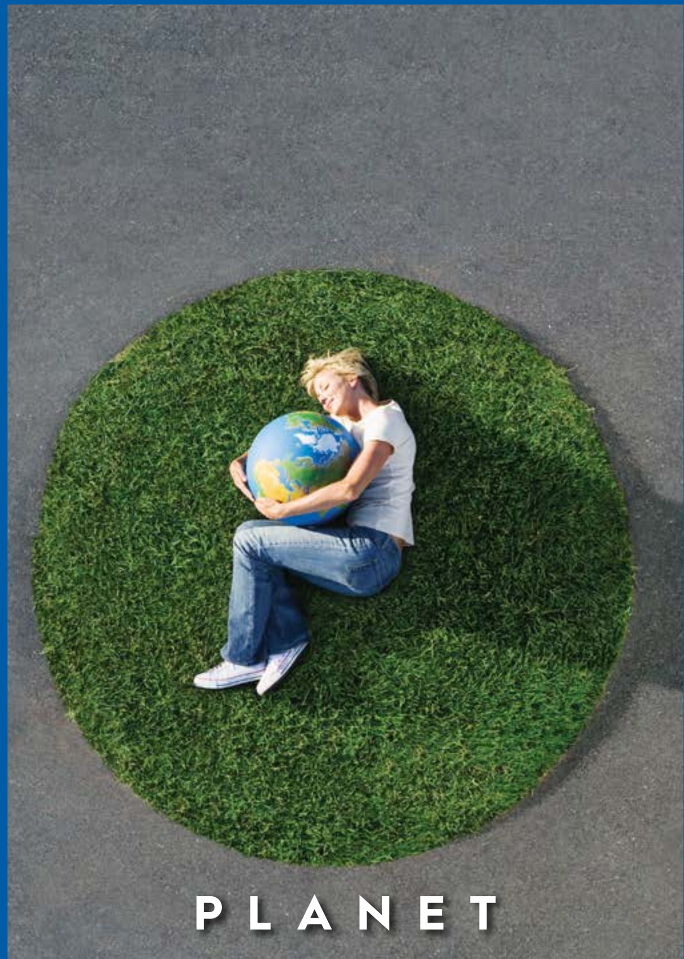
Tax Transparency Report

2020-21

Cipla



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1. Introduction from Global Chief Financial Officer

Kedar Upadhye
Global Chief Financial Officer

I am pleased to introduce Cipla's first Tax Transparency Report.

At Cipla, our purpose of 'Caring for Life' guides our actions. Our constant endeavour is to improve the lives of our patients and other stakeholders by maximizing value for them and by enhancing business transparency and sustainability. This approach has enabled us to emerge as a strong partner-of choice for all our stakeholders across our value chain. Through openness and transparency, we consider ourselves accountable to the entire universe of stakeholders, including our patients, employees, shareholders, vendors, government agencies, social communities, the medical community, customers and business partners, as well as supply chain participants.

For us, transparency is the key to healthy self-sustaining growth and is at the centre of our core values. We consider taxes from a macro point of view and believe it to be the bedrock of stability for communities. We lay strong emphasis on internal controls, compliance and the audit processes and hence, voluntary disclosures about taxes paid and collected in the countries we operate in, are significant additions to our stringent processes. Through our Tax Transparency Report we hope to build and create an open and constructive relationship with our stakeholders in countries where we operate.

We actively participate in debates and stakeholder dialogues – listening to and learning from healthy stakeholder discussions and follow best practices. We need to build on the trust and support of our partners, customers and our investors and this report is likely to be an important step towards that.

It clarifies how we manage the taxes responsibly and how all our relationships are developed on a constructive basis. As the global economy tries to find a way out of the Covid quagmire, and manages to make sense of the fiscal impacts, taxes will, no doubt, help us build a sustainable way forward.

