

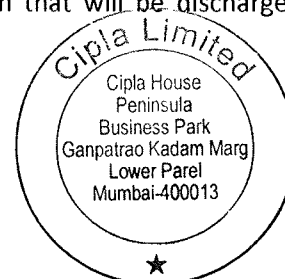
REPORT OF THE AUDIT COMMITTEE OF CIPLA LIMITED APPROVED AT ITS MEETING HELD ON 28TH JANUARY 2021 RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN CIPLA LIMITED, CIPLA BIOTEC LIMITED, CIPLA HEALTH LIMITED AND THEIR RESPECTIVE SHAREHOLDERS.

A meeting of the Audit Committee of the Board of Directors of Cipla Limited ("Demerged Company or the Company") was held on 28th January 2021 to consider and recommend the proposed scheme of arrangement ("the Scheme") between the Demerged Company, Cipla BioTec Limited ("Resulting Company 1") and Cipla Health Limited ("Resulting Company 2") and their respective shareholders wherein the 'Demerged Undertaking 1 & Demerged Undertaking 2' (as defined below) of the Demerged Company would stand transferred to and vested in Resulting Company 1 and Resulting Company 2 respectively with effect from the appointed date i.e. 1st April 2021 in accordance with the terms of the Scheme and pursuant to section 230 to 232 and other applicable provisions of the Companies Act, 2013 ("the Act") and the rules made thereunder, as amended from time to time (including any statutory modification(s) or re-enactment thereof for the time being in force) and regulation 11, 37 and 94 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the Master Circular no SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020 issued by the Securities and Exchange Board of India ("SEBI Circular"), as amended from time to time.

The report of the Audit Committee is made in order to comply with the requirements of the SEBI Circular after considering the following documents:

- a) The draft Scheme of arrangement between the Demerged Company, Resulting Company 1 and Resulting Company 2;
- b) Draft certificate by Walker Chandiook and Co LLP, statutory auditors of the Company certifying the accounting treatment as envisaged in the draft Scheme was in compliance with applicable Accounting Standards specified by the Central Government in Section 133 of the Act.
- c) A certificate dated 27th January 2021, issued by Walker Chandiook and Co LLP, statutory auditors in compliance with Part I (A)(10)(c) of SEBI Circular, confirming the non-applicability of Part I (A)(10)(a) read with Part I (A)(10)(b);
- d) Valuation report dated 28th January 2021 issued by Niranjana Kumar, registered valuer, ("Valuer") recommending nil consideration for demerger of Demerged Undertaking 1 and Demerged Undertaking 2; and
- e) Fairness opinion dated 28th January 2021 issued by Kotak Mahindra Capital Company Limited, a Securities and Exchange Board of India Registered (Category-I) Merchant Banker, on the nil consideration for demerger of Demerged Undertaking 1 and Demerged Undertaking 2 recommended by the Valuer;

The Committee noted that since the proposed Scheme involves a transfer of identified undertakings to wholly owned subsidiaries of the Company, there is no consideration that will be discharged for the



proposed transfer (either to the Company or to its shareholders) by the Resulting Company 1 and Resulting Company 2. The Audit Committee also reviewed and noted the following:

1. Need for the Scheme

Over more than 85 years, the Company has expanded globally in line with its promising vision of 'Caring for Life'. The Company today operates across 80+ countries globally with varying types of regulatory frameworks. Over the last 5 years, the Company has decided to deepen its focus and build further dominance in the strategic markets of India, US, South Africa, Europe and key territories across Emerging markets. This requires the Company to ensure efficient processes throughout the entire value chain. To support the growth in coming years, the management has proposed (i) the demerger of India based US business undertaking of the Company ("Demerged Undertaking 1") into Resulting Company 1 ("Demerger 1") and (ii) the consumer business undertaking ("Demerged Undertaking 2") of the Company to Resulting Company 2 ("Demerger 2") which is already engaged in the consumer health business. As the Company is embarking on the growth agenda in coming years with a focus on OneIndia strategy for the domestic market and targeted sharp launch momentum in US, the proposed restructuring is aimed at ensuring (a) a simplified group structure and operational footprint, and (b) a market-aligned logical organization of resources.

