

EMPLOYEE STOCK INCENTIVE PLANS

Dr. Reddy's Employees Stock Option Plan -2002 (the "DRL 2002 Plan"):

The Company instituted the DRL 2002 Plan for all eligible employees pursuant to the special resolution approved by the shareholders in the Annual General Meeting held on 24 September 2001. The DRL 2002 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). The Nomination, Governance and Compensation Committee of the Board of DRL (the "Committee") administer the DRL 2002 Plan and grants stock options to eligible employees. The Committee determines which eligible employees will receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under the DRL 2002 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2002 Plan, as amended at annual general meetings of shareholders held on 28 July 2004 and on July 27, 2005, provides for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,995,478 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).

Under the DRL 2002 Plan, the exercise price of the fair market value options granted under Category A above is determined based on the average closing price for 30 days prior to the grant in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Committee may, after obtaining the approval of the shareholders in the annual general meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

After the stock split effected in the form of stock dividend issued by the Company in August 2006, the DRL 2002 Plan provides for stock option grants in the above two categories as follows:

PARTICULARS	NUMBER OF OPTIONS RESERVED UNDER CATEGORY A	NUMBER OF OPTIONS RESERVED UNDER CATEGORY B	TOTAL
Options reserved under original Plan	300,000	1,995,478	2,295,478
Options exercised prior to stock dividend date (A)	94,061	147,793	241,854
Balance of shares that can be allotted on exercise of options (B)	205,939	1,847,685	2,053,624
Options arising from stock dividend (C)	205,939	1,847,685	2,053,624
Options reserved after stock dividend (A+B+C)	505,939	3,843,163	4,349,102

Stock option activity under the DRL 2002 Plan for the two categories of options during the years ended 31 March 2017 and 31 March 2016 is as follows:

Category A – Fair Market Value Options:

There were no options outstanding under this category as of 31 March 2017 and 31 March 2016.

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2017			
	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING USEFUL LIFE (MONTHS)
Outstanding at the beginning of the period	427,348	5.00	5.00	72
Granted during the period	103,136	5.00	5.00	90
Expired/forfeited during the period	(22,597)	5.00	5.00	-
Exercised during the period	(177,745)	5.00	5.00	-
Outstanding at the end of the period	330,142	5.00	5.00	69
Exercisable at the end of the period	40,882	5.00	5.00	38

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2016			
	PARTICULARS	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the beginning of the period	585,454	5.00	5.00	71
Granted during the period	102,224	5.00	5.00	90
Expired/forfeited during the period	(66,319)	5.00	5.00	-
Exercised during the period	(194,011)	5.00	5.00	-
Outstanding at the end of the period	427,348	5.00	5.00	72
Exercisable at the end of the period	53,801	5.00	5.00	42

The weighted average grant date fair value of par value options granted under category B above of the DRL 2002 Plan during the years ended 31 March 2017 and 31 March 2016 was ₹ 3,266 and ₹ 3,350 per option, respectively. The weighted average share price on the date of exercise of options during the years ended 31 March 2017 and 31 March 2016 was ₹ 3,292 and ₹ 3,504 per share, respectively.

The aggregate intrinsic value of options exercised under the DRL 2002 Plan during the years ended 31 March 2017 and 31 March 2016 was ₹ 584 and ₹ 679, respectively. As of 31 March 2017, options outstanding under the DRL 2002 Plan had an aggregate intrinsic value of ₹ 867 and options exercisable under the DRL 2002 Plan had an aggregate intrinsic value of ₹ 107.

The term of the DRL 2002 plan was extended for a period of 10 years effective as of January 29, 2012 by the shareholders at the Company's Annual General Meeting held on July 20, 2012.

Dr. Reddy's Employees ADR Stock Option Plan, 2007 (the "DRL 2007 Plan")

The Company instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on July 27, 2005. The DRL 2007 Plan became effective upon its approval by the Board of Directors on January 22, 2007. The DRL 2007 Plan covers all employees and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, "eligible employees"). The Committee administers the DRL 2007 Plan and grants stock options to eligible employees. The Committee determines which eligible employees will receive the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under the DRL 2007 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2007 Plan provides for option grants in two categories:

Category A: 382,695 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,148,084 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., ₹ 5 per option).

Category A – Fair Market Value Options: There were no options outstanding under this category as of 31 March 2017 and 31 March 2016.

Category B – Par Value Options: Stock options activity for category B options under the DRL 2007 Plan during the years ended 31 March 2017 and 31 March 2016 is as follows:

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2017			
	PARTICULARS	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the beginning of the period	92,043	5	5	79
Granted during the period	52,956	5	5	90
Expired/forfeited during the period	-23,039	5	5	-
Exercised during the period	-33,819	5	5	-
Outstanding at the end of the period	88,141	5	5	74
Exercisable at the end of the period	6,517	5	5	43

Category B – Par Value Options	FOR THE YEAR ENDED 31 MARCH 2016			
	PARTICULARS	SHARES ARISING OUT OF OPTIONS	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the beginning of the period	98,350	5	5	72
Granted during the period	40,184	5	5	90
Expired/forfeited during the period	(14,023)	5	5	-
Exercised during the period	(32,468)	5	5	-
Outstanding at the end of the period	92,043	5	5	79
Exercisable at the end of the period	7,141	5	5	45

The weighted average grant date fair value of par value options granted under category B of the DRL 2007 Plan during the years ended 31 March 2017 and 31 March 2016 was ₹ 3,266 and ₹ 3,465, respectively. The weighted average share price on the date of exercise of options during the years ended 31 March 2017 and 31 March 2016 was ₹ 3,268 and ₹ 3,575, respectively.