Our Tax Transparency Report 2021 provides an overview of how we meet our tax responsibilities around the world. In 2020-21, through our presence in 26 countries we employed more than 36,000 employees (including contractual employees). We contributed INR 1273 crores in direct taxes, employee taxes and indirect taxes to governments globally. Additionally, we collected and paid INR 2432 crores to governments on behalf of others, such as our customers, suppliers and employees. We understand that our tax contributions are significant for the economies of the countries we operate in.

We recognise that there will be areas where we can improve our disclosures, or make things more easily understood. We welcome feedback and constructive inputs from our stakeholders.

I look forward to sharing further progress with you in the future.

Kedar Upadhye
Global Chief Financial Officer

2. Tax Policy

Background on our approach to tax

Established in 1935, Cipla is a global pharmaceutical company focused on agile and sustainable growth, complex generics, and deepening portfolio in our home markets of India, South Africa, North America, and key regulated and emerging markets. Our strengths in the respiratory, anti-retroviral, urology, cardiology, anti-infective and CNS segments are well-known. Our 46 manufacturing sites around the world produce 50+ dosage forms and 1,500+ products using cutting-edge technology platforms to cater to our 80+ markets. For over eight decades, making a difference to patients has inspired every aspect of Cipla's work. Our paradigm-changing offer of a triple anti-retroviral therapy in HIV/AIDS at less than a dollar a day in Africa in 2001 is widely acknowledged as having contributed to bringing inclusiveness, accessibility and affordability to the centre of the HIV movement. A responsible corporate citizen, Cipla's humanitarian approach to healthcare in pursuit of its purpose of 'Caring for Life' and deep-rooted community links wherever it is present make it a partner of choice to global health bodies, peers and all stakeholders. For more, please visit HYPERLINK "http://www.cipla.com" www.cipla.com, or click on HYPERLINK "https://twitter.com/Cipla_Global" Twitter, Facebook, LinkedIn.

The Cipla Group ('the Group') is committed to comply with its Code of Conduct and strives to comply with the statutory obligations and tax laws in the various countries that it operates in.

Country-by-country reporting regulations is applicable to the Group. Cipla Limited, the Indian headquartered parent company, is obliged to file the country-by-country report within the applicable due date and supports the OECD's (Organization for Economic Co-operation and Development) work on the Base Erosion and Profit Shifting ('BEPS') Project. All Group companies being member of international group, are also committed to compliance with international standards in respect of transfer pricing and in alignment to the BEPS Project.

The Cipla Group is committed to the highest standards of corporate governance and understands its responsibility to pay appropriate taxes in countries it operates in; and is transparent about how its tax affairs are managed. Cipla understands that the taxes it pays are an important part of its wider economic and social impact, and that they play a key role in the development of countries where it operates. Cipla collects a significant amount of tax on behalf of the governments along the supply chain (including from employees) in addition to paying corporate income taxes, property taxes and other indirect taxes, such as custom duty, Value Added Tax, Goods & Services Tax, etc.

The Board of Directors ('the Board') of the respective group companies ensures that the tax strategy is one of the factors considered while taking any significant investment and business decisions.

The Group's approach to tax risk management principles:

- Meeting all statutory obligations relating to filing of tax returns and timely tax payments
- Assessing the implications of the transfer pricing and other tax regulations in respect of major or complex business decisions to ensure both compliance and alignment of business objectives
- Seeking to utilize available tax incentives and reliefs and organizes tax affairs in ways that enable the company to be eligible for such government's policies
- Creating an awareness of tax risk at appropriate levels within the organization
- Adopting the principles of collaborative compliance in the Group's engagement with tax authorities

[1]The Code of Conduct was approved by the Board of directors of Cipla Limited on 7 February 2018.

Cipla has been continuously working towards and is committed to:

Compliance with Financial and Tax Reporting Norms

We make decisions on tax matters based on a reasonable interpretation of applicable legal provisions of the country in which we operate. In doing so, we observe and adhere to the tax law, the underlying tax policy intent, and the disclosures and reporting requirements in each jurisdiction.

