No. of Options Granted during the year | - | 6,73,227 | - |
| 3 | No. of Options Forfeited/Lapsed during the year | - | 6,32,510 | 3,91,646 |
| 4 | No. of Options Vested during the year | 4,00,000 | 9,75,200 | 1,30,548 |
| 5 | No. of Options Exercised during the year | - | 2,93,294 | 1,30,548 |
| 6 | No. of Shares arising as a result of exercise of options | - | 2,93,294 | 1,30,548 |
| 7 | Money realized by exercise of options during the year 2015-16 (₹In Lakhs) | - | 5.87 | 288.22 |

| Sr. No. | Particulars | ESOS 2013 | ESOS 2013 - A | ESOS 2013 - B |
|---------|---|----------------|---------------|---------------|
| 8 | Loan repaid by the trust during the year from the exercise price received | Not Applicable | Nil | Nil |
| 9 | No. of Options outstanding at the end of the year | 10,00,000 | 19,78,450 | - |
| 10 | No. of Options exercisable at the end of the year | 4,00,000 | 4,73,771 | - |

B. Employee-wise details of options granted during the financial year 2015-16 under ESOS 2013-A to:

(i) Senior managerial personnel

| Name of employee | No. of Options granted |
|----------------------------|------------------------|
| Mr. Umang Vohra | 71,777 |
| Mr. Prabir Kumar Jha | 37,868 |
| Dr. Ranjana Pathak | 28,913 |
| Mr. Sudhanshu Priyadarshi* | 27,607 |
| Mr. Chandru Chawla | 19,097 |
| Mr. R. Gopalkrishnan | 18,458 |
| Ms. Geena V. Malhotra | 18,005 |
| Dr. Jaideep A Gogtay | 12,253 |
| Mr. Gautam Rohidekar | 9,950 |
| Mr. Mital Sanghvi | 3,404 |

* Ceased to be in employment of the company and consequently the unvested options stand cancelled

(ii) Employees who were granted, during any one year, options amounting to 5% or more of the options granted during the year

| Name of employee | No. of Options granted |
|----------------------|------------------------|
| Mr. Umang Vohra | 71,777 |
| Mr. Prabir Kumar Jha | 37,868 |

(iii) Identified employees who were granted option, during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.

None

C. Weighted average Fair Value of Options granted during the year

| Particulars | ESOS - 2013 | ESOS 2013 - A | ESOS 2013 - B |
|---|------------------------------------|---------------|------------------------------------|
| a. Exercise price equals market price | No Options granted during the year | Nil | No Options granted during the year |
| b. Exercise price is greater than market price | | Nil | |
| c. Exercise price is less than market price (₹) | | 662.55 | |

Weighted average Exercise price of options granted during the year

| Particulars | ESOS - 2013 | ESOS 2013 - A | ESOS 2013 - B |
|---|------------------------------------|---------------|------------------------------------|
| a. Exercise price equals market price | No Options granted during the year | Nil | No Options granted during the year |
| b. Exercise price is greater than market price | | Nil | |
| c. Exercise price is less than market price (₹) | | 2.00 | |

| | | |
|----------|--|---|
| D | Method used to account for ESOS | The compensation cost of stock options granted to employees is calculated based on intrinsic value method, i.e. the excess of the market price of shares immediately prior to date of grant over the exercise price to be paid by the option holders. The compensation cost is amortised to the Statement of Profit and Loss over the vesting period of the stock option. |
|----------|--|---|

The stock-based compensation cost calculated as per the intrinsic value method for the period 1st April 2015 to 31st March 2016 is ₹29.18 crore (Standalone ₹32.79 crore). If the stock-based compensation cost was calculated as per the fair value method prescribed by SEBI, the total cost to be recognized in the financial statements for the period 1st April 2015 to 31st March 2016 would be ₹28.66 crore (Standalone ₹32.15 crore). The effect of adopting the fair value method on the net income and earnings per share is presented below:

Adjusted Net Income and Earning Per Share

| Particulars | ₹ in crore |
|--|------------|
| Net Income as reported (Standalone ₹1398.03 crore) | 1505.92 |
| Add: Intrinsic Value Compensation Cost (Standalone ₹32.79 crore) | 29.18 |
| Less: Fair Value Compensation Cost (Standalone ₹32.15 crore) | 28.66 |
| Adjusted Pro Forma Net Income (Standalone ₹1398.67 crore) | 1506.44 |
| Earnings Per Share: Basic | |
| As Reported (₹) | 18.76 |
| Adjusted (₹) | 18.76 |
| Earnings Per Share: Diluted | |
| As Reported (₹) | 18.69 |
| Adjusted (₹) | 18.69 |

E Method and Assumptions used to estimate the fair value of options granted during the year:

- i) The fair value has been calculated using the Black Scholes Option Pricing model. The assumptions used in the model are as follows:

| Variables | ESOS 2013 | ESOS 2013 -A | ESOS 2013 -B |
|---|------------------------------------|--------------|------------------------------------|
| 1 Risk Free Interest Rate | No Options Granted during the year | 7.59% | No Options Granted during the year |
| 2 Expected Life (in years) | | 4.46 | |
| 3 Expected Volatility | | 25.13% | |
| 4 Expected Dividend Yield | | 0.30% | |
| 5 Price of the underlying share in market at the time of the option grant | | 672.85 | |

- ii) The Company has estimated the expected life of the options on the basis of average of minimum and maximum life of the options. Historical data for early exercise of options is not available, hence not considered in expected life calculations.
- iii) Volatility is the measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. The measure of volatility used in the Black-Scholes options pricing model is the annualised standard deviation of the continuously compounded rates of return on the stock over a period of time. For calculating volatility, the daily volatility of the stock prices on the National Stock Exchange of India Limited, over a period prior to the date of grant, corresponding with the expected life of the options has been considered.
- iv) No other feature has been considered for fair valuation of options except as mentioned in point E (i) above.

F Disclosures related to Trust

| Sr. No | Particulars | Details |
|---------------|---|--|
| 1 | Name of the Trust | Cipla Employees Stock Option Trust |
| 2 | Details of the Trustee(s) | i) Mr. Gautam Rohidekar ii) Mr. Jasbir Kochar |
| 3 | Amount of loan disbursed by company / any company in the group, during the year | Nil |
| 4 | Amount of loan outstanding (repayable to company / any company in the group) as at the end of the year | Nil |
| 5 | Amount of loan, if any, taken from any other source for which company / any company in the group has provided any security or guarantee | Nil |
| 6 | Any other contribution made to the Trust during the year | Initial Corpus : ₹5,000 |
| 7 | Brief details of transactions in shares by the Trust | There were no transactions in Cipla Employees Stock Option Trust during the year |

12th August 2016