The aggregate intrinsic value of options exercised under the DRL 2007 Plan during the years ended 31 March 2017 and 31 March 2016 was ₹ 110 and ₹ 116, respectively. As of 31 March 2017, options outstanding under the DRL 2007 Plan had an aggregate intrinsic value of ₹ 232 and options exercisable under the DRL 2007 Plan had an aggregate intrinsic value of ₹ 17.

During the year ended 31 March 2015, the Company adopted a new program to grant performance linked stock options to certain employees under the DRL 2002 Plan and the DRL 2007 Plan. Under this program, performance targets are measured each year against pre-defined interim targets over the three year period ending on 31 March 2017 and eligible employees are granted stock options upon meeting such targets. The stock options so granted are ultimately vested with the employees who meet subsequent service vesting conditions which range from 1 to 4 years. After vesting, such stock options generally have a maximum contractual term of five years.

Valuation of stock options:

The fair value of stock options granted under the DRL 2002 Plan and the DRL 2007 Plan has been measured using the Black-Scholes-Merton model at the date of the grant.

The Black-Scholes-Merton model includes assumptions regarding dividend yields, expected volatility, expected terms and risk free interest rates. In respect of par value options granted under category B, the expected term of an option (or "option life") is estimated based on the vesting term, contractual term, as well as expected exercise behavior of the employees receiving the option. In respect of fair market value options granted under category A, the option life is estimated based on the simplified method. Expected volatility of the option is based on historical volatility, during a period equivalent to the option life, of the observed market prices of the Company's publicly traded equity shares. Dividend yield of the options is based on recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant. These assumptions reflect management's best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of the Company's control. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Further, if management uses different assumptions in future periods, stock based compensation expense could be materially impacted in future years.

The estimated fair value of stock options is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards.

The weighted average inputs used in computing the fair value of options granted were as follows:

PARTICULARS	GRANTS MADE ON			
	15 NOVEMBER 2016	20 SEPTEMBER 2016	26 JULY 2016	11 MAY 2015
Expected volatility	32.77%	32.92%	29.88%	25.98%
Exercise price	₹5.00	₹5.00	₹5.00	₹5.00
Option life	2.5 Years	2.5 Years	2.5 Years	2.5 Years
Risk-free interest rate	6.27%	6.81%	6.91%	7.87%
Expected dividends	0.60%	0.60%	0.60%	0.60%
Grant date share price	₹3,310.70	₹3,157.80	₹3,319.65	₹3,359.70

The fair value of services received in return for stock options granted to employees is measured by reference to the fair value of stock options granted.

Employee wise details of options granted during the year to senior management personnel to be exercised at par value:

NAME	DESIGNATION	NO OF OPTIONS GRANTED	
		2002 PLAN	2007 PLAN
Abhijit Mukherjee	Chief Operating Officer	5,500	
Alok Sonig	Executive Vice President and Head - North America Generics	-	3,760
Dr. Cartikeya Reddy	Executive Vice President- Biologics	3,500	
Saumen Chakraborty	President, Chief Financial Officer and Global Head - IT & BPE	4,000	
M.V. Ramana	Executive Vice President and Head - Branded Markets (India & Emerging markets)	3,760	
Samiran Das	Executive Vice President and Head - Global Manufacturing Operations	3,000	
Dr. Amit Biswas	Executive Vice President - Integrated Product Development	3,000	
Dr. K.V.S. Ram Rao	Senior Vice President and Head - PSAI Commercial Organisation	2,700	
Dr. S. Chandrasekhar	President and Global Head - Human Resources	3,000	
Dr. Raghav Chari (until October 31, 2016)	Executive Vice President and Head - Proprietary Products	-	3,760
Mr. Ganadhis Kamat	Executive Vice President and Head Global Quality Organization	3,096	
Mr. Anil Nambudiripad	Senior Vice President, Proprietary Products and Head, Promius Pharma.	-	1,400

No employee of the company received grant of options during the year amounting to 5% or more of options granted or exceeding 1% of issued capital of the company.

Share-based payment expense

For the years ended 31 March 2017 and 31 March 2016 the Company recorded employee share based payment expense of ₹ 377 and ₹ 442, respectively. As of 31 March 2017, there was approximately ₹ 432 of total unrecognised compensation cost related to unvested stock options. This cost is expected to be recognised over a weighted-average period of 2.95 years.