Transfer Pricing

All transfer pricing arrangements are consistent with the OECD Transfer Pricing Guidelines and in particular follow the arm's length principle. Profits are recognized in territories by reference to the activities performed there and the value they generate. To ensure the profits recognized in jurisdictions are aligned to the activity undertaken there, and in line with current OECD guidelines, we base our transfer pricing policy on the arm's length principle and support our transfer prices with economic & functional analysis and reports.

An underlying principle of transfer pricing is that two companies within the same group must act as if they were independent enterprises, with each appropriately rewarded for the functions they perform, assets they employ and risks they assume when entering into intra-group transactions. An appropriate reward is that which would be obtained in a transaction between unrelated parties. This is known as the 'arm's length' principle.

Tax Governance Framework and Risk Management

We are responsible for determining the tax objectives and ensuring that all applicable regulations as well as internal guidance and governance procedures relating to taxation are observed.

We adhere to the internal control framework with a component of tax risk assessment and controls and the same is reviewed by internal and external audit firms.

For material transactions, where there is uncertainty on the treatment of tax and interpretation of legislation, advice from external consultants is sought before any position is taken.

Internal control procedures and processes are subject to self-assessment reviews and audits. We outsource various tax compliance activities to professional firms. Professional advice is sought from external consultants where appropriate. Further, all the employees and external advisors are required to adhere to our Code of Conduct.

Tax legislations are complex and often tax risks arise from differences in the interpretation of tax laws, thereby adding to further uncertainty.

Cipla welcomes tax benefits and incentives and organizes tax affairs in such a manner that enables the Group to be eligible for such benefits while ensuring consistency with its business objectives.

Tax affairs are managed on a global basis by team of appropriately qualified and trained finance and tax professionals with the right level of expertise, who work closely with the business to provide advice and guidance along with support from the Global Tax team to ensure compliance with tax laws and practices. Led by the Global Head of Tax, the team works closely with the business on a day-to-day basis. Cipla's Global Tax team is part of its corporate finance function, Tax risk is also managed through continuous robust internal policies, training, knowledge management and compliance programmes to ensure alignment across all the Group's businesses, while meeting its tax obligations. Cipla deploys tax technology wherever possible, thereby ensuring that it has a sustainable platform to manage the increasing demands of digitally enabled tax authorities.

2. Tax Policy

Tax Planning

The Group is committed to maximizing value on a sustainable basis for its shareholders and for any commercial transactions of wider business purpose, wherein the commercial rationale is the core for entering the arrangement. The Group does not engage in artificial tax planning, i.e., without any business or commercial substance.

Where uncertainty exists in a transaction, professional advice is sought on a transactional basis from external consultants.

The Group seeks to utilize available tax reliefs, incentives and exemptions where it reasonably believes it meets the conditions for which the legislation is intended to provide a legitimate relief. At all times, the Group seeks to be fully compliant with the applicable tax regulatory and other laws, and in a way which upholds its reputation as a responsible corporate citizen.

Attitude towards Risk

The Group has a low tax risk appetite and is focused on compliance. It submits tax returns according to statutory time limits and engages with tax authorities regularly to obtain certainty on its business operations. In exceptional cases, where matters cannot be settled by agreement with tax authorities, the Group may have to resolve disputes through formal appeals or other proceedings.

The Group monitors taxation policies in its key jurisdictions to deal proactively with any potential future changes in tax law.

As a Group, along with the Board, it is fully conscious of the tax litigations and advocate prudent tax compliance to better manage the tax risks. Advice is sought from external advisors where uncertainty exists to review tax legislation and the implications of its Group business to support the decisions taken by the Board.

Relationship with Governments and Tax Administration

The Group seeks to maintain open and co-operative relationships with tax authorities by providing appropriate responses to requests made and engage in full, open and dialogue with tax authorities.

It employes the services of professional tax advisors to act as its representatives, and in a number of cases they liaise with tax authorities on the Group's behalf to get the most of its relationship, thereby reducing tax risk. When submitting tax computations and returns, the Group discloses all relevant facts wherever possible.