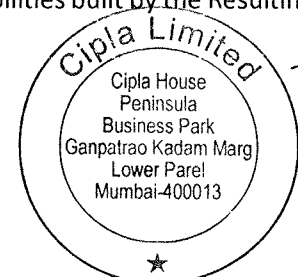
2. Rationale of the Scheme

(A) Rationale for demerger of Demerged Undertaking 1 into Resulting Company 1:

In line with the aforementioned strategy mentioned in clause 2 above, the Company has decided to adopt a simpler group structure which enables efficient execution of this strategy by subsidiarizing the India based operations of the US business. Such subsidiarization helps improve the focus on US business and enables multiple strategic options to drive further expansion in the future including potential capital raises and other avenues to deepen the presence in the market. It also enables the US business to run the operations in a more cohesive manner including better management of product development, manufacturing & quality and supply chain within the existing group structure. The consolidation is intended to better leverage the strong sterile capabilities and manufacturing environment of Resulting Company 1 and to develop complex dosage forms such as onco-injectables, ophthalmic products and peptides injectables, with minimal augmentation.

(B) Rationale for demerger of Demerged Undertaking 2 into Resulting Company 2:

In order to consolidate its consumer business as a part of the OneIndia strategy, the Company is demerging its Demerged Undertaking 2 including select set of brands which have high consumerisation potential, to Resulting Company 2 i.e. its consumer healthcare subsidiary, to drive substantial portfolio expansion and build a large consumer business. The brands being transitioned have been built over the years in a meticulous manner and have wide distribution reach throughout India. This demerger and combination with the business of Resulting Company 2 will boost the portfolio breadth, build stronger consumer pull and facilitate sharp & focused investments through the capabilities built by the Resulting Company 2.



3. Synergies of the businesses of the entities

(A) Demerger 1:

As mentioned in points 1 and 2 (A) above, Demerger 1:

- a) adopts a simpler group structure which enables efficient execution by subsidiarizing the US Business Undertaking
- b) enables the US business to run the operations in a more cohesive manner including better management of product development, manufacturing & quality and supply chain within the existing group structure.
- c) helps to better leverage the strong sterile capabilities and manufacturing environment of Resulting Company 1 and to develop complex dosage forms such as onco-injectables, ophthalmic products and peptides injectables, with minimal augmentation.

(B) Demerger 2:

As mentioned in points 1 and 2 (B) above, Demerger 2:

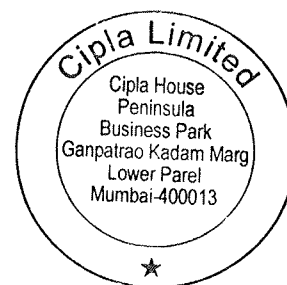
- a) adopts a simplified group structure and business aligned logical organization of resources.
- b) helps in substantial portfolio expansion and building a large consumer business.
- c) Improves economies of scale under one combined entity
- d) builds stronger consumer pull
- e) facilitates sharper and focused investments through the capabilities built by the Resulting Company 2.

4. Impact of the scheme on the shareholders

Resulting Company 1 and Resulting Company 2 are wholly owned subsidiaries and will remain wholly owned subsidiaries of the Demerged Company post demerger of US business undertaking and consumer business undertaking. The Scheme intends to transfer the Demerged Undertaking 1 and Demerged Undertaking 2 of the Demerged Company to the Resulting Company 1 and Resulting Company 2 respectively and does not involve any movement, transfer or vesting of assets or liabilities to any company outside the group or any reduction in the Company's economic ownership for such undertakings. Hence, the Resulting Company 1 and Resulting Company 2 is not issuing any shares or paying any consideration, directly or indirectly, to either the Demerged Company or to its shareholders.

Accordingly, the economic interest of all the shareholders of the Demerged Company in Demerged Undertaking 1 and Demerged Undertaking 2 would continue to remain the same post the implementation of the Scheme.

For Demerger 2, Scheme enables appropriate adjustment to the Employee Stock Options being held by the employees and ex-employees of the Resulting Company 2 to reflect the realignment of the economic interest of the employees and shareholder of Resulting Company 2.



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5. Cost Benefit Analysis of the Scheme

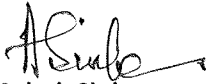
The Scheme is proposed to be undertaken for the reasons outlined set out above.

Since the proposed Scheme involves a transfer of identified undertakings to wholly owned subsidiaries, there is no consideration that is discharged for the proposed transfer. The cost involved for the implementation of the Scheme will include administrative cost, cost of transferring the assets and cost of advisors. The Scheme is expected to provide both operational and strategic benefit from a long term shareholder value creation. Costs incurred towards the implementation of the Scheme foreshadows the long-run benefit that can be derived by achieving strategic and operational synergies envisaged under the Scheme.

Recommendation of the Audit Committee

The Audit Committee after a detailed deliberation and after taking into consideration the aforementioned documents presented to the Audit Committee recommends the draft Scheme for favourable consideration and approval of the Board of Directors of the Demerged Company.

For and On Behalf of the Audit Committee of Cipla Limited



Ashok Sinha

Chairman of Audit Committee



DIN: 00070477

Date: 28th January 2021