Also, the Group aims to obtain advance agreements or clearances where possible and litigation would only be considered as a last resort.

Advocating Reforms and Participation in Formal Consultation

The Group monitors government debate on tax policy in its key jurisdictions so that it can understand and share an informed point of view regarding any potential future changes in tax law. It participates in the tax authority's formal consultation process where it is expected that the matter under consultation will have a material impact on Cipla. Where relevant, it provides pragmatic and constructive business input to tax policy makers either directly or through industry trade bodies, advocating reform to support economic growth and job creation as well as the needs of its patients and other key stakeholders.

3. Basis of Preparation

1. The amounts reported in the Tax Schedule are for the period 1 April 2020 to 31 March 2021. The report has been subject to internal review and external audit by an Independent Chartered Accountants Firm, G. P. Sharma & Co. LLP. The Independent Auditor's Report forms a part of our disclosures below.

2. In this report, our major countries of operation for the year are defined as those that fulfill one of the following criteria:

3. For the purpose of reporting numbers under the Tax Schedule, we have used the individual audited financial statements of each entity in the corresponding jurisdiction and wherever necessary, the corresponding tax ledgers, tax returns, etc. were relied upon. If there is more than one group entity in a jurisdiction, the information has been reported on an aggregate basis at country level.

4. The data is reported in INR and is rounded off to nearest crores. To convert the numbers in respective jurisdictional currency into INR terms, the corresponding exchange rates as on 31 March 2021 were used.

5. Our Tax Schedule has been categorized into two parts viz., 'Taxes Borne' and 'Taxes Collected' (Table 1). While 'Taxes Borne' demonstrates the cost of tax borne by us directly, 'Taxes Collected' is the amount of tax collected by us on behalf of others and subsequently paid to the governments. Additionally, we have also provided the other relevant financial information (Refer Other Key Financial Information at Page 014) to enable the better understanding of our tax contributions. Over and above the tax related contributions to the governments, we also incur some social expenditures in the form of Corporate Social Responsibility (CSR) related contributions, etc. which does not form part of our Tax Schedule below.

3. Basis of Preparation

6 Definitions:

A) TAXES BORNE - These include:

Corporate Tax

Taxes paid by us on the taxable profits of our group operations. This includes the amounts of withholding taxes withheld by third parties while making payment to us. Since these are reported on cash basis, it may also include the amount of corporate tax which was accrued in the earlier years but paid during the year on self-assessment or assessment by the jurisdictional government. Further, wherever the past year(s) tax refund was received during the year, it has been netted off against tax paid to reflect the actual cash tax outflow.

Custom Duty:

Duties paid by us on the import of goods across a border.

Property Tax:

Property tax is an ad valorem tax assessed on real estate by a local government and paid by the property owner. These reflect the taxes paid by us as a result of occupation of land and/or property in various jurisdictions where we conduct our operations.

Social Security Contribution:

Social Security Contributions are compulsory payments to the government that confer entitlement to receive a future social benefit to employees. These are solely for the benefit of employees. However, they are in two forms i.e., contribution by employer and contribution by employees themselves. The Social Security Contributions forming part of 'Taxes Borne' reflect employer's contribution to social security funds for the benefit of individuals employed with us.

Others:

Includes State Excise Duties, License Fees, Fringe Benefit Tax or any other taxes paid by us on our operations.

3. Basis of Preparation

B) TAXES COLLECTED - These include:

Output VAT:

Value Added Tax (VAT)/ Goods and Service Tax (GST) is a consumption tax that is levied on the added value. Output VAT/ GST represents the tax billed by us on customers which was collected by us from customers and eventually, paid to the respective jurisdictional governments. This excludes the VAT/ GST billed by us on our invoices relating to stock transfers. We also incur VAT/ GST when purchasing certain goods and services. In most countries where we operate, the VAT/ GST collected are offset against the VAT/ GST incurred with the net being paid to the government. We have shown only VAT/ GST collected amounts in our disclosures. We have not shown the Input VAT/ GST separately since those are largely creditable and used for making the payment of VAT/ GST collected.

Tax withheld on behalf of suppliers:

These represent taxes withheld by us on vendor bill payments and paid to the government.

Payroll Taxes:

Payroll Taxes represent taxes withheld on salary payments to individuals employed with us and paid to the governments on their behalf.

Social Security Contribution:

The Social Security Contributions forming part of 'Taxes Collected' represent employees' individual contribution to social security funds in accordance with the respective jurisdiction's social security laws.

Others:

Includes taxes collected at source and any other taxes collected on behalf of others and paid to the governments.

3. Basis of Preparation

C) OTHER FINANCIAL INFORMATION

Revenue:

Revenue is split between unrelated and related-party revenues. Unrelated revenue consists of all forms of revenue flowing from entities which are not controlled by us. Related-party revenues include revenue from our group companies. These exclude the amounts of inter-company dividend.

Profit or (loss) before tax:

The profit or loss is calculated using the respective jurisdiction accounting policy.

Corporate income taxes accrued:

The amount of corporate income tax accruing on the operations for the reporting period. It may or may not be the same as corporate income taxes paid or refunded in the period. These exclude the amount of deferred tax in accordance with the guidance provided under GRI 207 and Guidance on Country-by-Country Reporting: BEPS Action 13.

Stated capital and accumulated earnings:

The amount of capital invested in Cipla Limited and our group companies and the earnings accumulated from our operations. The amount of Stated Capital includes the share application money as well as the securities premium. The amount of accumulated earnings includes all other reserves, distributable as well as non-distributable reserves (except for securities premium which has already been considered in the Stated Capital).

Employees:

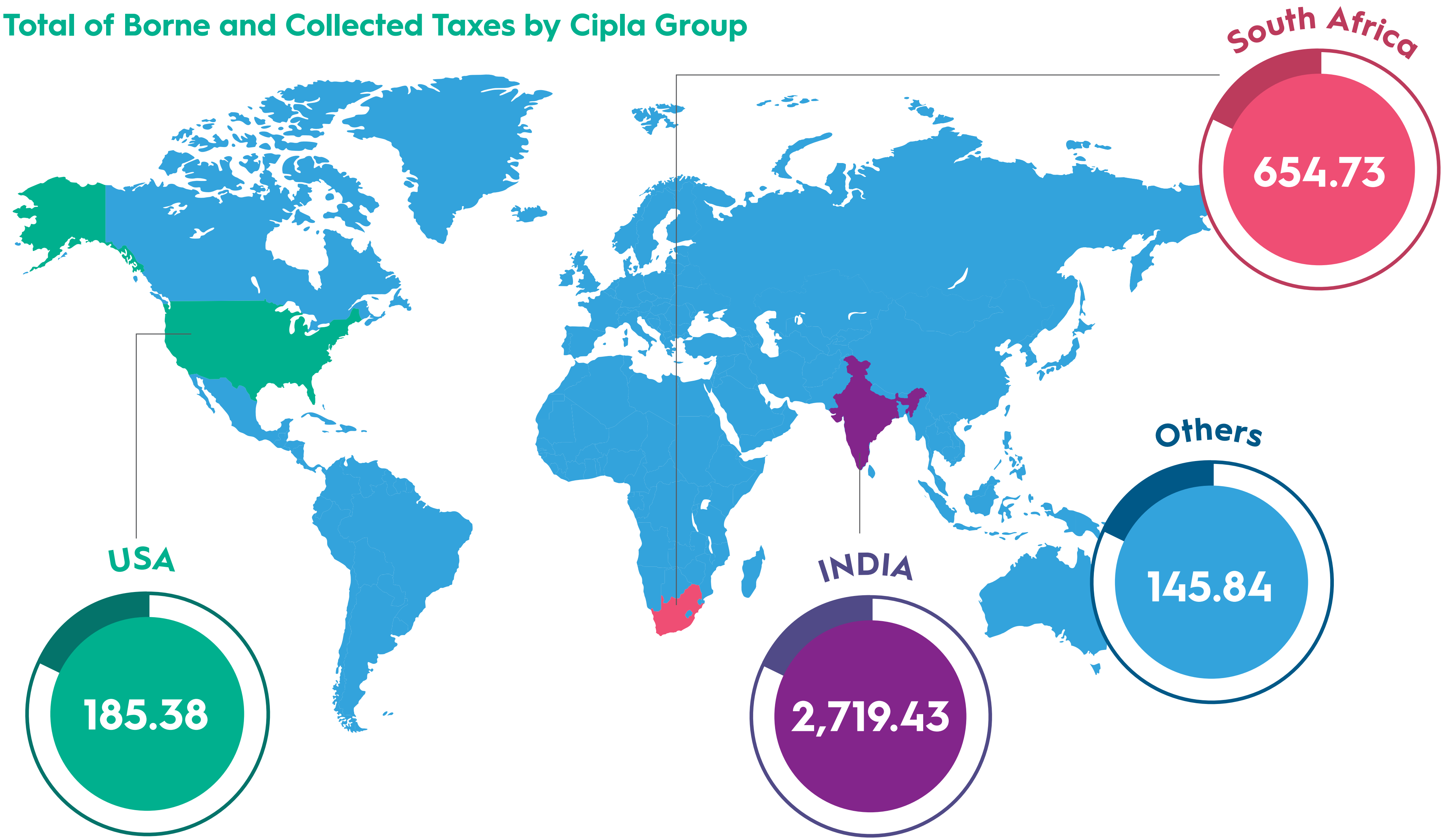
The number of employees indicate the number of average employees employed with us during the year ended 31 March 2021, on the basis of the normal work jurisdiction of the employee. It also includes the employees working with us on contractual basis.

Tangible assets:

Includes Property, Plant and Equipment as defined in the respective jurisdiction's accounting policies, Tangible Capital Work-in-Process, Right of Use Assets and Inventories as on 31 March 2021.

4. Tax Schedule

Total of Borne and Collected Taxes by Cipla Group



4. Tax Schedule

Taxes Borne by Cipla Group

INDIA

Total Taxes Paid by Cipla Group

1,142.31

964.53	Corporate Tax
67.40	Custom Duty
5.11	Property Tax
105.04	Social Security Contribution
0.23	Others

SOUTH AFRICA

Total Taxes Paid by Cipla Group

57.82

51.40	Corporate Tax
4.26	Custom Duty
1.89	Social Security Contribution
0.27	Others

USA

Total Taxes Paid by Cipla Group

36.40

5.25	Corporate Tax
1.82	Custom Duty
6.18	Property Tax
21.55	Social Security Contribution
1.59	Others

OTHERS

Total Taxes Paid by Cipla Group

36.55

19.26	Corporate Tax
3.07	Custom Duty
1.07	Property Tax
11.95	Social Security Contribution
1.20	Others

Taxes Collected by Cipla Group

INDIA

Total Taxes Collected & Paid by Cipla Group

1,577.12

- **1,191.09** Output VAT
- **94.15** Tax withheld on behalf of suppliers
- **195.11** Payroll Taxes
- **96.56** Social Security Contribution
- **0.21** Others

SOUTH AFRICA

Total Taxes Collected & Paid by Cipla Group

596.91

- **520.73** Output VAT
- **3.16** Tax withheld on behalf of suppliers
- **72.39** Payroll Taxes
- **0.62** Social Security Contribution

USA

Total Taxes Collected & Paid by Cipla Group

148.98

- **NA*** Output VAT
- **5.75** Tax withheld on behalf of suppliers
- **121.68** Payroll Taxes
- **21.55** Social Security Contribution

OTHERS

Total Taxes Collected & Paid by Cipla Group

109.29

- **66.76** Output VAT
- **0.78** Tax withheld on behalf of suppliers
- **36.95** Payroll Taxes
- **4.79** Social Security Contribution

*Not Applicable

4. Tax Schedule

Other Key Financial Information

Tax Jurisdiction	Unrelated Party Revenue	Related Party Revenue (Excluding Inter-Company Dividend)	Total Revenue	Profit/ (Loss) before Income Tax	Corporate Income taxes accrued	Stated Capital	Accumulated Earnings	Average Employees	Tangible Assets
TOTAL	**19,305.37**	**4,975.23**	**24,313.26**	**3,455.59**	**1,053.08**	**12,873.16**	**18,083.04**	**36,336**	**10,925.93**
INDIA	11,741.74	3,429.72	15,171.47	3,411.91	934.06	3,044.87	18,398.11	33,676	7,688.59
SOUTH AFRICA	2,312.76	5.99	2,318.75	131.64	61.55	514.50	498.39	1,006	757.20
USA	3,797.62	1,252.73	5,050.35	(66.77)	35.49	4,101.47	(921.16)	681	1,579.63
OTHERS	1,453.24	286.79	1,772.69	(21.19)	21.98	5,212.32	107.69	973	900.50

During the year, w.e.f. 19 August 2020, our group company namely Quality Chemicals Limited, Uganda ceased to be our related party on entire stake divestment. In the absence of adequate information available with us and considering the materiality, we have not reported the information pertaining to this entity.

Further, under our Tax Schedule, we have not reported the tax related information (other than Corporate Tax) pertaining to Colombia and Brazil region due to non-availability of adequate information and considering the materiality of information.

5. Independent Auditor's report

To
The Board of CIPLA LIMITED

Report on the audit of the Tax Schedule included in the Tax Transparency Report 2020-21

We have verified the accompanying "Tax Schedule" for the year ended 31 March 2021, included in the Tax Transparency Report 2020-21 of Cipla Group headquartered in Mumbai, India.

Management's Responsibility

The Management is responsible for the preparation and presentation of the Tax Transparency Report 2020-21 in accordance with the "Basis of Preparation" and for such internal control as management determines is necessary to enable the preparation of the Tax Transparency Report 2020-21 that is free from material misstatement, whether due to fraud or error.

In preparing the Tax Transparency Report 2020-21, management is responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters relating to going concern and using going concern basis of accounting unless management either intends to liquidate the Group company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on the Tax Schedule based on our verification. We have taken into account ISA 805 which require us to obtain reasonable assurance about whether the Tax Transparency Report 2020-21 is free from material misstatement, whether due to fraud or error.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Tax Transparency Report 2020-21.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the Tax Schedule.

Our opinion

In our opinion, the financial information - Tax Schedule (on page 012 , 013 and 014) contained in the Tax Transparency Report 2020-21 is prepared, in all material respects, in accordance with the "Basis of Preparation".

This report is not issued under any statute/law.

Restriction on Use

This report has been issued at the request of Cipla and should not be used by any other person. We are appointed to only verify the Tax Schedule in accordance with the Basis of Preparation shared with us and are not the auditors of Cipla. G P Sharma & Co. LLP shall not be liable to Cipla or to any other concerned for any claims, liabilities or expenses relating to this assignment. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For G. P. Sharma & Co. LLP
Chartered Accountants
Firm Registration No.: 109957W/W100247

CA. Utkarsh Sharma
Partner
Membership No: 147906
UDIN: 21147906AAAAKL6812
Place: Mumbai
Date: 2nd August, 2021

Cipla Limited

Cipla House, Peninsula Business Park,
Ganpatrao Kadam Marg, Lower Parel, Mumbai - 400013
Tel: (022) 2482 6000; Fax: (022) 2482 6120
Email: contactus@cipla.com; Website: www.cipla.com
Corporate Identity Number: L24239MH1935PLC002380